

MAYOR'S OFFICE

HOUSTON, TEXAS

February 8, 2012

To the Honorable City Council of the City of Houston, Texas

In accordance with the provisions of Article VII, Section 7 of the Charter of the City of Houston, I submit and introduce to you the Ordinance set out as attached with the request that it be passed finally on the date of its introduction. There exists a public emergency requiring such action and I accordingly request that you pass the same if it meets with your approval.


Mayor, City of Houston, Texas

City of Houston Ordinance No. 2012- 100

CITY OF HOUSTON ORDINANCE NO. 2012 - 100 *
AUTHORIZING THE ISSUANCE OF ONE OR MORE SERIES OF

CITY OF HOUSTON, TEXAS AIRPORT SYSTEM
SUBORDINATE LIEN
REVENUE BONDS, REVENUE REFUNDING BONDS
OR REVENUE AND REFUNDING BONDS
AS MAY BE FURTHER DESIGNATED AND DESCRIBED HEREIN

*To be completed by City Secretary upon adoption by City Council.

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- Exhibits: A - Form of Series 2012 Bond (Section 4.01)
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ORDINANCE NO. 2012-100

AN ORDINANCE AUTHORIZING THE ISSUANCE OF CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SUBORDINATE LIEN REVENUE BONDS AND REVENUE REFUNDING BONDS IN ONE OR MORE SERIES AS MAY BE FURTHER DESIGNATED AND DESCRIBED HEREIN AND PROVIDING FOR THE PAYMENT THEREOF; AUTHORIZING THE MAYOR, THE CITY CONTROLLER AND/OR CERTAIN OTHER DESIGNATED CITY OFFICIALS TO APPROVE THE AMOUNT, INTEREST RATES, PRICES, AND TERMS THEREOF, TO DETERMINE THE OUTSTANDING BONDS OR OTHER OBLIGATIONS TO BE REFUNDED AND/OR DEFEASED; APPROVING OTHER RELATED PROCEDURES, PROVISIONS AND AGREEMENTS PERTAINING TO SUCH REFUNDING AND/OR DEFEASANCE; AUTHORIZING THE REFUNDING AND/OR DEFEASANCE OF CERTAIN OUTSTANDING AIRPORT SYSTEM BONDS AND OTHER OBLIGATIONS RELATING TO SPECIAL FACILITIES BONDS; AUTHORIZING THE EXECUTION AND DELIVERY OF ONE OR MORE BOND PURCHASE AGREEMENTS, PAYING AGENT/REGISTRAR AGREEMENTS, ESCROW AGREEMENTS, AND SUCH OTHER AGREEMENTS RELATING TO THE BONDS OR THE SECURITY THEREOF; AUTHORIZING A CO-BOND COUNSEL AGREEMENT AND A SPECIAL DISCLOSURE CO-COUNSEL AGREEMENT; AUTHORIZING AN OFFICIAL TO DECLARE INTENT TO REIMBURSE; APPROVING THE FORM OF CREDIT ENHANCEMENT AGREEMENTS WITH ANY BOND INSURER AND DEBT SERVICE RESERVE FUND POLICY PROVIDER; AND MAKING CERTAIN FINDINGS AND OTHER DECLARATIONS NECESSARY AND INCIDENTAL TO THE ISSUANCE OF THE BONDS; AND DECLARING AN EMERGENCY

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF HOUSTON:

ARTICLE I

FINDINGS AND DETERMINATIONS

SECTION 1.01 FINDINGS AND DETERMINATIONS. It is hereby officially found and determined that:

(a) The City of Houston, Texas (the "City") is authorized by Chapters 1201, 1371 and 1503, Texas Government Code, as amended, to issue revenue bonds of the City for the purpose of establishing, improving, enlarging, extending and repairing the airports of the City or buildings, improvements, landing fields or other facilities or services which are necessary, desirable or convenient for the efficient operation and maintenance of the airports of the City, and acquiring land for the airports of the City (collectively, the "Authorized System Purposes"), said bonds to be payable solely from and secured by a pledge of, and lien on, the revenues to be derived from the operation of the Airport System (as defined herein), and the City is further authorized by Chapter 1207, Texas Government Code, as amended, to issue bonds to refund and defease obligations of the City;

(b) The ordinances authorizing the issuance of the Outstanding Bonds expressly reserved to the City the right to issue Additional Senior Lien Obligations and Additional Subordinate Lien Bonds

*To be completed by City Secretary upon adoption by City Council.

secured by a senior or subordinate (as applicable) lien on and pledge of the Net Revenues (as defined in those ordinances) of the Airport System;

(c) The City has determined that it is in the City's best interest to issue the Series 2012 Bonds as long-term fixed rate bonds in one or more series, to be issued and delivered on one or more Issuance Dates for any or all of the following purposes: (i) defeasing and/or refunding the Refunded Bonds; (ii) defeasing and/or refunding the City's obligations under that certain Special Facilities Lease Agreement relating to the Refunded Special Facilities Bonds thereby causing the defeasance and/or refunding of the Refunded Special Facilities Bonds; (iii) providing financing for any Authorized System Purposes, including reimbursement for amounts previously spent for Authorized System Purposes, and for any purpose set forth in Chapter 1371, Texas Government Code, as amended; (iv) funding capitalized interest; (v) funding the Subordinate Lien Bond Reserve Fund and any account therein; (vi) purchasing any Bond Insurance Policy (one or more) or 2012 Subordinate Lien Reserve Fund Surety Policy (one or more); and (vii) paying the related costs of issuance;

(d) The City hereby finds and determines that the issuance of the Series 2012 Bonds to refund and/or defease the Refunded Bonds and/or the Refunded Special Facilities Bonds is in the best interest of the City. Further, the City hereby finds and determines that the manner in which the refunding is being executed does not make it practicable to make the determination required by section 1207.008(a)(2) Texas Government Code, as amended;

(e) The City has heretofore authorized, issued, sold and delivered, and has outstanding, its Series A Commercial Paper Notes, its Series B Commercial Paper Notes, its Series 1998 Bonds, its Series 2000 Bonds, its Series 2001 Bonds, its Series 2002 Bonds, its Series 2007B Bonds, its Series 2009 Bonds, its Series 2010 Bonds and its Series 2011 Bonds (each as defined herein) (which, together with the City's obligations under related credit agreements, are referred to in this section as the "Outstanding Bonds") and has authorized its Series C Commercial Paper Obligations;

(f) The City has authorized, issued, sold and delivered certain outstanding Special Facilities Bonds (as defined herein) that have been issued from time to time by the City to finance various airport projects, including an automated people mover which was financed pursuant to the issuance of Series 1997A Special Facilities Bonds (as defined herein) and secured by certain lease revenues;

(g) Pursuant to that certain lease securing the Series 1997A Special Facilities Bonds, the City has assumed certain obligations and has determined that it is in the best interest of the City to refinance and defease its obligations under certain special facilities lease agreements and sub lease agreements (the "Special Facilities Lease Agreement"), in order to effect the redemption and defeasance of said Series 1997A Special Facilities Bonds;

(h) Upon the adoption of this Ordinance, the 2007 Amendments, the 2009 Amendments, and the 2010 Amendments (as further defined in Article XIV hereof) shall be incorporated in all ordinances relating to the Senior Lien Obligations and Subordinate Lien Bonds, including the Series 2012 Bonds, as set forth in Article XIV hereof. Additionally, this ordinance contains an amendment to the definition of "Airport System" which is denoted with an asterisk and shall be effective with respect to the Series 2012 Bonds and all other Outstanding Bonds upon the terms and conditions set forth in Article XIV hereof.

ARTICLE II

DEFINITIONS

SECTION 2.01 DEFINITIONS.

(a) Unless otherwise expressly provided or unless the context otherwise requires, the terms defined in this Section for all purposes of this Ordinance, and any ordinance amendatory or supplemental hereto, shall have the respective meanings specified.

“**Act**” shall mean, collectively, Chapters 1201, 1207, 1371, and 1503, Texas Government Code, as amended.

“**Additional Senior Lien Bonds**” shall mean the additional senior lien revenue bonds and obligations permitted to be issued by the City pursuant to Section 6.01 of this Ordinance.

“**Additional Senior Lien Notes**” shall mean the additional senior lien revenue notes permitted to be issued by the City pursuant to Section 6.01 of this Ordinance.

“**Additional Senior Lien Obligations**” shall mean Additional Senior Lien Bonds and/or Additional Senior Lien Notes.

“**Additional Subordinate Lien Bonds**” shall mean the additional subordinate lien revenue bonds, notes and obligations permitted to be issued by the City pursuant to Section 6.01 of this Ordinance.

“**Airports Improvement Fund**” shall mean the fund described in Section 5.12 of this Ordinance.

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

“**Airport System**” shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Airport System currently includes the present airports of the City, known as “George Bush Intercontinental Airport/Houston,” “William P. Hobby Airport,” and “Ellington Airport” (formerly known as “Ellington Field”).^{*}

“**Amendment Effective Date**” shall mean the date or dates on which any Amendment or Proposed Amendment (or portion thereof) is incorporated or deemed incorporated into every ordinance pursuant to which Bonds are Outstanding.

“**Authorized Denominations**” shall mean, with respect to the Series 2012 Bonds, \$5,000 or any integral multiple thereof, unless otherwise provided in the Officers Pricing Certificate.

* From and after the Amendment Effective Date, the underlined text shall be replaced with the following: “George Bush Intercontinental Airport/Houston” and “William P. Hobby Airport.”

“Authorized Representative” shall mean the person from time to time holding the office of the City Controller and, to the extent so designated in writing by the City Controller as set forth in Section 3.02B hereof, the Deputy Controller, or any officer or manager in the Debt Section of the Office of the City Controller.

“Authorized System Purposes” shall have the meaning assigned in Section 1.01(a) of this Ordinance.

“Aviation Director” shall mean the Director of the Houston Airport System (a department of the City that operates the Airport System), or his successor or person acting in such capacity.

“Beneficial Owner” means any Person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any Person holding a Bond through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

“Bond Insurance Policy” shall mean the municipal bond insurance policy or policies (if any) issued by the Bond Insurer that guarantees payment of the principal of and interest on any of the Series 2012 Bonds.

“Bond Insurer” shall mean the bond insurer(s), if any, identified in the Officers Pricing Certificate.

“Bond Purchase Agreement” means any Bond Purchase Agreement(s) among the City and the Underwriter relating to the Series 2012 Bonds, in substantially the form attached hereto as Exhibit D or such form as may be approved in a supplemental ordinance.

“Bonds” shall mean any or all of the Senior Lien Bonds, Senior Lien Notes, and the Subordinate Lien Bonds, as the context may indicate, including Completion Bonds and Short Term/Demand Obligations.

“Business Day” means any day other than a Saturday, Sunday or other day on which the New York Stock Exchange is closed or on which banks are authorized or required to be closed in any of the City of Houston, Texas, the City of New York, New York, the city where the Bond Insurer (if any) is located, or any other municipalities in which the Principal Office of the Paying Agent/Registrar is located.

“City” shall mean the City of Houston, Texas, and, where appropriate, the City Council thereof, or any successor thereto as the owner and operator of the Airport System.

“Completion Bonds” shall mean each series of Bonds permitted to be issued by the City pursuant to Section 6.03 of this Ordinance.

“Comptroller” shall mean the Comptroller of Public Accounts of the State of Texas.

“Counsel” means initially, Bracewell & Giuliani LLP, and thereafter any attorney at law or firm(s) of attorneys selected by the City of nationally recognized standing in matters pertaining to the validity of and the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

“Credit Agreement” shall mean any agreement between the City and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, municipal bond

insurance policy, line of credit, standby bond purchase agreement, surety policy, surety bond or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the City's obligations pursuant to any Bonds or Qualified Hedge Agreements and in consideration for which the City may agree to pay, but solely from Net Revenues as provided herein, (i) periodic payments for the availability of such Credit Agreement and/or (ii) reimbursements or repayments of any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges related to such amounts advanced. Obligations of the City pursuant to a Credit Agreement shall be deemed to be, and shall be included within, the Debt Service Requirements for the series of Bonds to which the Credit Agreement relates. Further, obligations of the City to make payments under a Credit Agreement as reimbursements or repayments of amounts paid or advanced under such Credit Agreement for interest on or principal of any Bonds (including interest and other stipulated costs and charges related to such amounts advanced) shall be deemed to be payments of interest on or principal of such Bonds. Each Credit Agreement shall be deemed to be a part of the Bonds of the series to which it relates for the purpose of securing its payment or repayment by the pledge of Net Revenues as provided in Articles V, VI and VII of this Ordinance. However, issuers of Credit Agreements shall not be treated as Owners of Bonds for purposes of any voting rights to approve amendments or to direct the exercise of any remedies under this Ordinance.

“Debt Service Requirements” shall mean, as of any date of calculation, an amount equal to the sum of the following for any period and with respect to all or any portion of the Bonds:

A. Current interest scheduled to accrue during such period on such Bonds, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of Bonds, from interest earned or to be earned thereon, from other Airport System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund, as the case may be;

Plus

B. That portion of the principal amount of, or compounded interest on, such Bonds scheduled to be payable on or before the next July 1 (either at maturity, by reason of amortization of bank bonds, or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Bond redemptions) which would accrue if such principal amount were deemed to accrue daily in equal amounts from the next preceding July 1;

Less

C. In addition to the amounts credited under paragraph A. above, any portion or all of the interest on or principal of Bonds which has been irrevocably committed by the City to be paid from other Airport System funds other than Net Revenues, including, but not limited to, PFC Revenues or Excluded Fee and Charge Revenues;

provided, however, that the following rules shall apply to the computation of Debt Service Requirements on certain series of Short Term/Demand Obligations and on any series of Bonds bearing interest at a floating or variable rate:

(i) For any series of Short Term/Demand Obligations issued pursuant to a commercial paper program or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest on such Short Term/Demand Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of Senior Lien Obligations or Subordinate Lien Bonds which shall be assumed to be amortized over a period not to exceed 25 years and shall be assumed to be amortized in such a manner that the maximum Debt Service Requirements in any twelve (12) month period shall not exceed 110% of the minimum Debt Service Requirements for any other twelve (12) month period, and shall be assumed to bear interest at a fixed interest rate estimated by the City's financial advisor or underwriter to be the interest rate such series of Bonds would bear if issued on such terms on the date of such estimate;

(ii) For any series of Bonds bearing interest at a variable or adjustable rate or a rate to be negotiated or revised from time to time such that the actual future rate of interest thereon cannot be ascertained at the time of calculation, it shall be assumed that such Bonds will bear interest at the higher of (1) a long-term interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such Bonds would bear if issued as long-term bonds bearing interest at fixed interest rates to be amortized over 30 years with level debt service or (2) a short-term interest rate calculated as follows: (a) for any series of Bonds then Outstanding, at the greater of (i) the average interest rate derived from the variable or adjustable interest rate formula or computation applicable to, or average interest rate borne by, such series of Bonds during a twelve (12) month period ending within 30 days prior to the date of computation or (ii) the actual interest rate derived from such variable or adjustable interest rate formula or computation, or the actual interest rate payable on such series of Bonds, on the date of such calculation, and (b) for any series of Bonds then proposed to be issued, at an interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such series of Bonds will bear during the period or periods for which the Debt Service Requirements are being calculated.

Debt Service Requirements shall be calculated on the assumption that no Bonds Outstanding on the date of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such Bonds, except as provided above for Short Term/Demand Obligations.

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Qualified Hedge Agreements shall cause Debt Service Requirements to be (i) increased by the amount of any scheduled payments and charges for the availability of the Qualified Hedge Agreement, (ii) decreased by the amount of any scheduled interest payments on the related Bonds which the City's financial advisor certifies to be substantially hedged pursuant to the Qualified Hedge Agreement, and (iii) increased by the gross payments of the City under the Qualified Hedge Agreement (without regard to netting); provided, however, that any variable or adjustable payment obligation of the City under the Qualified Hedge Agreement shall be deemed to be a fixed rate obligation based upon the provisions contained in paragraph (ii) of the definition of Debt Service Requirements, as certified by the City's financial advisor.

“DTC” means The Depository Trust Company, New York, New York, or any successor thereto.

“Excluded Fee and Charge Revenues” shall mean all income and revenues (i) derived from fees and charges imposed by any City ordinance adopted after July 1, 2007 and declared in such ordinance to constitute fees and charges of the kind that will generate Excluded Fee and Charge Revenues and (ii) related to periods after the Amendment Effective Date of the Amendments. Such Excluded Fee and Charge Revenues may be authorized pursuant to any federal, state or local authority and may include, but not be limited to, any charge or fee relating to providing, enhancing or maintaining security for the Airport System or any fee or charge imposed on any commercial cargo activity of the Airport System.

“Federal Payments” shall mean those funds received by the Airport System from the federal government or any agency thereof as payments for the use of any facilities or services of the Airport System.

“Fiscal Year” shall mean the City’s fiscal year as from time to time designated by the City, which is currently July 1 to June 30.

“Form of Series 2012 Bond” shall mean the form of bond approved in Article IV hereof and attached hereto as Exhibit A, with the final form of bond being approved by the Officers Pricing Certificate pursuant to Article III hereof and any supplement thereof.

“Funds” shall mean any fund or account established or maintained under this Ordinance.

“Gross Revenues” shall mean all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to this Ordinance or any other ordinance authorizing the issuance of Bonds. Gross Revenues expressly exclude:

- (i) proceeds of any Bonds and Inferior Lien Bonds;
- (ii) interest or other investment income derived from Bond proceeds deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Bonds;
- (iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;
- (iv) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;

(v) insurance proceeds other than loss of use or business interruption insurance proceeds;

(vi) the proceeds of any passenger facility charge or other per-passenger charge as may be hereafter authorized under federal law, including, but not limited to, those revenues defined as PFC Revenues;

(vii) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;

(viii) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;

(ix) the net proceeds received by the City from the disposition of any Airport System property;

(x) any Excluded Fee and Charge Revenues; and

(xi) any Taxable Bond Credit Revenues.

“Inferior Lien Bonds” shall mean each series of bonds, notes or other obligations permitted to be issued or incurred by the City pursuant to Section 6.04 of this Ordinance as Inferior Lien Bonds secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Senior Lien Obligations and Subordinate Lien Bonds. Inferior Lien Bonds include but are not limited to the Series C Commercial Paper Obligations.

“Initial Bond(s)” shall mean the Initial Bond(s) authorized by Section 3.02 of this Ordinance.

“Interest Payment Date” with respect to the Series 2012 Bonds shall mean the date(s) designated as such in the Form of Series 2012 Bond and/or the Officers Pricing Certificate.

“Issuance Date” with respect to any series of the Series 2012 Bonds issued hereunder, shall mean the date of initial delivery for any such series of Series 2012 Bonds to the Underwriter, as further designated in the applicable Officers Pricing Certificate. If more than one series of Series 2012 Bonds is issued hereunder, the separate series of Series 2012 Bonds may have separate delivery dates.

“Maximum Lawful Rate” means the maximum rate of interest allowed by Chapter 1204, Texas Government Code, as amended.

“Net Revenues” shall mean that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses.

“Non-PAB Bond” shall mean any Series 2012 Bond that is to be designated by the City in the Officers Pricing Certificate as “Non-PAB” or as a “non-private activity bond.”

“Non-PAB Refunded Bond” shall mean any Refunded Obligation that is refunded with proceeds of a Non-PAB Bond.

“Officers Pricing Certificate(s)” shall mean one or more certificates executed by either the Mayor or the City’s Director of Finance and the City Controller or the Deputy City Controller with respect to the pricing of any series of Series 2012 Bonds pursuant to Article III hereof.

“Operation and Maintenance Expenses” shall mean all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport System, including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self insurance fund not in excess of premiums which would otherwise be required for such insurance; any general and excise taxes or other governmental charges imposed by entities other than the City; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Airport System as are requested from the City by the Airport System and as are reasonably necessary for the operation of the Airport System; costs of issuance of Bonds for the Airport System (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but excluding:

- (a) any allowance for depreciation;
- (b) costs of capital improvements;
- (c) reserves for major capital improvements, Airport System operations, maintenance or repair;
- (d) any allowance for redemption of, or payment of interest or premium on, Bonds;
- (e) any liabilities incurred in acquiring or improving properties of the Airport System;
- (f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;
- (g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Airports Improvement Fund;
- (h) liabilities based upon the City’s negligence or other grounds not based on contract; and
- (i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

Operation and Maintenance Expenses shall only include those current expenses due or payable within the next 30 days.

“Ordinance” shall mean this bond ordinance, the exhibits attached hereto and all amendments and supplements relating to such bond ordinance, including any findings or determinations made in the Officers Pricing Certificate.

“Outstanding” when used with reference to the Senior Lien Bonds, Senior Lien Notes, or Subordinate Lien Bonds, as the case may be, means, as of a particular date, all such bonds or notes theretofore and thereupon delivered except: (a) any such bond or note cancelled by or on behalf of the City at or before said date; (b) any such bond or note defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such bond or note in lieu of or in substitution for which another bond or note shall have been delivered pursuant to the ordinance authorizing the issuance of such bond or note.

“Owner” or **“Registered Owner”** when used with respect to any Senior Lien Bond, Senior Lien Note, or Subordinate Lien Bond, shall mean the person or entity in whose name such bond or note is registered in the Register. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Senior Lien Bonds, Senior Lien Notes, or Subordinate Lien Bonds then Outstanding under the Ordinance.

“PAB Bond” shall mean any Series 2012 Bond that is to be designated by the City in the Officers Pricing Certificate as a “PAB” or a “private activity bond.”

“PAB Refunded Bond” shall mean any Refunded Obligation that is refunded with proceeds of a PAB Bond.

“Participant” means, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

“Paying Agent/Registrar” shall mean, for the Series 2012 Bonds, initially The Bank of New York Mellon Trust Company, National Association, and its successors in that capacity.

“Person” means a corporation, association, partnership, limited liability company, joint venture, trust, organization, business, individual or government or any governmental agency or political subdivision thereof.

“PFC Revenues” shall mean, during any Fiscal Year, proceeds of any charges and fees collected by the Airport System, including passenger facility charges collected by the City pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 and 14 CFR Part 158, as amended from time to time, in respect to any component of the Airport System, and interest earnings thereon.

“Principal Office” means, with respect to the Paying Agent/Registrar, the address identified as its notice address in the Paying Agent/Registrar Agreement or otherwise notified in writing by the Paying Agent/Registrar to the City.

“Project” means any projects financed or refinanced with the Bonds.

“Qualified Hedge Agreement” shall mean any agreement between the City and a qualifying financial institution (as described in the following sentence) for the purpose of providing an interest rate swap, exchange, cap, collar, floor, forward or other hedging mechanism, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on any portion of any Bonds and in consideration for which the City may agree to pay, but solely from Net Revenues as herein provided, (i) periodic payments for the availability of such Qualified Hedge Agreement and/or (ii) net amounts as a result of fluctuation in hedged interest rates or in the value of any index of payment and/or (iii) termination charges. A Qualified Hedge Agreement may only be entered into with a financial institution that has long-term credit ratings or

the obligations of which are unconditionally guaranteed by a financial institution with long-term credit ratings in one of the two highest generic rating categories by two of the nationally recognized rating services then rating the Bonds. Obligations of the City pursuant to a Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of Bonds to which the Qualified Hedge Agreement relates. Further, obligations of the City to make payments under a Qualified Hedge Agreement derived from or resulting from a fluctuation in hedged interest rates or in the value of any index of payment shall be deemed to be payments of interest on the Bonds so hedged. Each Qualified Hedge Agreement shall be deemed to be a part of the Bonds of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in Articles V, VI and VII of this Ordinance. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as Owners of Bonds for purposes of any voting rights to approve amendments or direct the exercise of any remedies under this Ordinance.

“Refunded Bonds” shall mean all or any such portion of the Outstanding Bonds as may be designated in the applicable Officers Pricing Certificate to be refunded with proceeds of the Series 2012 Bonds.

“Refunded Bonds Escrow Agent” shall mean The Bank of New York Mellon Trust Company, National Association, and its successors in such capacity, or such other escrow agent(s) designated in the Officers Pricing Certificate or supplemental ordinance.

“Refunded Bonds Escrow Agreement” shall mean one or more escrow agreements between the City and the Refunded Bonds Escrow Agent related to the Refunded Bonds, in substantially the form approved by the Officers Pricing Certificate.

“Refunded Bonds Escrow Fund” shall mean one or more special dedicated escrow funds created under the Refunded Bonds Escrow Agreement and maintained by the Escrow Agent for the benefit of the holders of the Refunded Bonds.

“Refunded Obligations” shall mean the Refunded Bonds and the Refunded Special Facilities Bonds.

“Refunded Special Facilities Bonds” shall mean all or any such portion of the Series 1997A Special Facilities Bonds as may be designated in the applicable Officers Pricing Certificate to be refunded or defeased with proceeds of the Series 2012 Bonds.

“Refunded Special Facilities Bonds Escrow Agent” shall mean The Bank of New York Mellon Trust Company, National Association, and its successors in such capacity, or such other escrow agent designated in the applicable Officers Pricing Certificate or supplemental ordinance.

“Refunded Special Facilities Bonds Escrow Agreement” shall mean the one or more escrow agreements between the City and the Refunded Special Facilities Bonds Escrow Agent related to the Refunded Special Facilities Bonds, in substantially the form approved by the Officers Pricing Certificate.

“Refunded Special Facilities Bonds Escrow Fund” shall mean one or more special, dedicated escrow funds created under the Refunded Special Facilities Bonds Escrow Agreement maintained by the Refunded Special Facilities Bonds Escrow Agent for the benefit of the holders of the Refunded Special Facilities Bonds.

“Register” shall mean the books of registration kept by the Paying Agent/Registrar in which are maintained the name and address of, and the principal amounts registered to, each Owner.

“Regulations” shall have the meaning assigned to such term in Section 11.01 of this Ordinance.

“Renewal and Replacement Fund” shall mean the fund described in Section 5.11 of this Ordinance.

“Renewal and Replacement Fund Requirement” shall mean the amount required to be maintained in the Renewal and Replacement Fund pursuant to Section 5.11 of this Ordinance, or any greater amount required by any ordinance authorizing any series of Additional Senior Lien Bonds, Additional Senior Lien Notes, or Additional Subordinate Lien Bonds.

“Reserve Fund Participants” shall mean: (i) with respect to Senior Lien Bonds, any series of Senior Lien Bonds designated by the City as “Reserve Fund Participants” and secured by a lien on the Senior Lien Bond Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund, and (ii) with respect to Senior Lien Notes, the Series A Commercial Paper Notes, the Series B Commercial Paper Notes, and any other series of Senior Lien Notes secured by a lien on the Senior Lien Note Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund and (iii) with respect to the Subordinate Lien Bonds, any series of Subordinate Lien Bonds designated by the City as “Reserve Fund Participants” and secured by a lien on the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund.

“Reserve Fund Requirement” shall mean the amount required to be maintained in the Senior Lien Bond Reserve Fund (and the accounts therein) or the Subordinate Lien Bond Reserve Fund (and the accounts therein), as the case may be, as further set forth in the applicable ordinance and/or officers pricing certificate authorizing one or more series of Bonds. For Senior Lien Bonds, such amount shall be the amount required in the ordinances authorizing the Senior Lien Bonds. For Subordinate Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Subordinate Lien Bonds that are Reserve Fund Participants and on each date on which Subordinate Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Subordinate Lien Bonds then being issued that are Reserve Fund Participants. For any series of Subordinate Lien Bonds that are not Reserve Fund Participants, such amount shall be computed upon the issuance of such series of Subordinate Lien Bonds and on each date on which any of such series of Subordinate Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for such series of Subordinate Lien Bonds then Outstanding. Upon the issuance of any series of Additional Subordinate Lien Bonds, the Reserve Fund Requirement for the Subordinate Lien Bonds shall be as set forth in the Officers Pricing Certificate. Notwithstanding the foregoing, the amount of the Reserve Fund Requirement properly allocable to each issue of Bonds, whether or not such issue is a Reserve Fund Participant, shall at no time exceed the lesser of (a) the maximum annual debt service on such issue of Bonds, (b) one hundred twenty-five percent (125%) of the average annual debt service on such issue of Bonds or (c) ten percent (10%) of the initial principal amount of such issue of Bonds (or sale proceeds in the event that the amount of original issue discount exceeds two percent (2%) multiplied by the stated redemption price at maturity of such issue of Bonds), all within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Securities Depository” means DTC or, if applicable, any successor securities depository appointed pursuant to the Ordinance.

“Senior Lien Bond Interest and Sinking Fund” shall mean the fund so designated that was created and established pursuant to the ordinances authorizing the Senior Lien Obligations and that is maintained pursuant to Sections 5.04 and 5.06 hereof.

“Senior Lien Bond Reserve Fund” shall mean the fund so designated that was created and established pursuant to the ordinances authorizing the Senior Lien Obligations, including the accounts established therein, and that is maintained pursuant to Sections 5.04 and 5.07 hereof.

“Senior Lien Bond Reserve Fund Participant Account” shall mean the account of such name created under Section 5.04 within the Senior Lien Bond Reserve Fund.

“Senior Lien Bond Reserve Fund Surety Policy” shall mean any one or more of the instruments so defined in Section 5.07 hereof, whether heretofore or hereafter acquired for the purpose of satisfying all or any part of the Reserve Fund Requirement for the Senior Lien Obligations.

“Senior Lien Bonds” shall mean the Outstanding Series 2009 Bonds and each series of Additional Senior Lien Bonds from time to time hereafter issued.

“Senior Lien Note Reserve Fund Participant Account” shall mean the account of such name created under Section 5.04 within the Senior Lien Bond Reserve Fund.

“Senior Lien Notes” shall mean the Outstanding Series A and B Commercial Paper Obligations and any Additional Senior Lien Notes from time to time hereafter issued.

“Senior Lien Obligations” shall mean either or both of the Senior Lien Bonds and the Senior Lien Notes, as applicable.

“Series 1997A Special Facilities Bonds” shall mean the City of Houston, Texas, Airport System Special Facilities Revenue Bonds (Automated People Mover Project), Series 1997A.

“Series 1998 Bonds” shall mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds, Series 1998B (AMT), and the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds, Series 1998C (Non-AMT).

“Series 2000 Bonds” shall collectively mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds Series 2000A (AMT), Series 2000B (Non-AMT) and the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds (Periodic Auction Reset Securities), Series 2000P-1 (AMT) and P-2 (AMT).

“Series 2001 Bonds” shall mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Refunding Bonds, Series 2001A (AMT).

“Series 2002 Bonds” shall collectively mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds, Series 2002A (AMT), the Series 2002B (Non-AMT), the Series 2002C (AMT) (Auction Rate Securities), the Series 2002D-1 (AMT) (Auction Rate Securities), and the Series 2002D-2 (AMT) (Auction Rate Securities).

“Series 2007B Bonds” shall mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Refunding Bonds, Series 2007B (Non-AMT).

“Series 2009 Bond Reserve Fund Non-Participant Account” shall mean the non-participant account of the Senior Lien Bond Reserve Fund created for the benefit of the holders of the Series 2009 Bonds and established pursuant to the officers pricing certificate relating to the Series 2009 Bonds.

“Series 2009 Bonds” shall mean the City of Houston, Texas, Airport System Senior Lien Revenue and Refunding Bonds, Series 2009A (Non-AMT).

“Series 2010 Bonds” shall mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Refunding Bonds, Series 2010 (Non-AMT).

“Series 2011 Bonds” shall mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Refunding Bonds, Series 2011A (AMT) and Series 2011B (Non-AMT).

“Series 2012 Bonds” shall mean the bonds authorized pursuant to this Ordinance and the Officers Pricing Certificate as contemplated by Article III hereof.

“Series A and B Commercial Paper Obligations” shall mean the Series A Commercial Paper Notes and the Series B Commercial Paper Notes and credit agreements related thereto.

“Series A Commercial Paper Notes” shall mean the City of Houston, Texas, Airport System Senior Lien Commercial Paper Notes, Series A (AMT).

“Series B Commercial Paper Notes” shall mean the City of Houston, Texas, Airport System Senior Lien Commercial Paper Notes, Series B (Non-AMT).

“Series C Commercial Paper Obligations” shall mean the City of Houston, Texas, Airport System Inferior Lien Commercial Paper Notes, Series C and any credit agreements related thereto.

“Short Term/Demand Obligations” shall mean each series of bonds, notes and other obligations issued pursuant to Section 6.02 of this Ordinance, (a) the payment of principal of which is either (i) payable on demand by or at the option of the holder at a time sooner than a date on which such principal is deemed to be payable for purposes of computing Debt Service Requirements, or (ii) scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced for a specified period or term through the issuance of additional Short Term/Demand Obligations pursuant to a commercial paper or other similar financing program, and (b) the purchase price, payment or refinancing of which is additionally secured by a letter of credit, line of credit, standby bond purchase agreement, bond insurance, surety bond or other credit or liquidity facility which does not impose upon the City a reimbursement obligation payable over a period shorter than three years.

“Special Facilities” shall mean structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, in-flight kitchens, training facilities, consolidated rental car facilities, terminal facilities, cargo facilities and any and all other facilities and appurtenances being a part of or related to the Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

“Special Facilities Bonds” shall mean any bonds heretofore or from time to time hereafter issued by the City pursuant to Section 6.05, including, but not limited to, the Series 1997A Special Facilities Bonds.

“Special Facilities Lease” shall mean any lease or agreement, howsoever denominated, pursuant to which Special Facilities are leased by the City to the lessee in consideration for which the lessee agrees

to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facilities (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facilities.

“Special Facilities Lease Agreement” shall have the meaning assigned to such term in Section 1.01(g) of this Ordinance.

“Subordinate Lien Bond Interest and Sinking Fund” shall mean the fund so designated that is required to be maintained pursuant to Sections 5.04 and 5.08 of this Ordinance.

“Subordinate Lien Bond Reserve Fund” shall mean the fund so designated that was created and established pursuant to the ordinances authorizing the Subordinate Lien Bonds, including the accounts established therein, and that is required to be maintained pursuant to Section 5.09 of this Ordinance.

“Subordinate Lien Bond Reserve Fund Participant Account” shall mean the account so designated under Section 5.04 within the Subordinate Lien Bond Reserve Fund.

“Subordinate Lien Bond Reserve Fund Surety Policy” shall mean any one or more of the instruments so defined in Section 5.09 hereof, whether heretofore or hereafter acquired for the purpose of satisfying all or any part of the Reserve Fund Requirement for the Subordinate Lien Bonds.

“Subordinate Lien Bonds” shall mean the Outstanding Series 1998 Bonds, Series 2000 Bonds, Series 2001 Bonds, Series 2002 Bonds, Series 2007B Bonds, Series 2010 Bonds, Series 2011 Bonds, Series 2012 Bonds and each series of Additional Subordinate Lien Bonds which the City has reserved the right to issue from time to time, payable from and secured by a lien on and pledge of Net Revenues junior and subordinate to the lien and pledge securing the Senior Lien Obligations.

“Taxable Bond” shall mean any Series 2012 Bond that is not a Tax-Exempt Bond.

“Taxable Bond Credit Revenues” shall mean payments (i) made to the City from the federal government or any agency or department thereof with respect to the return to the City of a portion of the interest paid by the City on any taxable Bonds, including but not limited to any such payments received pursuant to the American Recovery and Reinvestment Act of 2009 or any legislation in amendment or succession thereto and (ii) received by the City after the Amendment Effective Date of the Amendments.

“Tax-Exempt Bond” shall mean a PAB Bond or a Non-PAB Bond.

“Underwriter” has the meaning assigned to such term in Section 10.01 hereof.

“2012 Subordinate Lien Reserve Fund Surety Policy” shall mean the debt service reserve fund policy or policies, if any, authorized pursuant to Articles III and XII of this Ordinance and issued in the amounts and by the provider(s) identified in the applicable Officers Pricing Certificate.

SECTION 2.02 **INTERPRETATIONS.** All terms defined herein and all pronouns used in this Ordinance shall be deemed to apply equally to the singular and plural and to all genders. The titles and headings of the articles and sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify, enlarge or restrict any of the terms or provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the Net Revenues to secure the payment of the Bonds.

ARTICLE III

TERMS OF THE SERIES 2012 BONDS

SECTION 3.01 NAME, AMOUNT, PURPOSE, AUTHORIZATION. The Series 2012 Bonds shall be issued in one or more series on one or more Issuance Dates in fully registered form in the aggregate principal amount not to exceed \$650,000,000 (except as such amount may be modified by any supplemental ordinance), and shall be known and designated as CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SUBORDINATE LIEN REVENUE REFUNDING BONDS, SERIES 2012, CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SUBORDINATE LIEN REVENUE BONDS, SERIES 2012, and/or CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SUBORDINATE LIEN REVENUE AND REFUNDING BONDS, SERIES 2012, and may be further designated as provided in the Form of Series 2012 Bond and/or in the Officers Pricing Certificate(s) for the Series 2012 Bonds. Each series of Series 2012 Bonds may be designated with or without a letter suffix (e.g., 2012, 2012A, 2012B) and may be designated as "PAB" or "Non-PAB" and/or as "Tax-Exempt" or "Taxable," as provided in the applicable Officers Pricing Certificate and/or in the Form of Series 2012 Bond. The Series 2012 Bonds of any series shall be issued for any one or more of the following purposes: (i) defeasing and/or refunding the Refunded Bonds; (ii) defeasing and/or refunding the City's obligations under that certain Special Facilities Lease Agreement relating to the Refunded Special Facilities Bonds thereby causing the defeasance and/or refunding of the Refunded Special Facilities Bonds; (iii) providing financing for any Authorized System Purposes, including reimbursement for amounts previously spent for Authorized System Purposes, and for any purpose set forth in Chapter 1371, Texas Government Code, as amended; (iv) funding capitalized interest; (v) funding the Subordinate Lien Bond Reserve Fund and any accounts therein; (vi) purchasing any Bond Insurance Policy (one or more) or 2012 Subordinate Lien Reserve Fund Surety Policy (one or more); and (vii) paying the related costs of issuance, all under and pursuant to the authority of the Act and all other applicable law.

SECTION 3.02 DATE, DENOMINATION, INTEREST RATES, AND MATURITIES.

(a) The Series 2012 Bonds of each series shall have a final maturity not later than July 1, 2050, shall be dated the date(s), and shall mature on the maturity date(s) in each of the years and in the amounts as set forth in the applicable Officers Pricing Certificate(s), and shall be subject to optional and mandatory redemption on the dates, at the redemption prices and in the amounts as set forth in the applicable Officers Pricing Certificate(s) and/or the Form of Series 2012 Bond. The Series 2012 Bonds shall bear interest from their Issuance Date at the rate(s) set forth in the applicable Officers Pricing Certificate(s). Interest on the Series 2012 Bonds shall be payable on each January 1 and July 1 commencing on the initial interest payment date set forth in the applicable Officers Pricing Certificate(s). The Officers Pricing Certificate for each series of Series 2012 Bonds shall be in substantially the form set forth in Exhibit B, with such additions, deletions and variations as may be necessary and desirable and permitted by this Ordinance and the Act.

(b) Except as provided below, no Series 2012 Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Ordinance unless and until there appears thereon the Paying Agent/Registrar's Authentication Certificate substantially in the form provided in the Form of Series 2012 Bond, duly authenticated by manual execution by an officer or duly authorized signatory of the Paying Agent/Registrar. In lieu of the executed Paying Agent/Registrar's Authentication Certificate described above, the Initial Bond delivered on the applicable Issuance Date for each series shall have attached thereto the Comptroller's Registration Certificate substantially in the form provided in the Form of Series 2012 Bond, manually executed by the Comptroller, or by her duly authorized agent, which certificate shall be evidence that such Initial Bond has been duly approved by the Attorney General of the

State of Texas and that it is a valid and binding obligation of the City, and has been registered by the Comptroller.

(c) The Series 2012 Bonds shall initially be evidenced by an Initial Bond for each series of Series 2012 Bonds. Such Initial Bonds shall be numbered AGA-1 for the initial series issued hereunder, and for each series thereafter shall be numbered upward and such that the letter designation after the letters "AG" corresponds to the letter suffix in the caption of the respective series of Series 2012 Bonds. Thereafter, the Series 2012 Bonds shall be evidenced by definitive bonds numbered in sequence beginning with RA-1 for each series, with each series thereafter numbered with the appropriate letter designation, as may be further designated in the Officers Pricing Certificate.

On the Issuance Date for any series of Series 2012 Bonds, the Initial Bond for such series, being a single bond representing the entire principal amount of the applicable series of Series 2012 Bonds payable in stated installments to the Underwriter of the Series 2012 Bonds, executed by manual or facsimile signature, approved by the Attorney General of the State of Texas, and registered and manually signed by the Comptroller, shall be delivered to the Underwriter of the Series 2012 Bonds. Upon payment for the Initial Bond, the Paying Agent/Registrar shall cancel the Initial Bond and deliver definitive Series 2012 Bonds to DTC registered in the name of Cede & Co. Definitive Series 2012 Bonds delivered on transfer of or in exchange for the Initial Bond or other Series 2012 Bonds of the same series shall be issued in Authorized Denominations and shall mature on the same date and bear interest at the same rate as the Series 2012 Bonds in lieu of which they are delivered.

SECTION 3.02A SELLING AND DELIVERING SERIES 2012 BONDS. As authorized by the Act, the Mayor or the City's Director of Finance and the City Controller or the Deputy City Controller are hereby authorized to act on behalf of the City in selling and delivering the Series 2012 Bonds and carrying out the other procedures specified in this Ordinance, including without limitation determining the manner in which the Series 2012 Bonds should be sold and delivered, the price(s) at which the Series 2012 Bonds will be sold, the dated date(s), the Issuance Date(s), the form(s) of Series 2012 Bonds, and the manner in which such Series 2012 Bonds shall be issued (whether as current interest bonds or as any combination of current interest bonds, compound interest bonds and deferred interest bonds), the designation of the Series 2012 Bonds as "PAB" or "Non-PAB" (which designation shall be based on applicable federal tax law) or whether the interest on such bonds shall be taxable or tax-exempt to the Owner thereof, the interest rates (including redemption premium, if any), initial interest payment dates, the maturity dates, prices and terms (including redemption premium, if any) upon and at which the Series 2012 Bonds shall be subject to redemption prior to maturity at the option of the City, as well as any mandatory sinking fund redemption provisions for the Series 2012 Bonds, the selection of the Bond Insurer(s) and/or provider(s) of any 2012 Subordinate Lien Reserve Fund Surety Policy, which are determined to be most cost effective to the City for the Series 2012 Bonds, making any determinations or calculations relative to the Reserve Fund Requirement, determining the amount, if any, to be deposited to the Subordinate Lien Bond Reserve Fund, determining which, if any, of the Refunded Obligations shall be refunded, redeemed and/or defeased or caused to be refunded, redeemed and/or defeased, determining which Series 2012 Bond proceeds are allocated to such refundings, determining the form of escrow agreement(s) required to effect such refundings, the verification agent (if any) for the escrow fund(s) to be established for the Refunded Obligations and all other matters relating to the issuance, sale and delivery of the Series 2012 Bonds, including the refunding of the Refunded Obligations and the determination of the amount of all of which shall be specified in the Officers Pricing Certificate(s) for each series of the Series 2012 Bonds; provided that:

(i) the price to be paid for any series of the Series 2012 Bonds shall not be less than 90% of the aggregate original principal amount of any such current interest bonds or 90% of the

present value of any such compound interest bonds plus accrued interest, if any, thereon from their date to their delivery;

(ii) the sum of the principal amounts of the Series 2012 Bonds of each series must be sufficient together with any amounts to be provided by the City to provide, after all original issue discount and underwriters discount, amounts necessary to fund the purposes authorized in Section 3.01 which are applicable to such series of Series 2012 Bonds, including, if applicable to such series, the costs of refunding and/or defeasance of the applicable Refunded Obligations, the estimated costs of issuance of such series of Series 2012 Bonds, the costs of financing for the applicable Authorized System Purposes, the costs of financing any applicable capitalized interest, and the funding of any applicable Reserve Fund Requirement or other amounts necessary to be deposited in the Subordinate Lien Bond Reserve Fund;

(iii) the Series 2012 Bonds shall bear interest at such rates that the true interest cost with respect to any series of Series 2012 shall not exceed ten percent (10%) per annum, all of which shall be certified and set forth in the Officers Pricing Certificate;

(iv) the Series 2012 Bonds to be issued, prior to delivery, must have been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long-term obligations;

(v) to the extent the City shall purchase any Bond Insurance Policy (one or more) issued by one or more Bond Insurers such policy or policies shall result in a net interest rate savings to the City which is greater than the costs of the premium of such policy or policies, as may be certified in the Officers Pricing Certificate; and

(vi) to the extent the City shall purchase any 2012 Subordinate Lien Reserve Fund Surety Policy (one or more) from one or more providers in order to satisfy the City's Reserve Fund Requirement, such policies shall be authorized if (a) (i) the total costs of such policy or policies are less than the amount of the additional Reserve Fund Requirement, as may be certified in the Officers Pricing Certificate and (ii) the terms of such policy or policies are consistent with the terms of this Ordinance and are not outstanding for a period beyond the final maturity of the Series 2012 Bonds or (b) if such policy or policies are deemed by the City's financial advisor to be necessary for marketing the Series 2012 Bonds.

Any finding or determination made in the Officers Pricing Certificate shall have the same force and effect as a finding or determination made by the City Council.

SECTION 3.02B FURTHER DELEGATIONS FOR SERIES 2012 BONDS. Pursuant to the provisions of the Act, the City delegates to the Authorized Representative the authority, under the terms of this Ordinance, to execute and/or consent to the delivery of any consents, certificates, notices, or other instrument on behalf of the City under the Paying Agent/Registrar Agreement, the Refunded Bonds Escrow Agreement, the Refunded Special Facilities Bonds Escrow Agreement, and any certificate, notice, or other instrument in connection therewith or in connection with the refunding and defeasance of the Refunded Obligations, or any agreement with any Bond Insurer or provider of any 2012 Subordinate Lien Reserve Fund Surety Policy for the Series 2012 Bonds, and to authorize the delivery to Registered Owners of any notices of redemption as may be required or permitted under the terms of this Ordinance in connection with a refunding of the Series 2012 Bonds. So long as any Series 2012 Bonds remain Outstanding, the City shall at all times appoint an Authorized Representative, which shall initially be the individuals set forth in the definition of Authorized Representative. To the extent the Authorized Representative designates in writing someone to act on his or her behalf, such appointment shall be in

writing and shall be delivered to the other parties to the Paying Agent/Registrar Agreement, the Refunded Bonds Escrow Agreement, the Refunded Special Facilities Bonds Escrow Agreement, or the other documents authorized under this Ordinance, as applicable.

SECTION 3.03 REDEMPTION PRIOR TO MATURITY. The Series 2012 Bonds of any series shall be subject to optional and mandatory redemption prior to maturity in the manner established by the applicable Officers Pricing Certificate and set forth in the Form of Series 2012 Bond included as Exhibit A. The Authorized Representative shall have the authority on behalf of and in the name of the City to direct and/or consent to the delivery to Registered Owners and other required notice parties of any notice of redemption of the Series 2012 Bonds, provided that any notice of optional redemption may be conditioned on the authorization and issuance of a series of refunding bonds by the City or on any other condition.

SECTION 3.04 MANNER OF PAYMENT, CHARACTERISTICS, EXECUTION AND AUTHENTICATION. The Series 2012 Bonds shall be payable, shall have the characteristics, shall be signed, sealed, and executed, and shall be authenticated, all as provided and in the manner indicated in the Form of Series 2012 Bond and this Ordinance. If any official of the City whose manual or facsimile signature shall appear on the Series 2012 Bonds, as provided in the Form of Series 2012 Bond, shall cease to be such official before the authentication of the Series 2012 Bonds or before the delivery of the Series 2012 Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such official had remained in such office.

SECTION 3.05 OWNERSHIP; UNCLAIMED AMOUNTS. (a) The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Series 2012 Bond is registered as the absolute Owner of such Series 2012 Bond for the purpose of making and receiving payment of the principal thereof and premium, if any, thereon, and for the further purpose of making and receiving payment of the interest thereon, and for all other purposes, whether or not such Series 2012 Bond is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Series 2012 Bond in accordance with this section shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Series 2012 Bond to the extent of the sums paid.

(a) Amounts held by the Paying Agent/Registrar which represent principal of and interest on the Series 2012 Bonds remaining unclaimed by any Owner after the expiration of three years from the date such amounts have become due and payable shall be reported and disposed of by the Paying Agent/Registrar in accordance with the provisions of Texas law, including, to the extent applicable, Title 6 of the Texas Property Code, as amended.

SECTION 3.06 REGISTRATION, TRANSFER AND EXCHANGE.

(a) The Paying Agent/Registrar shall keep the Register at its Principal Office in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Series 2012 Bonds in accordance with the terms of this Ordinance.

(b) The Paying Agent/Registrar shall also maintain books of registration for the Series 2012 Bonds in the State of Texas at the Paying Agent/Registrar's offices in the State of Texas, which books of registration may be a copy of the Register and which shall be kept current by the Paying Agent/Registrar.

(c) Each Series 2012 Bond shall be transferable only upon the presentation and surrender thereof at the Principal Office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form

satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of any Series 2012 Bond for transfer, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor, within 72 hours after such presentation and surrender, a new Series 2012 Bond or Series 2012 Bonds, registered in the name of the transferee or transferees, in Authorized Denominations and of the same series, maturity and aggregate principal amount and bearing interest at the same rate as the Series 2012 Bond or Series 2012 Bonds so presented and surrendered.

(d) All Series 2012 Bonds shall be exchangeable upon the presentation and surrender thereof at the Principal Office of the Paying Agent/Registrar for a Series 2012 Bond or Series 2012 Bonds of the same series, maturity and interest rate and in any Authorized Denomination, in an aggregate principal amount equal to the unpaid principal amount of the Series 2012 Bond or Series 2012 Bonds presented for exchange. The Paying Agent/Registrar shall be and is hereby authorized to authenticate and deliver exchange Series 2012 Bonds in accordance with the provisions of this Section. Each Series 2012 Bond delivered in accordance with this Section shall be entitled to the benefits and security of this Ordinance to the same extent as the Series 2012 Bonds in lieu of which such Series 2012 Bond is delivered.

(e) The City or the Paying Agent/Registrar may require the Registered Owner of any Series 2012 Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Series 2012 Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City.

(f) The Paying Agent/Registrar shall not be required to transfer or exchange any Series 2012 Bond during the 45-day period prior to the date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of any Series 2012 Bond called for redemption in part.

SECTION 3.07 CANCELLATION. All Series 2012 Bonds paid or redeemed in accordance with this Ordinance, and all Series 2012 Bonds in lieu of which exchange Series 2012 Bonds or replacement Series 2012 Bonds are authenticated and delivered in accordance herewith, shall be cancelled and destroyed upon the making of proper records regarding such payment or redemption. The Paying Agent/Registrar shall periodically furnish the City with certificates of destruction of such Series 2012 Bonds.

SECTION 3.08 REPLACEMENT BONDS.

(a) Upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Series 2012 Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Series 2012 Bond of like series, maturity, interest rate, and principal amount, bearing a number not contemporaneously Outstanding. The City or the Paying Agent/Registrar may require the Owner of such Series 2012 Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including the fees and expenses of the Paying Agent/Registrar.

(b) If any Series 2012 Bond is lost, apparently destroyed, or wrongfully taken, the City, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Series 2012 Bond has been acquired by a bona fide purchaser, shall execute, and the Paying Agent/Registrar shall authenticate and deliver, a replacement Series 2012 Bond of like series, maturity, interest rate, and principal amount, bearing a number not contemporaneously Outstanding, provided that the Owner thereof shall have:

(i) Furnished to the City and the Paying Agent/Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Series 2012 Bond;

(ii) Furnished such security or indemnity as may be required by the Paying Agent/Registrar and the City to save them harmless;

(iii) Paid all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar and any tax or other governmental charge that may be imposed; and

(iv) Met any other reasonable requirements of the City and the Paying Agent/Registrar.

(c) If, after the delivery of such replacement Series 2012 Bond, a bona fide purchaser of the original Series 2012 Bond in lieu of which such replacement Series 2012 Bond was issued presents for payment such original Series 2012 Bond, the City and the Paying Agent/Registrar shall be entitled to recover such replacement Series 2012 Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the City or the Paying Agent/Registrar in connection therewith.

(d) If any such mutilated, lost, apparently destroyed or wrongfully taken Series 2012 Bond has become or is about to become due and payable, the City, in its sole discretion, may, instead of issuing a replacement Series 2012 Bond, authorize the Paying Agent/Registrar to pay such Series 2012 Bond.

(e) Each replacement Series 2012 Bond delivered in accordance with this section shall be entitled to the benefits and security of this Ordinance to the same extent as the Series 2012 Bond or Series 2012 Bonds in lieu of which such replacement Series 2012 Bond is delivered.

SECTION 3.09 SECURITIES DEPOSITORY; APPOINTMENT OF DTC. (a) There may be appointed a qualified financial institution to be a clearing agency and securities depository for the Series 2012 Bonds (the "Securities Depository") in accordance with the provisions of this Section. Any Securities Depository will accept and hold the Series 2012 Bonds as the Registered Owner thereof and will maintain a book-entry-only system of recording the ownership and transfer of ownership of beneficial interests in the Series 2012 Bonds. Any Securities Depository so appointed shall be qualified to act as such under Section 17A of the Securities Exchange Act of 1934, as amended, capable of properly discharging its duties in such capacity and acceptable to the Paying Agent/Registrar.

(b) The Depository Trust Company, New York, New York ("DTC") is hereby appointed to act as the initial Securities Depository for the Series 2012 Bonds. The underwriter shall register the Series 2012 Bonds in the name of Cede & Co. as the nominee of the Securities Depository, and deposit the Series 2012 Bonds with the initial Securities Depository in the form of a separate fully registered Series 2012 Bond for each maturity. The City and the Securities Depository have heretofore entered into an agreement setting forth their respective duties with respect to the Series 2012 Bonds and other obligations issued or to be issued by the City (the "Blanket Letter of Representations").

(c) The Initial Bond for each series of the Series 2012 Bonds shall be registered in the name of the Underwriter or its nominee, as further set forth in the Officers Pricing Certificate. Except as otherwise expressly provided herein, all other Series 2012 Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

(d) With respect to Series 2012 Bonds registered in the name of the Securities Depository or its nominee, the City and the Paying Agent/Registrar shall be entitled to treat the person in whose name any Series 2012 Bond is registered in the Register as the absolute owner of such Series 2012 Bond for all purposes of this Ordinance, and neither the City nor the Paying Agent/Registrar shall have any responsibility or obligation to any person who holds a beneficial interest in the Series 2012 Bonds. Without limiting the immediately preceding sentence, neither the City nor the Paying Agent/Registrar shall have any responsibility or obligation with respect to (i) the accuracy of the records of the Securities Depository, its nominee, or any other person with respect to any ownership interest in the Series 2012 Bonds, (ii) the delivery to any person, other than an Owner as shown on the Register, of any notice with respect to the Series 2012 Bonds, including any notice of redemption or advance refunding, (iii) the selection of the particular Series 2012 Bonds or portions thereof to be redeemed in the event of a partial redemption or an advance refunding of part of the Series 2012 Bonds Outstanding or (iv) the payment to any person, other than an Owner as shown in the Register, of any amount with respect to the principal of, redemption premium, if any, or interest on the Series 2012 Bonds.

(e) Notwithstanding any other provision of this Ordinance to the contrary, so long as DTC or a successor Securities Depository is acting in such capacity with respect to the Series 2012 Bonds, all payments of principal of, redemption premium, if any, and interest on the Series 2012 Bonds, and all notices with respect to such Series 2012 Bonds, including any notices of redemption or advance refunding of all or part of the Series 2012 Bonds, shall be made and given, respectively, in accordance with the Blanket Letter of Representations or with the written agreement between the City, the Paying Agent/Registrar, and the successor Securities Depository.

(f) If DTC or any successor Securities Depository appointed by the City determines to discontinue acting as Securities Depository for the Series 2012 Bonds and the City desires to continue the book-entry-only system of recording the ownership and transfer of ownership of beneficial interests in the Series 2012 Bonds, the City shall appoint a successor Securities Depository for the Series 2012 Bonds. Upon acceptance by the successor Securities Depository of its appointment and its duties and responsibilities in such capacity, the City shall, upon receipt from the preceding Securities Depository of a certified copy of its records of ownership of beneficial interests in the Series 2012 Bonds, provide a copy of such records to the successor Securities Depository and cause the Paying Agent/Registrar to authenticate and deliver exchange Series 2012 Bonds to the successor Securities Depository, registered in the name of the nominee of such successor Securities Depository.

(g) If the City shall have appointed a Securities Depository with respect to the Series 2012 Bonds and if any of the events specified below shall occur, the Paying Agent/Registrar shall authenticate and deliver, in accordance with this Ordinance, to each person who appears on the records of the Securities Depository as an owner of a beneficial interest in such Series 2012 Bonds, an exchange Series 2012 Bond or Series 2012 Bonds, in any Authorized Denomination, of the same type, maturity and interest rate and in the same aggregate principal amount as the Series 2012 Bonds beneficially owned by such person or entity, as set forth in such record:

(i) If the Securities Depository determines not to continue to act as Securities Depository for the Series 2012 Bonds and the City is unable to locate a qualified successor Securities Depository;

(ii) If the City determines that the Securities Depository is incapable of properly discharging its duties as Securities Depository for the Series 2012 Bonds and is unable to locate a qualified successor Securities Depository;

(iii) If the City determines that it is in the best interest of the City to discontinue the book-entry system of registration of ownership of beneficial interest in the Series 2012 Bonds provided by the Securities Depository; or

(iv) If the City determines that the continuance of the book-entry system of registration of ownership of beneficial interest in the Series 2012 Bonds provided by the Securities Depository might adversely affect the interests of the owners of such beneficial interest in the Series 2012 Bonds.

Upon the occurrence of any of the foregoing events, the City shall provide written notice of such event to the Paying Agent/Registrar and the Securities Depository.

(h) If any Securities Depository appointed by the City ceases to act in such capacity with respect to the Series 2012 Bonds, the City Controller is hereby authorized to take proposals for and award a contract for the printing of the Series 2012 Bonds in the form prescribed in the applicable Form of Series 2012 Bond for each series.

ARTICLE IV

FORM OF SERIES 2012 BONDS

SECTION 4.01 FORM OF SERIES 2012 BONDS. Each series of Series 2012 Bonds, including the Form of Registration Certificate of the Comptroller of Public Accounts, Form of Authentication Certificate and Form of Assignment, shall be in substantially the form set forth in Exhibit A, with such additions, deletions and variations as may be necessary or desirable and permitted by the Ordinance. Each series of the Series 2012 Bonds initially delivered hereunder shall be registered by the Comptroller of Public Accounts of the State of Texas, as provided by law.

SECTION 4.02 LEGAL OPINIONS, CUSIP NUMBERS, AND STATEMENT OF INSURANCE. The bond opinion of BRACEWELL & GIULIANI LLP and BATES & COLEMAN, P.C. and any statement of bond insurance from the Bond Insurer, if any, may be, and CUSIP Numbers shall be, printed on the Series 2012 Bonds (except for the Initial Bonds which need not contain a CUSIP number), but errors or omissions in the printing of such opinion, insurance statement, and numbers shall have no effect on the validity of the Series 2012 Bonds.

ARTICLE V

SECURITY AND SOURCE OF PAYMENT FOR ALL BONDS

SECTION 5.01 PLEDGE AND SOURCE OF PAYMENT.

(a) The City hereby covenants and agrees that all Gross Revenues shall be deposited and paid into the special funds hereinafter established, and shall be applied in the manner hereinafter set forth, in order to provide for the payment of all Operation and Maintenance Expenses of the Airport System and all principal, interest and any redemption premiums on the Senior Lien Obligations and the Subordinate Lien Bonds and all expenses of providing for their full and timely payment in accordance with their terms.

(b) The Senior Lien Obligations shall constitute special obligations of the City that shall be payable from, and shall be equally and ratably secured by a lien on, the Net Revenues. Such Net Revenues, together with certain proceeds of the Senior Lien Obligations or other lawfully available funds

of the City, shall, in the manner herein provided, be set aside for and pledged to the payment of the Senior Lien Obligations in the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund as hereinafter provided. For the benefit of the Owners of the Senior Lien Obligations, the City hereby grants a lien on the Net Revenues and further grants a lien on the Senior Lien Bond Interest and Sinking Fund to secure the payment of principal of, redemption premium, if any, and interest on the Senior Lien Obligations and all expenses of providing for their full and timely payment in accordance with their terms. For the additional benefit of Owners of the Senior Lien Notes, the City hereby grants a lien on the Senior Lien Note Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund. For the additional benefit of Owners of the Senior Lien Bonds that are Reserve Fund Participants, the City hereby grants a lien on the Senior Lien Bond Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund. For the additional benefit of the Owners of any one or more series of Senior Lien Bonds that are not Reserve Fund Participants, the City has created a separate account (as described herein) and may create one or more additional separate accounts within the Senior Lien Bond Reserve Fund and grant a lien on such account(s) for the benefit of the Owners of such series of Senior Lien Bonds that are not Reserve Fund Participants. Except with respect to the separate accounts of the Senior Lien Bond Reserve Fund described in this Section, all Senior Lien Obligations shall be in all respects on a parity with and of equal dignity with one another. The Owners of the Senior Lien Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the Senior Lien Bonds out of any funds raised or to be raised by taxation.

(c) The Subordinate Lien Bonds shall constitute special obligations of the City that shall be payable from, and, subject to the prior and superior lien of the Senior Lien Obligations, shall be equally and ratably secured by a lien on, the Net Revenues. Such Net Revenues, together with certain proceeds of the Subordinate Lien Bonds or other lawfully available funds of the City, shall, in the manner herein provided, be set aside for and pledged to the payment of the Subordinate Lien Bonds in the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund as hereinafter provided. For the benefit of the Owners of the Subordinate Lien Bonds, the City hereby grants a lien on the Net Revenues (subject to the prior and superior lien of the Senior Lien Obligations) and further grants a lien on the Subordinate Lien Bond Interest and Sinking Fund to secure the payment of principal of, redemption premium, if any, and interest on the Subordinate Lien Bonds and all expenses of providing for their full and timely payment in accordance with their terms. For the additional benefit of Owners of the Subordinate Lien Bonds that are Reserve Fund Participants, the City hereby grants a lien on the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund. For the additional benefit of the Owners of any one or more series of Subordinate Lien Bonds that are not Reserve Fund Participants, the City may create one or more separate accounts within the Subordinate Lien Bond Reserve Fund and grant a lien on such account(s) for the benefit of the Owners of such series of Subordinate Lien Bonds that are not Reserve Fund Participants. Except with respect to the separate accounts of the Subordinate Lien Bond Reserve Fund described in this Section, all Subordinate Lien Bonds shall be in all respects on a parity with and of equal dignity with one another. The Owners of the Subordinate Lien Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the Subordinate Lien Bonds out of any funds raised or to be raised by taxation.

(d) Pursuant to Chapter 1208, Texas Government Code, the lien on Net Revenues created hereunder is valid, effective, and perfected. To the extent that Bonds are issued with a credit facility or a liquidity facility, the City authorizes the inclusion of additional provisions, as needed, to provide security for the payment of the principal and interest when due on bank bonds.

SECTION 5.02 ANNUAL BUDGET. So long as any Bonds remain Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and deliver to the Mayor, for submission to the City Council, a recommended annual budget for the Airport System for such

Fiscal Year which contains detailed estimates of Gross Revenues, Operation and Maintenance Expenses, Net Revenues and Debt Service Requirements for such Fiscal Year, classified in a manner consistent with the definitional and accounting requirements contained herein, and which contains a computation demonstrating that the estimate of Net Revenues set forth therein is in compliance with the rate covenant contained in Section 5.03 below. The City shall adopt annual budgets for the Airport System for each Fiscal Year, each of which shall contain an estimate of revenues and only such budgeted expenditures as will produce Net Revenues in an amount not less than the Net Revenues necessary to comply with the rate covenant in Section 5.03 below. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for such purposes by such budget, as it may from time to time be amended.

SECTION 5.03 RATE COVENANT.

(a) The City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will at all times be at least sufficient to equal the larger of either:

(i) all amounts required to be deposited in such Fiscal Year to the credit of the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund, or

(ii) an amount not less than 125% of the Debt Service Requirements for the Senior Lien Obligations for such Fiscal Year plus 110% of the Debt Service Requirements for the Subordinate Lien Bonds for such Fiscal Year.

(b) If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Management Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Management Consultant, if any, shall be filed with the City Secretary. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Management Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues are not sufficient to be in compliance with the covenant set forth above, so long as there is no other default hereunder.

SECTION 5.04 SPECIAL FUNDS. (a) The following special funds shall be established, maintained and accounted for as hereinafter provided so long as any of the Bonds remain Outstanding:

- (i) Revenue Fund;
- (ii) Senior Lien Bond Interest and Sinking Fund;
- (iii) Senior Lien Bond Reserve Fund;
- (iv) Subordinate Lien Bond Interest and Sinking Fund;
- (v) Subordinate Lien Bond Reserve Fund;

- (vi) Operation and Maintenance Reserve Fund;
- (vii) Renewal and Replacement Fund; and
- (viii) Airports Improvement Fund.

(b) The Revenue Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall be maintained as separate funds or accounts on the books of the City and all amounts credited to such Funds shall be maintained in an official depository bank of the City or in a trustee bank designated by the City. The Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City.

The Senior Lien Bond Interest and Sinking Fund shall constitute trust funds which shall be held in trust for the Owners of the Senior Lien Obligations to which they are pledged, and the proceeds of which (other than the interest income thereon, which may be transferred to the Revenue Fund or such other Funds as may be required under federal tax law) shall be pledged to the payment of the Senior Lien Obligations. The Senior Lien Bond Reserve Fund and the accounts created therein are pledged to the particular Senior Lien Obligations as described herein and in the ordinances authorizing the issuance of the Senior Lien Obligations. Within the Senior Lien Bond Reserve Fund, there has been created a Senior Lien Bond Reserve Fund Participant Account, a Senior Lien Note Reserve Fund Participant Account, and other designated accounts. The Senior Lien Bond Reserve Fund Participant Account shall constitute trust funds which shall be held in trust for the Owners of the Senior Lien Bonds that are Reserve Fund Participants. The proceeds of the Senior Lien Bond Reserve Fund Participant Account (other than the interest income thereon, which may be transferred to the extent herein provided to the Senior Lien Bond Interest and Sinking Fund or such other funds as may be permitted under federal tax law) shall be pledged to the payment of the Senior Lien Bonds that are Reserve Fund Participants. The Senior Lien Note Reserve Fund Participant Account shall constitute trust funds which shall be held in trust for the Owners of the Senior Lien Notes to which they are pledged. The proceeds of the Senior Lien Note Reserve Fund Participant Account (other than the interest income thereon, which may be transferred to the extent herein provided to the Senior Lien Bond Interest and Sinking Fund or such other funds as may be permitted under federal tax law) shall be pledged to the payment of the Senior Lien Notes. The City reserves the right to issue Additional Senior Lien Bonds which are not Reserve Fund Participants and are not secured by the Senior Lien Bond Reserve Fund Participant Account; provided that the City may create a separate account(s) within the Senior Lien Bond Reserve Fund for the benefit of any such series that is not a Reserve Fund Participant, the proceeds of which account (other than the interest income thereon, which may be transferred to the extent herein provided to the Senior Lien Bond Interest and Sinking Fund or such other funds as may be permitted under federal tax law) shall be pledged to the payment of such series that is not a Reserve Fund Participant.

The Subordinate Lien Bond Interest and Sinking Fund shall constitute trust funds which shall be held in trust for the Owners of the Subordinate Lien Bonds to which they are pledged and the proceeds of which (other than the interest income thereon, which may be transferred to the Revenue Fund or such other Funds as may be required under federal tax law) shall be pledged to the payment of such Subordinate Lien Bonds. The Subordinate Lien Bond Reserve Fund shall constitute trust funds which shall be held in trust for the Owners of the Subordinate Lien Bonds to which they are pledged and the proceeds of which (other than the interest income thereon, which may be transferred to the extent herein provided to the Subordinate Lien Bond Interest and Sinking Fund or such other funds as may be permitted under federal tax law) shall be pledged to the payment of the Subordinate Lien Bonds. Within the

Subordinate Lien Bond Reserve Fund, there shall be created a Subordinate Lien Bond Reserve Fund Participant Account, which account shall constitute trust funds and shall be held in trust for Owners of the Subordinate Lien Bonds that are Reserve Fund Participants. The proceeds of the Subordinate Lien Bond Reserve Fund Participant Account (other than the interest income thereon, which may be transferred to the extent herein provided to the Subordinate Lien Bond Interest and Sinking Fund or such other funds as may be permitted under federal tax law) shall be pledged to the payment of the Subordinate Lien Bonds that are Reserve Fund Participants. The City may issue Additional Subordinate Lien Bonds which may be designated as Reserve Fund Participants. The City also reserves the right to issue Additional Subordinate Lien Bonds which are not designated as Reserve Fund Participants and are not secured by the Subordinate Lien Bond Reserve Fund Participant Account; provided that the City may create a separate account(s) within the Subordinate Lien Bond Reserve Fund for the benefit of any such series that is not a Reserve Fund Participant, the proceeds of which account (other than the interest thereon, which may be transferred as set forth in Section 5.09) shall be pledged to the payment of such series that is not a Reserve Fund Participant.

All of the Funds named above shall be used solely as herein provided so long as any Bonds remain Outstanding.

The City reserves the right to create additional accounts within any Fund as necessary or desirable in furtherance of the intent and purpose of this Ordinance, including the purpose of causing the supplemental funding of any reserve fund.

SECTION 5.05 REVENUE FUND; AND FLOW OF FUNDS. All Gross Revenues shall be deposited as received into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments, provided that, so long as such Federal Payments are excluded from the definition of Gross Revenues, such Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses. Moneys from time to time credited to the Revenue Fund shall be applied in the following order of priority:

- (a) First, to pay and to provide by encumbrance for the payment of all current Operation and Maintenance Expenses;
- (b) Second, to transfer all amounts to the Senior Lien Bond Interest and Sinking Fund required by any ordinance authorizing the issuance of Senior Lien Bonds or Senior Lien Notes;
- (c) Third, to transfer all amounts to the Senior Lien Bond Reserve Fund required by any ordinance authorizing the issuance of Senior Lien Bonds or Senior Lien Notes, including transfers to pay all reimbursement obligations under any reserve fund surety policies obtained with respect to Senior Lien Bonds or Senior Lien Notes;
- (d) Fourth, to transfer all amounts to the Subordinate Lien Bond Interest and Sinking Fund required by this Ordinance and any ordinance authorizing the issuance of Subordinate Lien Bonds;
- (e) Fifth, to transfer all amounts to the Subordinate Lien Bond Reserve Fund required by this Ordinance and any ordinance authorizing the issuance of Subordinate Lien Bonds, including transfers to pay all reimbursement obligations under any reserve fund surety policies obtained with respect to the Subordinate Lien Bonds;
- (f) Sixth, to transfer all amounts necessary to provide for the payment, and/or to provide reserves for the payment, of principal of, premium, if any, and interest on any Inferior Lien Bonds to the

appropriate funds or accounts established for such purpose and required to be maintained by any ordinance authorizing such Inferior Lien Bonds;

(g) Seventh, to transfer all amounts to the Operation and Maintenance Reserve Fund required by this Ordinance and any other ordinance authorizing Senior Lien Obligations, Subordinate Lien Bonds or Inferior Lien Bonds;

(h) Eighth, to transfer all amounts to the Renewal and Replacement Fund required by this Ordinance and any other ordinance authorizing Senior Lien Obligations, Subordinate Lien Bonds or Inferior Lien Bonds; and

(i) Ninth, the balance shall be transferred to the Airports Improvement Fund.

SECTION 5.06 SENIOR LIEN BOND INTEREST AND SINKING FUND.

(a) The provisions of this Section 5.06 shall be in effect except as may be otherwise provided in any ordinance authorizing any Senior Lien Obligations. Except as may be otherwise provided in any ordinance authorizing any Senior Lien Obligations, so long as any Senior Lien Obligations remain Outstanding, after making all required payments and provision for payment of Operation and Maintenance Expenses, there shall be transferred to the Senior Lien Bond Interest and Sinking Fund from the Revenue Fund on or before the last Business Day of each month, the following amounts:

(i) Such amounts as shall be necessary so that the balance in the Senior Lien Bond Interest and Sinking Fund equals the Debt Service Requirements on all Senior Lien Obligations accrued to the end of the current month; plus

(ii) Such amounts as shall be necessary to enable the City to pay when due all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Senior Lien Obligations in accordance with their terms, including without limitation, all fees charged or obligations incurred in connection with bond insurance, letters of credit, lines of credit, standby bond purchase agreements, or other credit or liquidity facilities, remarketing agreements, interest rate indexing agreements, interest rate swap agreements and tender agent agreements obtained or entered into by the City in connection with the Senior Lien Obligations.

(b) Except as may be otherwise provided in any ordinance authorizing any Senior Lien Obligations, whenever the total amounts on deposit to the credit of the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Senior Lien Obligations plus the aggregate amount of all interest accrued and to accrue thereon, no further transfers need be made into the Senior Lien Bond Interest and Sinking Fund or the Senior Lien Bond Reserve Fund, and such Senior Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. Moneys credited to the Senior Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Senior Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Senior Lien Obligations, plus all bank charges and other costs and expenses relating to such payment, including those described in clause (a)(ii) above. On or before each principal and/or interest payment date on the Senior Lien Obligations, the City shall transfer from the Senior Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar for the Senior Lien Obligations an amount equal to the principal, interest and redemption premiums payable on the Senior

Lien Obligations on such date, including all amounts due and payable on Credit Agreements or Qualified Hedge Agreements relating to such Senior Lien Obligations.

SECTION 5.07 SENIOR LIEN BOND RESERVE FUND. (a) The City shall establish and maintain as hereinafter provided a balance in the Senior Lien Bond Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund equal to the Reserve Fund Requirement for the Senior Lien Bonds that are secured thereby. The City shall establish and maintain a balance in the Senior Lien Note Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund equal to the Reserve Fund Requirement for the Senior Lien Notes that are secured thereby. With respect to any series of Senior Lien Bonds that are not Reserve Fund Participants, the City shall maintain a balance in the account created within the Senior Lien Bond Reserve Fund for such series equal to the Reserve Fund Requirement for each such series of Senior Lien Bonds secured thereby.

Each increase in the Reserve Fund Requirement resulting from the issuance of any Additional Senior Lien Obligations shall be satisfied at the time of issuance and delivery of such series of Additional Senior Lien Obligations. The Reserve Fund Requirement shall be satisfied by depositing to the credit of the Senior Lien Bond Reserve Fund Participant Account (in the case of Additional Senior Lien Bonds that are Reserve Fund Participants) or the Senior Lien Note Reserve Fund Participant Account (in the case of Additional Senior Lien Notes) or such other designated accounts (in the case of Additional Senior Lien Bonds that are not Reserve Fund Participants) of the Senior Lien Bond Reserve Fund either (i) proceeds of such Additional Senior Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Senior Lien Obligations has been provided out of proceeds of such Additional Senior Lien Obligations or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues or (ii) a surety bond, insurance policy or letter of credit in a principal amount equal to the amount required to be funded, provided that, at the time of deposit, either the rating for the long-term unsecured debt of the issuer of such surety bond, insurance policy or letter of credit or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the two highest letter categories by at least one major municipal securities evaluation service (or, if such entities are no longer in existence, by comparable services) and which surety bond, insurance policy or letter of credit shall be payable on demand of the City for the benefit of the Owners of the Senior Lien Obligations that are secured thereby (collectively, a "Senior Lien Bond Reserve Fund Surety Policy").

(b) In any month in which any account of the Senior Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Additional Senior Lien Obligations as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Senior Lien Bond Reserve Fund Participant Account (in the case of Senior Lien Bonds that are Reserve Fund Participants) and the Senior Lien Note Reserve Fund Participant Account (in the case of Senior Lien Notes) and such other designated accounts (in the case of Senior Lien Bonds that are not Reserve Fund Participants) of the Senior Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under Senior Lien Bond Reserve Fund Surety Policies allocable to the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other

designated accounts, as applicable, the Reserve Fund Requirement for the Senior Lien Bonds or Senior Lien Notes secured thereby; provided, however, that in the event that such monthly transfer requirements ever exceed one-twelfth (1/12th) of the maximum Debt Service Requirements scheduled to occur in any future Fiscal Year on all Senior Lien Obligations then Outstanding (being the maximum transfer permitted by Section 5.07 of the prior ordinances authorizing the Subordinate Lien Bonds), any remaining required transfers shall be accomplished pursuant to Section 5.13 below. After such amounts have been accumulated in the Senior Lien Bond Reserve Fund Participant Account and Senior Lien Note Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts, and any excess amounts in such accounts shall be transferred to the Senior Lien Bond Interest and Sinking Fund to the extent the excess is attributable to the Senior Lien Bond Reserve Fund for any tax-exempt Senior Lien Obligations, and otherwise, shall be transferred to the Revenue Fund or such other Funds as may be permitted by federal tax law. But if and whenever the balance in the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts is reduced below such amount, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Senior Lien Bond Reserve Fund Participant Account and the Senior Lien Note Reserve Fund Participant Account or such other designated accounts, as applicable, to such amount within a twelve (12) month period.

The Senior Lien Bond Reserve Fund Participant Account shall be used to pay the principal of and interest on the Senior Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Senior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies allocable to the Senior Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy allocable to such Senior Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond Reserve Fund Surety Policy. The Senior Lien Bond Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Senior Lien Bonds then Outstanding that are secured thereby.

The Senior Lien Note Reserve Fund Participant Account shall be used to pay the principal of and interest on the Senior Lien Notes at any time when there is not sufficient money available in the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Senior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies allocable to the Senior Lien Note Reserve Fund Participant Account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy allocable to such Senior Lien Note Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond Reserve Fund Surety Policy. The Senior Lien Note Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Senior Lien Notes then Outstanding that are secured thereby.

With respect to any series of Senior Lien Bonds that are not Reserve Fund Participants, any account created within the Senior Lien Bond Reserve Fund for the benefit of such series of Senior Lien Bonds shall be used to pay the principal and interest on such series of Senior Lien Bonds at any time when there is not sufficient money available if the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before

drawing upon any Senior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies allocable to such account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond Reserve Fund Surety Policy. Any such account may also be used to make the final payments for the retirement and defeasance of the series of Senior Lien Bonds then Outstanding that are secured thereby.

(c) The City directs and requires the paying agent for any series of Senior Lien Obligations to ascertain the necessity for claim or draw upon the applicable Senior Lien Bond Reserve Fund Surety Policy, and to provide notice to the issuer thereof in accordance with its terms and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal of and interest on the Senior Lien Obligations to which it pertains.

SECTION 5.08 SUBORDINATE LIEN BOND INTEREST AND SINKING FUND.

(a) On or before the last Business Day of each month so long as any Subordinate Lien Bonds remain Outstanding, after making all required payments and provision for payment of Operation and Maintenance Expenses and making all required transfers to the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund, there shall be transferred into the Subordinate Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

(i) Such amounts as shall be necessary so that the balance in the Subordinate Lien Bond Interest and Sinking Fund equals the Debt Service Requirements on all Subordinate Lien Bonds accrued to the end of the current month; plus

(ii) Such amounts as shall be necessary to enable the City to pay when due all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Subordinate Lien Bonds in accordance with their terms, including without limitation, all fees charged or obligations incurred in connection with bond insurance, letters of credit, lines of credit, standby bond purchase agreements, or other credit or liquidity facilities, remarketing agreements, interest rate indexing agreements, and tender agent agreements obtained or entered into by the City in connection with the Subordinate Lien Bonds.

(b) Whenever the total amounts on deposit to the credit of the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Subordinate Lien Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further transfers need be made into the Subordinate Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Reserve Fund, and such Subordinate Lien Bonds shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. Moneys credited to the Subordinate Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Subordinate Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Subordinate Lien Bonds, plus all bank charges and other costs and expenses relating to such payment, including those described in clause (ii) above. On or before each principal and/or interest payment date on the Subordinate Lien Bonds, the City shall transfer from the Subordinate Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar for the Subordinate Lien Bonds an amount equal to the principal, interest and redemption premiums payable on the Subordinate Lien Bonds on such date including all amounts due and payable on Credit Agreements or Qualified Hedge Agreements relating to such Subordinate Lien Bonds.

SECTION 5.09 SUBORDINATE LIEN BOND RESERVE FUND.

(a) The City shall establish and maintain as hereinafter provided a balance in the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund equal to the Reserve Fund Requirement for the Subordinate Lien Bonds that are secured thereby. With respect to any series of Subordinate Lien Bonds that are not Reserve Fund Participants, the City shall establish and maintain a balance in the accounts created within the Subordinate Lien Bond Reserve Fund for such series equal to the Reserve Fund Requirement for the Subordinate Lien Bonds that are secured thereby.

Each increase in the Reserve Fund Requirement resulting from the issuance of any Additional Subordinate Lien Bonds shall be satisfied at the time of issuance and delivery of such series of Additional Subordinate Lien Bonds. The Reserve Fund Requirement shall be satisfied by depositing to the credit of the Subordinate Lien Bond Reserve Fund Participant Account (in the case of Additional Subordinate Lien Bonds that are Reserve Fund Participants) or such other designated accounts (in the case of Additional Subordinate Lien Bonds that are not Reserve Fund Participants) of the Subordinate Lien Bond Reserve Fund either (i) proceeds of such Additional Subordinate Lien Bonds or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Subordinate Lien Bonds has been provided out of proceeds of such Additional Subordinate Lien Bonds or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues or (ii) a surety bond, insurance policy or letter of credit in a principal amount equal to the amount required to be funded, provided that, at the time of deposit, either the rating for the long-term unsecured debt of the issuer of such surety bond, insurance policy or letter of credit or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the two highest letter categories by at least one major municipal securities evaluation service (or, if such entities are no longer in existence, by comparable services) and which surety bond, insurance policy or letter of credit shall be payable on demand of the City for the benefit of the Owners of the Subordinate Lien Bonds that are secured thereby (collectively, a "Subordinate Lien Bond Reserve Fund Surety Policy").

(b) In any month in which any account of the Subordinate Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Additional Subordinate Lien Bonds as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Subordinate Lien Bond Reserve Fund Participant Account (in the case of Subordinate Lien Bonds that are Reserve Fund Participants) and such other designated accounts (in the case of Subordinate Lien Bonds that are not Reserve Fund Participants) of the Subordinate Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Subordinate Lien Bonds secured thereby; provided, however, that in the event that such monthly transfer requirements ever exceed one-twelfth (1/12th) of the maximum Debt Service Requirements scheduled to occur in any future Fiscal Year on all Subordinate Lien Bonds then Outstanding (being the maximum transfer permitted by Section 5.09 of the prior ordinance authorizing the Subordinate Lien Bonds), any remaining required transfers shall be accomplished pursuant to Section 5.13 below. After

such amounts have been accumulated in the Subordinate Lien Bond Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, and any excess amounts in such accounts shall be transferred to the Subordinate Lien Bond Interest and Sinking Fund to the extent the excess is attributable to the Subordinate Lien Bond Reserve Fund for any tax-exempt Subordinate Lien Bonds, and otherwise shall be transferred to the Revenue Fund or such other Funds as may be permitted by federal tax law. But if and whenever the balance in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts is reduced below such amount, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, to such amount within a twelve (12) month period.

The Subordinate Lien Bond Reserve Fund Participant Account shall be used to pay the principal of and interest on the Subordinate Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account, unless provided otherwise in each of the Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to such Subordinate Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policy. The Subordinate Lien Bond Reserve Participant Account may also be used to make the final payments for the retirement or defeasance of all Subordinate Lien Bonds then Outstanding that are secured thereby.

With respect to any series of Subordinate Lien Bonds that are not Reserve Fund Participants, any account created within the Subordinate Lien Bond Reserve Fund for the benefit of such series of Subordinate Lien Bonds shall be used to pay the principal and interest on such series of Subordinate Lien Bonds at any time when there is not sufficient money available in the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Subordinate Lien Bond Reserve Fund Surety Policies allocable to such account) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policy. Any such account may also be used to make the final payments for the retirement and defeasance of the series of Subordinate Lien Bonds then Outstanding that are secured thereby.

(c) The City directs and requires the paying agent for any series of Subordinate Lien Bonds to ascertain the necessity for claim or draw upon the applicable Subordinate Lien Bond Reserve Fund Surety Policy, and to provide notice to the issuer thereof in accordance with its terms and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal and interest on the Subordinate Lien Bonds to which it pertains.

SECTION 5.10 OPERATION AND MAINTENANCE RESERVE FUND. The City shall fund and maintain as hereinafter provided a balance of money and investments in the Operation and Maintenance Reserve Fund at least equal to two (2) months' current Operation and Maintenance Expenses, which amount shall annually be redetermined by the Aviation Director at the time he submits his recommended budget for the Airport System pursuant to Section 5.02 based upon either his

recommended budget for Operation and Maintenance Expenses or his estimate of actual Operation and Maintenance Expenses for the then current Fiscal Year. On or before the last Business Day of each month, after making all required payments and provision for payment of Operation and Maintenance Expenses and all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund and to any funds or accounts created to provide for the payment, or to provide reserves for the payment, of any Inferior Lien Bonds, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, to the Operation and Maintenance Reserve Fund the amount required to reestablish the required balance in the Operation and Maintenance Reserve Fund. Amounts from time to time credited to the Operation and Maintenance Reserve Fund may be used at any time first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Revenue Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent any amounts are remaining, to be transferred to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund or any similar fund created to provide for the payment, or reserves for the payment, of Inferior Lien Bonds to the extent of any deficiency therein.

SECTION 5.11 RENEWAL AND REPLACEMENT FUND. The City shall fund and maintain as hereinafter provided a balance of money and investments in the Renewal and Replacement Fund at least equal to the Renewal and Replacement Fund Requirement. The Renewal and Replacement Fund Requirement was initially established out of surplus funds of the Airport System in the amount of \$10,000,000. On or before the last Business Day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required payments and provision for payment of Operation and Maintenance Expenses and all required transfers to the Senior Lien Bond Interest and Sinking Fund, to the Senior Lien Bond Reserve Fund, to the Subordinate Lien Bond Interest and Sinking Fund, to the Subordinate Lien Bond Reserve Fund, to any funds or accounts created to provide for the payment, or to provide reserves for the payment, of any Inferior Lien Bonds, and to the Operation and Maintenance Reserve Fund, there shall be transferred from the Revenue Fund, to the extent funds are available therein, to the Renewal and Replacement Fund an amount equal to one-twelfth (1/12th) of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund. Such transfers shall be required to be made into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been accumulated in the Renewal and Replacement Fund. Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time first, to pay for any costs of replacing depreciable property and equipment of the Airport System and making repairs, replacements or renovations of the Airport System; second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Revenue Fund and the Operation and Maintenance Reserve Fund; and third, to the extent any amounts are remaining, to be transferred to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund or any similar fund created to provide for the payment, or reserves for the payment, of Inferior Lien Bonds to the extent of any deficiency therein.

SECTION 5.12 AIRPORTS IMPROVEMENT FUND.

(a) After making all payments and transfers hereinabove required, all amounts remaining in the Revenue Fund shall be transferred to the Airports Improvement Fund. Amounts credited to the Airports Improvement Fund may be used only for lawful Airport System purposes, including without

limitation, to pay for any capital expenditures, to pay costs of replacing any depreciable property or equipment of the Airport System, to make any major or extraordinary repairs, replacements or renewals of the Airport System, to acquire land or any interest therein, to pay any lease or contractual obligations not paid as Operation and Maintenance Expenses, and to make any transfers required to cure any deficiencies in the Renewal and Replacement Fund; provided, however, that any unappropriated, unbudgeted, unreserved or otherwise unencumbered amounts in the Airports Improvement Fund in excess of (i) the unfunded portion of the Airport System's capital improvement program for the next 24 months as approved by the City Council or as proposed by the Aviation Director or (ii) \$50,000,000, whichever is greater, may be used by the City for any lawful purpose permitted by the laws of the United States of America and the State of Texas and not inconsistent with the terms and provisions of any Federal grants or aid or any contracts to which the City is a party.

(b) The Airport System may create, within the Airports Improvement Fund, additional sub-accounts and funds, including a Capital Outlay Fund. All such sub-accounts and funds may be established and used for the purposes of the Airports Improvement Fund as provided in the foregoing paragraph.

SECTION 5.13 DEFICIENCIES IN FUNDS. If in any month there shall not be transferred into any Fund maintained pursuant to this Article the full amounts required herein, amounts equivalent to such deficiency shall be set apart and transferred to such Fund or Funds from the first available and unallocated moneys in the Revenue Fund, and such transfer shall be in addition to the amounts otherwise required to be transferred to such Funds during any succeeding month or months.

SECTION 5.14 INVESTMENT OF FUNDS; TRANSFER OF INVESTMENT INCOME.

(a) Money in the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or in any other investments authorized by Texas law; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. All such investments shall be valued no less frequently than the last Business Day of the City's Fiscal Year at their market value, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the City, in common investments of the kind described above, or in a common pool of such investments maintained by the City which shall be kept and held at an official depository of the City, which shall not be deemed to be a loss of the segregation of such money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

(b) All interest and income derived from deposits and investments credited to the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund and the Operation and Maintenance Reserve Fund shall remain in such funds to the extent necessary to accumulate the Reserve Fund Requirements or other required balance therein.

(c) All interest and income derived from deposits and investments of any amounts held in any construction fund, including amounts held therein as capitalized interest, created by any ordinance authorizing the issuance of Senior Lien Obligations, Subordinate Lien Bonds or Inferior Lien Bonds, shall remain in such construction fund for application in the manner provided in such applicable ordinance.

(d) To the extent it is not otherwise provided for above in this Article V (including Section 5.04(b)) or specifically excluded from the definition of Gross Revenues, all interest and income derived from deposits and investments credited to the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund, shall be transferred or credited monthly to the Revenue Fund or to such other Funds as may be required under federal tax law.

(e) Notwithstanding anything to the contrary contained herein, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required in order to prevent interest on any Bonds from being includable within the gross income of the owners thereof for federal income tax purposes.

SECTION 5.15 SECURITY FOR UNINVESTED FUNDS. So long as any Bonds remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund, shall be secured by the pledge of security, as provided by law for cities in the State of Texas.

SECTION 5.16 DETERMINATION OF RESERVE FUND PARTICIPANTS. Pursuant to the officers pricing certificate relating to the Series 2009 Bonds, the City determined that the Series 2009 Bonds are not Reserve Fund Participants, and created, for the benefit of all holders of the Series 2009 Bonds, the Series 2009 Bonds Reserve Fund Non-Participant Account, as re-designated by this Ordinance. This Ordinance hereby ratifies the creation of such account and confirms that such account is a “designated” account under the Senior Lien Bond Reserve Fund.

All Subordinate Lien Bonds Outstanding as of the date of this Ordinance are hereby confirmed to be Reserve Fund Participants entitled to the benefit of the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund. All cash, investments and Subordinate Lien Reserve Fund Surety Policies on deposit in the Subordinate Lien Bond Reserve Fund on the date hereof are allocated to the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund. The Series 2012 Bonds will be declared and designated to be Reserve Fund Participants or non-participants, as the case may be, in the applicable Officers Pricing Certificate.

ARTICLE VA

PFC REVENUES

SECTION 5.01A PURPOSE. The City hereby reserves the right to commit, pledge, encumber or otherwise use all or any portion of PFC Revenues solely for the purposes of the Airport System, including, but not limited to: (i) committing all or any portion of PFC Revenues to the payment of debt service for any Bonds; (ii) pledging all or any portion of PFC Revenues to the payment of certain obligations secured by a pledge of all or a designated portion of PFC Revenues; or (iii) using all or any portion of PFC Revenues for payment of certain projects of the Airport System or other purposes that benefit the Airport System.

SECTION 5.02A SUPPLEMENTAL ORDINANCE; COMMITTING OR PLEDGING PFC REVENUES. Prior to committing or pledging PFC Revenues for the benefit of the Airport System under subparagraph 5.01A (i) and (ii) above, the City shall adopt a supplemental ordinance (the "Supplemental Ordinance") to determine (i) the eligible PFC Revenues available for such purpose and the manner by which such available PFC Revenues may be committed or pledged for the purposes described in (i) and (ii) above; (ii) the disposition of available PFC Revenues during a given Fiscal Year(s); (iii) the flow of funds in respect to available PFC Revenues for the purposes described in (i) and (ii) above; and (iv) any determinations, findings, appropriations, reservations, and covenants that are appropriate and necessary to give effect to such Supplemental Ordinance. Any Supplemental Ordinances shall be accompanied by an opinion of bond counsel to the Airport System to the effect that the Supplemental Ordinance is not in conflict with any provisions or covenants of this Ordinance or any other ordinance authorizing the issuance of Senior Lien Obligations or Subordinate Lien Bonds.

ARTICLE VI

ADDITIONAL BONDS

SECTION 6.01 SENIOR LIEN OBLIGATIONS AND SUBORDINATE LIEN BONDS. The City reserves the right to issue, for any lawful Airport System purpose, one or more installments of Additional Senior Lien Obligations and Additional Subordinate Lien Bonds; provided, however, that no such Additional Senior Lien Obligations or Additional Subordinate Lien Bonds shall be issued unless:

(a) No Default. The Mayor and the Aviation Director certify that, upon the issuance of such series of Bonds, the City will not be in default under any term or provision of any Bonds then Outstanding or any ordinance pursuant to which any of such Bonds were issued;

(b) Proper Fund Balances. The City Controller shall certify that, upon the issuance of such series of Bonds, the Senior Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Interest and Sinking Fund will have the required amounts on deposit therein and that the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Reserve Fund will contain the applicable Reserve Fund Requirement or so much thereof as is required to be funded at such time;

(c) Historical Coverage on Outstanding Bonds. The City Controller shall certify that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues of the Airport System were equal to at least:

(i) 125% of the Debt Service Requirements on all Senior Lien Obligations for such period, plus

(ii) 110% of the Debt Service Requirements on all Subordinate Lien Bonds for such period;

(d) Projected Coverage for Additional Bonds. An Airport Management Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues of the Airport System for each of the three consecutive Fiscal Years beginning in the earlier of:

(i) the first Fiscal Year following the estimated date of completion and initial use of all revenue-producing facilities to be financed with such series of Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or

(ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the series of Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Management Consultant from proceeds of such series of Bonds, investment income thereon or from other appropriated sources (other than Net Revenues),

are equal to at least:

(A) 125% of the Debt Service Requirements on all Senior Lien Obligations,
plus

(B) 110% of the Debt Service Requirements on all Subordinate Lien Bonds,

scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the additional series of Bonds to be issued;

(e) Alternate Coverage for Additional Bonds. In lieu of the certification described in (d) above, the City Controller may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues of the Airport System were equal to at least:

(i) 125% of the maximum Debt Service Requirements on all Senior Lien Obligations, plus

(ii) 110% of the maximum Debt Service Requirements on all Subordinate Lien Bonds

scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the series of Bonds proposed to be issued;

(f) Refunding Bonds. If Bonds are being issued for the purpose of refunding less than all previously issued Bonds which are then Outstanding, none of the certifications described in (c), (d) or (e) above are required (except in the event Senior Lien Obligations are issued to refund Subordinate Lien Bonds) so long as the Debt Service Requirements in any Fiscal Year after the issuance of such Bonds will not exceed the scheduled Debt Service Requirements in the same Fiscal Year prior to the issuance of such Bonds; and

(g) Bond Ordinance Requirements. Provision is made in the bond ordinance authorizing the series of Bonds proposed to be issued for:

(i) additional payments into the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund (as the case may be) sufficient to provide for any principal and interest requirements resulting from the issuance of the Bonds including, in the event that interest on the additional series of Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund (as the case may be) of amounts fully sufficient to pay interest on such series of Bonds during the period specified in the ordinance; and

(ii) satisfaction of the Reserve Fund Requirement by not later than the date required by this Ordinance or any other ordinance authorizing any Additional Senior Lien Obligations or Additional Subordinate Lien Bonds, as applicable.

(h) Special Provisions for Refunding Short Term/Demand Obligations. The provisions of paragraphs (d), (e) and (f) above shall not apply to the issuance of Additional Senior Lien Obligations or Additional Subordinate Lien Bonds for the purpose of refunding Short Term/Demand Obligations.

(i) Special Provisions for Completion Bonds. The provisions of paragraphs (c), (d) and (e) above shall not apply to the issuance of Completion Bonds in accordance with Section 6.03 hereof.

(j) Special Provisions for Credit Agreements. The City may enter into Credit Agreements with respect to any Bonds or Qualified Hedge Agreements if:

(i) prior to entering into such Credit Agreement, the City, to the extent required by law, shall cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating thereto to be submitted to and approved by the Attorney General of Texas; and

(ii) for any Credit Agreement that obligates the City to make any future payments for the availability of such Credit Agreement, the City's financial advisor must certify that the inclusion of such payments within the Debt Service Requirements on the Bonds or Qualified Hedge Agreement to which the Credit Agreement relates will not cause such Bonds or Qualified Hedge Agreement to fail to comply with the applicable coverage requirements for their issuance or incurrence.

The issuer of any Credit Agreement shall be entitled to be subrogated to the rights of the Owners of the Bonds or the counterparty to the Qualified Hedge Agreement secured by such Credit Agreement, and the City's reimbursement and repayment obligations to the issuer of the Credit Agreement shall be secured by Net Revenues as herein provided.

(k) Special Provisions for Qualified Hedge Agreements. The City may enter into Qualified Hedge Agreements contemporaneously with or following the issuance of any Bonds or in conjunction with the payment, sale, resale or exchange of any Bonds for any purpose authorized by law if the following requirements are satisfied:

(i) the proceedings authorizing the Qualified Hedge Agreement and any contracts or reimbursement agreements relating thereto shall, to the extent required by law, be submitted to and approved by the Attorney General of Texas;

(ii) the City shall have received written confirmations from each rating agency then rating the Bonds that entering into such Qualified Hedge Agreement will not, in and of itself, result in a withdrawal or reduction of any rating assigned to the Bonds; and

(iii) the City's financial advisor shall certify that the Bonds to which the Qualified Hedge Agreement relates could have been issued in satisfaction of all of the coverage requirements of this Article VI if the Debt Service Requirements with respect to such Bonds are recalculated (as provided in the definition of Debt Service Requirements) to take into account payments due under the Qualified Hedge Agreement.

SECTION 6.02 SHORT TERM/DEMAND OBLIGATIONS. The City reserves the right to issue, from time to time, one or more series of Additional Senior Lien Obligations and/or Additional Subordinate Lien Bonds as “Short Term/Demand Obligations” provided that the aggregate principal amount of Short Term/Demand Obligations Outstanding at any time may not exceed the greater of \$150,000,000 or 30% of the aggregate principal amount of Bonds Outstanding at the time of issuance of the last series of Short Term/Demand Obligations; provided, however, that no such Short Term/Demand Obligations may be issued without satisfying the applicable provisions of Section 6.01 above; provided further, however, that no Short Term/Demand Obligation shall be subject to the limitations as to maximum principal amount as set forth above during any period of time that the City’s financial advisor certifies that the City’s variable or adjustable interest rate exposure under such Short Term/Demand Obligation is substantially hedged pursuant to an interest rate swap, interest rate cap or other interest rate hedging mechanism with a counterparty having a rating in one of the two highest credit rating categories by at least two major rating agencies (or with a counterparty whose payment obligations under such interest rate swap, interest rate cap or other interest rate hedging mechanism are insured or guaranteed by an entity having such rating) pursuant to which the maximum net rate of interest that the City is obligated to pay (after taking into account all payments to be made by such counterparty) does not exceed the interest rate certified with respect to such Short Term/Demand Obligation by such financial advisor pursuant to paragraph (ii) clause (2) of the definition of Debt Service Requirements.

SECTION 6.03 COMPLETION BONDS. (a) The City reserves the right to issue one or more series of either: (i) Additional Senior Lien Obligations to pay the cost of completing any Project (as defined in this Section below) for which Senior Lien Obligations have previously been issued or (ii) Additional Subordinate Lien Bonds to pay the cost of completing any Project for which Subordinate Lien Bonds have previously been issued.

(b) Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required by Section 6.01, the following documents:

(i) a certificate of the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that such Project has not materially changed in scope since the issuance of the most recent series of Bonds for such purpose (except as permitted in the applicable ordinance authorizing such Bonds) and setting forth the aggregate cost of the Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(ii) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Project from the proceeds of the most recent series of Bonds issued in connection with the Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of such Project; (ii) containing a calculation of the amount by which the aggregate cost of that Project (furnished in the consulting engineer’s certificate described above) exceeds the sum of the costs of the Project paid to such date plus the moneys available at such date within any construction fund established therefor or other like account applicable to the Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and (iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Project.

(c) For purposes of this Section, the term “Project” shall mean any Airport System facility or project which shall be defined as a Project in any ordinance authorizing the issuance of Additional Senior Lien Obligations or Additional Subordinate Lien Bonds for the purpose of financing such Project. Any

such ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Project.

SECTION 6.04 INFERIOR LIEN OBLIGATIONS. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Senior Lien Obligations and Subordinate Lien Bonds. Such Inferior Lien Bonds may be further secured by any other source of payment lawfully available for such purposes.

SECTION 6.05 SPECIAL FACILITIES BONDS. The City reserves the right to issue, from time to time, in one or more series, Special Facilities Bonds as herein provided to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds or to the payment of any expenses of maintenance and operation of Special Facilities.

SECTION 6.06 PFC OBLIGATIONS. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations secured in whole or in part by a lien on all or any designated portion of the PFC Revenues. Such PFC obligations may be further secured by any other source of payment lawfully available for such purposes.

SECTION 6.07 EXCLUDED FEE AND CHARGE REVENUES OBLIGATIONS. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations secured in whole or in part by a lien on all or any designated portion of Excluded Fee and Charge Revenues. Such obligations may be further secured by any other source of payment lawfully available for such purposes.

ARTICLE VII

COVENANTS AND PROVISIONS RELATING TO ALL BONDS

SECTION 7.01 PUNCTUAL PAYMENT OF BONDS. The City will punctually pay or cause to be paid the interest on and principal of all Bonds according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Ordinance and in any other ordinance authorizing the issuance of such Bonds.

SECTION 7.02 MAINTENANCE OF AIRPORT SYSTEM. The City covenants that it will at all times maintain and operate the Airport System, or, within the limits of its authority, cause the same to be maintained and operated, in good and serviceable condition.

SECTION 7.03 LIMITATION ON CITY CHARGES FOR OPERATION AND MAINTENANCE EXPENSES. The City covenants that it will not charge the Airport System any amounts for overhead expenses relating to the administration, operation and maintenance of the Airport System except to the extent that such amounts are reasonably allocable to the Airport System based upon a stated policy of allocation, reasonably applied to the Airport System and all other departments of the City and further covenants that the City will not charge the Airport System for any property provided or

services rendered by the City unless such services are reasonably necessary and required for the Airport System and are not otherwise provided to the Airport System. All such charges imposed by the City upon the Airport System shall be reasonable, fair and consistent with similar charges imposed upon other departments of the City and shall be consistent with all applicable federal laws, regulations and other requirements applicable to the Airport System or imposed upon the Airport System in connection with the acceptance by the Airport System of any federal grants or aid.

SECTION 7.04 SALE OR ENCUMBRANCE OF AIRPORT SYSTEM. (a) Except for the use of the Airport System or services pertaining thereto in the normal course of business, neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Bonds have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities, except for any pledges of and liens on revenues derived from the operation and use of the Airport System, or any part thereof, or any Special Facilities pertaining thereto, for the payment of Senior Lien Obligations, Subordinate Lien Bonds, Special Facilities Bonds and any other obligations pertaining to the Airport System, and except as otherwise provided in the next two paragraphs.

(b) The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, or shall be paid into the Airports Improvement Fund for the purposes thereof.

(c) Nothing herein shall prevent any transfer of all or a substantial part of the Airport System to another body corporate or politic (including, but not necessarily limited to a joint action agency or an airport authority) which assumes the City's obligations under this Ordinance and under any ordinance authorizing the issuance of Bonds, wholly or in part, if, in the written opinion of the Airport Management Consultant, the ability to meet the rate covenant and other covenants under this Ordinance and under any ordinance authorizing the issuance of Bonds, are not materially and adversely affected. In the event of any such transfer and assumption, nothing herein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the Airport Management Consultant, such retention will not materially and adversely affect nor unreasonably restrict such other body's ability to comply with the requirements of the rate covenant and the other covenants of this Ordinance and in any ordinance authorizing the issuance of Bonds.

SECTION 7.05 INSURANCE. The City further covenants and agrees that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available. All net proceeds of such insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Senior Lien Obligations or Subordinate Lien Bonds, except for proceeds of business interruption insurance, which shall be credited to the Revenue Fund.

SECTION 7.06 ACCOUNTS, RECORDS, AND AUDITS. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross

Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Gross Revenues and the Airport System. The City shall, within 120 days after the close of each of its Fiscal Years or as soon thereafter as practicable, cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants, which shall calculate the Gross Revenues, Net Revenues and Debt Service Requirements for such Fiscal Year and shall set forth a calculation to demonstrate whether the City has satisfied the rate covenant contained in Section 5.03 hereof. In addition, the City shall each year, as a part of its annual audit, cause an independent certified public accountant or independent firm of certified public accountants to prepare a report containing an analysis of any overhead and direct charges imposed on the Airport System by the City to determine whether such charges were imposed in conformity with the covenant contained in Section 7.03 hereof. Each year promptly after such reports are prepared, the City shall furnish copies thereof to any Owners of Bonds who shall request same. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

SECTION 7.07 PLEDGE AND ENCUMBRANCE OF REVENUES. The City covenants and represents that it has the lawful power to create a lien on and to pledge the Net Revenues to secure the payment of the Bonds and has lawfully exercised such power under the Constitution and laws of the State of Texas. The City further covenants and represents that, other than to the payment of Operation and Maintenance Expenses, the Senior Lien Obligations and the Subordinate Lien Bonds, the Gross Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the City, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Senior Lien Obligations and the Subordinate Lien Bonds.

SECTION 7.08 BONDHOLDERS REMEDIES. This Ordinance shall constitute a contract between the City and the Owners of the Subordinate Lien Bonds from time to time Outstanding and this Ordinance shall be and remain irrevocable until the Subordinate Lien Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal of or interest on any of the Subordinate Lien Bonds or a default in the performance of any duty or covenant provided by law or in this Ordinance, the Owner or Owners of any of the Subordinate Lien Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Subordinate Lien Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under this Ordinance, including the making and setting of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues thereof into the special Funds herein provided, and the application of such Gross Revenues in the manner required in this Ordinance.

SECTION 7.09 DISCHARGE BY DEPOSIT. The City may discharge its obligation to the Owners of any or all of the Series 2012 Bonds or other series of Bonds to pay principal, interest and redemption premium (if any) thereon by depositing with the applicable paying agent/registrars for such Bonds cash in an amount equal to the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption, or by depositing either with the applicable paying agent/registrars for such Bonds or with any national banking association with capital and surplus in excess of \$100,000,000, pursuant to an escrow or trust agreement, cash and/or any obligation authorized under Texas law to be deposited for the payment or redemption of the such Bonds, in principal amounts and maturities and bearing interest at rates sufficient, based upon a verification report of an independent nationally recognized certified public accountant, to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption. Upon such deposit, such Bonds shall no longer be regarded as being Outstanding or unpaid.

In case any Bonds are to be redeemed on any date prior to their maturity, the City shall give to the applicable paying agent/registrars instructions to give notice of redemption of said Bonds to be so redeemed in the manner required in the ordinance or ordinances authorizing such Bonds. For any Bonds not to be redeemed or paid in full within the next succeeding sixty (60) days from the date of deposit provided for in this Section 7.09, the City shall give the applicable paying agent/registrars, in form satisfactory to it, irrevocable instructions to mail, by certified mail, a notice to the Registered Owner of each such Bond that the deposit required by this Section 7.09 has been made and that said Bonds are deemed paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal amount and redemption premium (if any) on such Bonds plus interest thereon to the date of maturity or redemption. Any failure, error or delay in giving such notice shall not affect the defeasance of such Bonds.

SECTION 7.10 LEGAL HOLIDAYS. In any case where the date of maturity of interest on or principal of any series of Bonds or the date fixed for redemption of any series of Bonds shall be in the City a legal holiday or a day on which a paying agent for such Bonds is authorized by law to close, then payment of interest or principal need not be made on such date but may be made on the next succeeding day not in the City a legal holiday or a day on which such paying agent is authorized by law to close with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

ARTICLE VIII

PAYING AGENT/REGISTRAR; OTHER AGENTS

SECTION 8.01 PAYING AGENT/REGISTRAR; COMPUTATION OF AMOUNT OF INTEREST. (a) The Bank of New York Mellon Trust Company, National Association is hereby appointed Paying Agent/Registrar for the Series 2012 Bonds, and the City is hereby authorized to enter into a Paying Agent/Registrar Agreement (one or more) with such bank in substantially the form attached hereto as Exhibit C, which Paying Agent/Registrar Agreement is hereby authorized and approved. Either of the Mayor or the City's Director of Finance is authorized to execute and deliver such agreement on behalf of the City, and the City Controller (or Deputy City Controller) is authorized and directed to countersign such agreement and the City Secretary is authorized and directed to attest such agreement and impress the seal of the City thereon. In addition to such Paying Agent/Registrar Agreement, by undertaking the performance of the duties of the Paying Agent/Registrar hereunder, and in consideration of the payment of fees and/or deposits of money pursuant to this Ordinance, the Paying Agent/Registrar accepts and agrees to abide by the terms of this Ordinance.

(b) All money transferred to the Paying Agent/Registrar by the City under this Ordinance (except sums representing Paying Agent/Registrar's fees) shall be held in trust for the benefit of the City, shall be the property of the City, and shall be disbursed in accordance with this Ordinance.

(c) The Paying Agent/Registrar, in its individual or any other capacity, may become an Owner or pledgee of the Series 2012 Bonds with the same rights it would have if it were not the Paying Agent/Registrar.

SECTION 8.02 SUCCESSOR PAYING AGENTS/REGISTRARS. If the Paying Agent/Registrar or its successors become unable for any reason to act as Paying Agent/Registrar hereunder, the City covenants that the Authorized Representative will appoint a successor Paying Agent/Registrar to perform the duties of Paying Agent/Registrar hereunder. Any successor Paying Agent/Registrar shall be either a national or state banking institution and a corporation organized and doing business under the laws of the United States of America or any state thereof, which is authorized

under such laws to exercise trust powers and is subject to supervision or examination by federal or state authority and shall have combined capital, surplus and undivided profits of at least \$50 million. No such successor Paying Agent/Registrar shall be appointed unless the Authorized Representative shall have first given 30 days prior written notice, by first class mail, postage prepaid, to each Registered Owner of any Bonds. No resignation or removal of the Paying Agent/Registrar shall become effective until a successor has been appointed and has accepted the duties of Paying Agent/Registrar.

ARTICLE IX

ALTERATION OF RIGHTS AND DUTIES; AMENDMENT OF ORDINANCE

SECTION 9.01 ALTERATION OF RIGHTS AND DUTIES. The rights, duties, and obligations of the City and the Owners of the Bonds are subject in all respects to all applicable federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended. Inconsistencies among the provisions of the ordinances authorizing the issuance of Bonds shall be resolved by the City in any manner or by any action to conform such provisions as it deems necessary or advisable in accordance with applicable law. The City may consult with and rely on the opinion of Counsel with regard to any or all matters in this Article IX.

SECTION 9.02 AMENDMENT OF ORDINANCE WITHOUT CONSENT. The City may, without the consent of or notice to any of the Owners of the Subordinate Lien Bonds, amend this Ordinance for any one or more of the following purposes:

- (a) To cure any ambiguity, defect, omission or inconsistent provision in this Ordinance or in the Subordinate Lien Bonds; or to comply with any applicable provision of state or federal law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Subordinate Lien Bonds;
- (b) To change the terms or provisions of this Ordinance to the extent necessary to prevent the interest on the Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes;
- (c) To grant to or confer upon the Owners of the Subordinate Lien Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Subordinate Lien Bonds;
- (d) To add to the covenants and agreements of the City contained in this Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in this Ordinance;
- (e) To subject to the lien and pledge of this Ordinance additional Net Revenues which may include revenues, properties or other collateral;
- (f) To add requirements or incorporate modifications the compliance with which is required by a rating agency in connection with issuing or confirming a rating with respect to any series of Bonds;
- (g) To authorize any series of Additional Senior Lien Bonds, Additional Senior Lien Notes, Additional Subordinate Lien Bonds or Inferior Lien Bonds, and, in connection therewith: (i) to specify and determine the terms, forms and details thereof and (ii) to create such additional funds and accounts

and to effect such amendments of this Ordinance which may be necessary for such issuance, provided in each case that no such amendment or supplement shall be contrary to or inconsistent with the limitations set forth in this Ordinance;

(h) To evidence any sale, transfer or encumbrance of the Airport System in accordance with the provisions of Section 7.04; and

(i) To make any other modification, amendment or supplement that shall not materially adversely affect the interests of the Owners of the Subordinate Lien Bonds.

SECTION 9.03 AMENDMENTS OF ORDINANCE REQUIRING CONSENT. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of this Ordinance but, if such amendment is not of the character described in Section 9.02 hereof, only with the consent given in accordance with Section 9.04 hereof of the Owner or Owners of not less than a majority in aggregate unpaid principal amount of the Subordinate Lien Bonds then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this Section shall permit (a) an extension of the maturity of the principal of or interest on any Subordinate Lien Bond issued hereunder, or (b) a reduction in the principal amount of any Subordinate Lien Bond or the rate of interest on any Subordinate Lien Bond, or (c) a privilege or priority of any Subordinate Lien Bond or Subordinate Lien Bonds over any other Subordinate Lien Bond or Subordinate Lien Bonds, or (d) a reduction in the aggregate principal amount of the Subordinate Lien Bonds required for consent to such amendment, unless the Owner or Owners of 100% in aggregate principal amount of the Subordinate Lien Bonds shall consent to any of said changes. Before the City shall adopt one or more of such ordinances pursuant to this Section, the City must receive an opinion from nationally recognized bond counsel to the effect that such ordinance or ordinances does not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

SECTION 9.04 CONSENT OF OWNERS. (a) Any consent required by Section 9.03 hereof by any Owner of Subordinate Lien Bonds shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by such Owner or his duly authorized attorney. Proof of the execution of any such consent or of the writing appointing any such attorney and of the ownership of Subordinate Lien Bonds, if made in the following manner, shall be sufficient for any of the purposes of this Ordinance, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

(i) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution; and

(ii) The fact of the ownership by any person of any Subordinate Lien Bond and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that at the date thereof such Subordinate Lien Bond was registered in the name of such party in the Register.

In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

(b) Consents required pursuant to Section 9.03 shall be valid only if given following the giving of notice by or on behalf of the City requesting such consent and setting forth the substance of the

proposed amendment of this Ordinance in respect of which such consent is sought and stating that copies thereof are available at the office of the City Secretary for inspection. Such notice shall be given by certified mail, postage prepaid, to each Registered Owner of the Subordinate Lien Bonds affected at the address shown on the Register.

SECTION 9.05 REVOCATION OF CONSENT. Any consent by any Owner of a Subordinate Lien Bond pursuant to the provisions of this Article shall be irrevocable for a period of six months from the date of mailing of the notice provided for in this Article, and shall be conclusive and binding upon all future Owners of the same Subordinate Lien Bond and any Subordinate Lien Bond delivered in transfer thereof or in exchange for or replacement thereof during such period. Such consent may be revoked at any time after six months from the date of the first mailing of such notice by the Owner who gave such consent or by a successor in title, by filing notice thereof with the Paying Agent/Registrar, but such revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Subordinate Lien Bonds Outstanding have, prior to the attempted revocation, consented to and approved the amendment.

SECTION 9.06 BOND INSURER DEEMED OWNER. For purposes of giving any consent under this Article IX (except under Section 9.03(a), (b), (c), and (d)), the Bond Insurer may be deemed by the City to be the Owner of the series of Series 2012 Bonds secured by the Bond Insurance Policy issued by such Bond Insurer, as may be specified in the Officers Pricing Certificate relating to any such series of Series 2012 Bonds.

ARTICLE X

PROVISIONS CONCERNING SALE AND APPLICATION OF PROCEEDS OF SERIES 2012 BONDS; RELATED MATTERS

SECTION 10.01 SALE OF SERIES 2012 BONDS. Upon the execution of the Officers Pricing Certificate for any series of the Series 2012 Bonds, the sale of such Series 2012 Bonds shall be awarded to the underwriters named in the Bond Purchase Agreement for such Series 2012 Bonds or the underwriters otherwise designated in a supplemental Bond Purchase Agreement approved by a supplemental Officers Pricing Certificate relating to such series of Series 2012 Bonds (such underwriter(s) being collectively referred to herein as the "Underwriter" with respect to the applicable series of Series 2012 Bonds), in accordance with the terms and conditions of the Bond Purchase Agreement, which Bond Purchase Agreement shall be in substantially the form attached hereto as Exhibit D. The appointment of the Underwriter and the form of the Bond Purchase Agreement are hereby accepted, approved and authorized, and such Bond Purchase Agreement shall be completed for the Series 2012 Bonds (or each series of Series 2012 Bonds) in accordance with the terms of the applicable Officers Pricing Certificate and this Ordinance, and subject to such insertions, additions and modifications as shall be necessary to carry out the intent and purposes of this Ordinance. The Mayor (or the City's Director of Finance) and the City Controller (or the Deputy City Controller) are hereby authorized and directed to enter into and execute and the City Secretary to attest and affix the City's seal to the Bond Purchase Agreement for each series of Series 2012 Bonds on behalf of the City.

SECTION 10.02 APPROVAL, REGISTRATION AND INITIAL DELIVERY. The Mayor and the City Controller are hereby authorized to have control and custody of the Series 2012 Bonds and all necessary records and proceedings pertaining thereto pending their delivery, and the Mayor, the City Controller, the City Secretary and other officials and employees of the City are hereby authorized, directed and instructed to make such certifications and to execute such instruments (including the printed facsimile signature) as may be necessary to accomplish the delivery of the Series 2012 Bonds and to assure the investigation, examination, and approval thereof by the Attorney General of the State of Texas

and the registration of the initial Series 2012 Bonds of each series by the Comptroller of Public Accounts of the State of Texas. Upon registration of the Series 2012 Bonds, the Comptroller of Public Accounts of the State of Texas (or a deputy designated in writing to act for her) shall be requested to sign manually the Comptroller's Registration Certificate prescribed herein to be attached or affixed to each Series 2012 Bond initially delivered and the seal of the Comptroller of Public Accounts of the State of Texas shall be impressed or printed or lithographed thereon.

SECTION 10.03 OFFERING DOCUMENTS. The City Council of the City hereby authorizes and approves in connection with the sale of one or more series of the Series 2012 Bonds, the preparation and distribution of a Preliminary Official Statement (one or more) in the form attached hereto as Exhibit E, with such changes as approved by the City's airport financing working group, and the City further authorizes the preparation and distribution of a final Official Statement in substantially the same form (or in such amended form as reviewed and approved by the City's airport financing working group) containing such additional information and amendments as may be necessary to conform to the terms of the applicable series of Series 2012 Bonds, this Ordinance, and the Officers Pricing Certificate. The Preliminary Official Statement is hereby deemed "final" as of its date except for certain omissions as permitted under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule"). To the extent necessary, the Mayor, the City's Director of Finance, the City Controller and/or the Deputy City Controller may execute such other certificates as may be necessary to deem "final" this or any related Preliminary Official Statements pertaining to the Series 2012 Bonds.

SECTION 10.04 APPLICATION OF PROCEEDS OF SERIES 2012 BONDS. (a) Except as may be modified or supplemented under the Officers Pricing Certificate, proceeds from the sale of each series of the Series 2012 Bonds shall, promptly upon receipt by the City, be applied as follows:

(i) Proceeds allocable to the refunding of the Refunded Obligations shall be applied, together with any other lawfully available funds, to make all necessary deposits required by the Refunded Bonds Escrow Agreement and Refunded Special Facilities Bonds Escrow Agreement, as applicable, as described in Section 10.05 hereof or shall otherwise be applied to the redemption of the Refunded Obligations on the redemption date(s) therefor; and

(ii) The remaining proceeds shall be applied for any of the purposes authorized in Section 3.01 hereof. The City reserves the right to create or designate such additional funds or accounts as it deems necessary or convenient to provide for the administration of such remaining proceeds.

SECTION 10.04A REDEMPTION OF REFUNDED OBLIGATIONS. The discharge, defeasance and redemption of the Refunded Bonds and the discharge, defeasance and redemption of the City's obligations under the Special Facilities Lease Agreement relating to the Refunded Special Facilities Bonds shall be carried out pursuant to the terms and provisions of this Ordinance and the applicable Officers Pricing Certificate(s). The notices of redemption for the Refunded Bonds and Refunded Special Facilities Bonds shall be substantially in the form approved by the Officers Pricing Certificate, subject to such insertions, additions and modifications as shall be necessary to carry out and accomplish the purposes of this Ordinance, including in this Section 10.04A and Section 10.05. The City Controller or the Deputy City Controller is hereby authorized to execute and deliver or cause to be delivered such notices of redemption on behalf of the City, in form and substance approved by such person in accordance with the requirements of the ordinance or indenture authorizing the Refunded Obligations and the requirements of State law. The City Council hereby authorizes and directs the Mayor, the City's Director of Finance, the City Controller, the Deputy City Controller, or their designates to take all necessary steps to redeem and defease the Refunded Special Facilities Bonds and Refunded

Bonds and use proceeds of the Series 2012 Bonds and other available revenues of the City to pay the principal of, redemption premium, if any, and interest on the respective redemption dates or payment dates set forth in the Officers Pricing Certificate.

SECTION 10.05 ESCROW AGREEMENTS. The discharge, redemption and/or defeasance of the Refunded Bonds may, if necessary or desirable as determined by the Authorized Representative, be carried out pursuant to the terms and provisions of one or more Refunded Bonds Escrow Agreements in substantially the form approved by the Officers Pricing Certificate, and the discharge, redemption, and/or defeasance of the Refunded Special Facilities Bonds may, if necessary or desirable as determined by the Authorized Representative, be carried out pursuant to the terms and provisions of one or more Refunded Special Facilities Bonds Escrow Agreements in substantially the form approved by the Officers Pricing Certificate, the terms and provisions of each of which are hereby approved, subject in each case to such insertions, additions and modifications as shall be necessary (a) to carry out the program designed for the City, (b) to maximize the City's present value savings or other financial benefits to the City and/or to minimize the City's costs of refunding, (c) to comply with all applicable laws and regulations relating to the defeasance and refunding of the Refunded Obligations and (d) to carry out the other intents and purposes of this Ordinance. The Mayor (or the City's Director of Finance) and City Controller (or Deputy City Controller) or their designees are hereby authorized to execute and deliver the Refunded Bonds Escrow Agreement and the Refunded Special Facilities Bonds Escrow Agreement on behalf of the City in multiple counterparts and the City Secretary is hereby authorized to attest thereto. If necessary or desirable, the Authorized Representative is hereby authorized to appoint a verification agent to certify as to the mathematical accuracy of the escrow calculations and to prepare one or more verification reports with respect to the Refunded Obligations.

SECTION 10.06 USE OF CERTAIN EXISTING FUNDS. (a) All amounts on deposit in any funds and accounts allocable to the Refunded Bonds, including particularly in the Subordinate Lien Bond Interest and Sinking Fund, may be applied by the City to refund the Refunded Bonds. To the extent additional funds are needed to fund the Refunded Bonds Escrow Fund, all or portion of the amounts in the Subordinate Lien Bond Interest and Sinking Fund attributable to the payment of interest on the Refunded Bonds through their final payment date shall be transferred to the Refunded Bonds Escrow Fund to accomplish the discharge and defeasance of the Refunded Bonds.

(b) All amounts on deposit in any funds and accounts allocable to the Refunded Special Facilities Bonds held under the trust indenture relating to such Refunded Special Facilities Bonds may be applied by the City to defease the Refunded Special Facilities Bonds. To the extent additional funds are needed to fund the Refunded Special Facilities Bonds Escrow Fund, all or portion of the amounts in the Subordinate Lien Bond Interest and Sinking Fund attributable to the payment of interest on the Refunded Special Facilities Bonds through their final payment date shall be transferred to the Refunded Special Facilities Bonds Escrow Fund to cause the defeasance and refunding of the Refunded Special Facilities Bonds.

SECTION 10.07 CO-BOND COUNSEL. Co-Bond Counsel services in connection with the issuance of the Series 2012 Bonds and other related services shall be provided pursuant to the terms of a Co-Bond Counsel Agreement to be entered into by and between the City and BRACEWELL & GUILIANI LLP and BATES & COLEMAN, P.C. ("Co-Bond Counsel"), which shall be substantially in the form attached hereto as Exhibit G, the terms and provisions of which are hereby approved, and the City Attorney is hereby authorized to execute and deliver such Co-Bond Counsel Agreement on behalf of the City in multiple counterparts and the City Secretary is hereby authorized to attest thereto and affix the City's seal.

SECTION 10.08 SPECIAL DISCLOSURE CO-COUNSEL. Special Disclosure Co-Counsel services in connection with the issuance of the Series 2012 Bonds and other related services shall be provided pursuant to the terms of a Special Disclosure Co-Counsel Agreement to be entered into by and between the City and HAYNES AND BOONE LLP and BRATTON & ASSOCIATES (“Special Disclosure Co-Counsel”), which shall be substantially in the form attached hereto as Exhibit H, the terms and provisions of which are hereby approved, and the City Attorney is hereby authorized to execute and deliver such Special Disclosure Co-Counsel Agreement on behalf of the City in multiple counterparts and the City Secretary is hereby authorized to attest thereto and affix the City’s seal.

SECTION 10.09 RELATED MATTERS. In order that the City shall satisfy in a timely manner all of its obligations under the Ordinance, the Paying Agent/Registrar Agreement, the Refunded Bonds Escrow Agreement (if any), and the Refunded Special Facilities Bonds Escrow Agreement (if any), the Mayor, the City Attorney, the City’s Director of Finance, the City Secretary, the City Controller, and the Deputy City Controller, the Authorized Representative, and all other appropriate officers and agents of the City are hereby authorized and directed to take all other actions that are reasonably necessary and/or convenient to carry out the terms of the Ordinance and to provide for issuance and delivery of the Series 2012 Bonds and the refunding and/or defeasance of the Refunded Obligations, including without limitation, executing by manual or facsimile signature and delivering on behalf of the City those certificates, consents, receipts, requests, notices, investment agreements, and other documents as may be reasonably necessary to satisfy the City’s obligations under the Paying Agent/Registrar Agreement, the Refunded Bonds Escrow Agreement, the Refunded Special Facilities Bonds Escrow Agreement and this Ordinance and to direct the transfer and application of funds of the City consistent with the provisions of such agreements and this Ordinance. In order to obtain the approval of the Series 2012 Bonds by the Attorney General of Texas or the consent of any Bond Insurer or issuer of a Subordinate Lien Bond Reserve Fund Surety Policy, the City Attorney is hereby authorized to make such changes in the written text of this Ordinance as he determines are consistent with the intent and purposes of this Ordinance, which determination shall be final. Such changes shall be included in the transcript of proceedings relating to the Series 2012 Bonds and provided to the City Secretary, and the City Secretary is hereby directed to make such changes part of the City’s permanent records.

ARTICLE XI

PROVISIONS CONCERNING FEDERAL INCOME TAX EXCLUSION

SECTION 11.01 GENERAL TAX COVENANT. The City intends that the interest on the Tax-Exempt Bonds will be excludable from gross income for purposes of federal income taxation pursuant to sections 103, 141, 142 and 147 through 150 of the Internal Revenue Code of 1986, as amended (the “Code”), and applicable Treasury Regulations (the “Regulations”). The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Tax-Exempt Bonds to be includable in gross income, as defined in section 61 of the Code, for purposes of federal income taxation. In particular, the City covenants and agrees to comply with each requirement of this Article XI; provided, however, that the City will not be required to comply with any particular requirement of this Article XI if the City has received an opinion of nationally recognized bond counsel (“Counsel’s Opinion”) that (i) such noncompliance does not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds or (ii) compliance with some other requirement set forth in this Article XI will satisfy the applicable requirements of the Code or the Regulations, in which case compliance with such other requirement specified in such Counsel’s Opinion will constitute compliance with the corresponding requirement specified in this Article XI.

SECTION 11.02 USE OF PROCEEDS. (a) The City covenants and agrees that its use of the Net Proceeds of the PAB Bonds and the PAB Refunded Bonds at all times has satisfied and will satisfy the following requirements:

(i) At least 95 percent of the Net Proceeds of each issue of the PAB Bonds and the PAB Refunded Bonds actually expended have been and will be expended for costs that (A) were paid and incurred after the issue date of the PAB Bonds and the PAB Refunded Bonds, as applicable; (B) are properly chargeable for federal income tax purposes to the capital account of the Project financed or refinanced with the Net Proceeds of the PAB Bonds and the PAB Refunded Bonds, or would be so chargeable either with a proper election or but for a proper election to deduct such amounts; and (C) are incurred to provide "airport facilities," which may include both an "airport" (within the meaning of section 142 of the Code) and property that is functionally related and subordinate thereto (within the meanings of sections 1.103-8(a)(3) and 1.103-8(e)(2)(ii) of the Regulations). For purposes of this requirement a storage or training facility shall be an "airport facility" only if such facility is directly related to the airport. In addition, an "office" shall be considered an "airport facility" only if such office is located on the premises of an airport and all but a de minimis amount of the functions to be performed at such office are directly related to the day-to-day operations at such airport.

(ii) All of the property financed or refinanced with the Net Proceeds of the PAB Bonds and the PAB Refunded Bonds has been and will be owned by the City. Any leases, management contracts or similar operating or use agreements entered into with any person with respect to all or any portion of the Project financed or refinanced with Net Proceeds of the PAB Bonds and the PAB Refunded Bonds will comply with the requirements of section 142(b)(1)(B)(i)-(iii) of the Code and the applicable Regulations thereunder.

(iii) The Project financed or refinanced with Net Proceeds of the PAB Bonds and the PAB Refunded Bonds has not and will not include (i) any lodging facilities, (ii) any retail facilities (including food and beverage facilities) in excess of the size necessary to serve passengers and employees at the airport, (iii) any retail facility (other than parking) for passengers or the general public located outside of an airport terminal, (iv) any office building for individuals who are not employees of the City, or (v) any industrial park or manufacturing facility.

(iv) The Project financed or refinanced with Net Proceeds of the PAB Bonds and the PAB Refunded Bonds has not and will not include any airplane, skybox or other private luxury box, health club facility, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(v) Except as provided in the last sentence of this clause (v), not more than 25 percent of each issue of the Net Proceeds of the PAB Bonds and the PAB Refunded Bonds actually expended has been or will be used, directly or indirectly, for the acquisition of land or an interest therein. Notwithstanding the immediately preceding sentence no portion of the Net Proceeds of the PAB Bonds and the PAB Refunded Bonds has been or will be used, directly or indirectly, for the acquisition of land or an interest therein to be used for farming purposes. For purposes of this requirement, land acquired for noise abatement purposes or for future use as an airport shall not be taken into account, if there is no significant other use of such land.

(vi) No portion of the Net Proceeds of the PAB Bonds and the PAB Refunded Bonds has been or will be used for the acquisition of any existing property or an interest therein unless (i) the first use of such property is pursuant to such acquisition or (ii) the rehabilitation expenditures with respect to any building and the equipment therefor equal or exceed 15 percent

of the cost of acquiring such building financed with the proceeds of the Refunded Bonds (with respect to structures other than buildings, this clause shall be applied by substituting 100 percent for 15 percent). For purposes of the preceding sentence, the term "rehabilitation expenditures" shall have the meaning set forth in section 147(d)(3) of the Code.

(vii) All of the Net Proceeds of the PAB Bonds will be used to (i) pay principal, interest, or redemption price of the PAB Refunded Bonds, (ii) finance the Project, and (iii) pay the issuance costs and accrued interest on the PAB Bonds. All of the PAB Refunded Bonds will be retired prior to the date that is 90 days after the date on which the PAB Bonds are issued.

(viii) If the Net Proceeds of the PAB Bonds and the PAB Refunded Bonds (including those that become "transferred proceeds" (as that term is used in section 1.148-9 of the Regulations) of the PAB Bonds) are used in a manner not in accordance with the covenants set forth in subsections (i) through (iii) of this section 11.02(a), or if an action is taken that causes all or any portion of the Project financed or refinanced with the Net Proceeds of the PAB Bonds and PAB Refunded Bonds to be used in a manner not in accordance with the covenants set forth in subsections (i) through (iii) of this Section 11.02(a), the amount of Net Proceeds so improperly used shall be identified and used as described in paragraph (x) below or, if applicable, paragraph (xi) below.

(ix) For purposes of this section, the "Nonqualified Bonds" are a portion of the outstanding Tax-Exempt Bonds in an amount that, if the remaining PAB Bonds were issued on the date on which the failure to properly use the Net Proceeds occurs, at least 95 percent of the Net Proceeds of the remaining PAB Bonds would be used to pay or reimburse costs that satisfy the requirements of paragraphs (i) through (iii) above. The Nonqualified Bonds will be determined on an allocation basis that satisfies the requirements of section 1.142-2(e) of the Regulations.

(x) The requirements of this paragraph (x) are met if all of the Nonqualified Bonds are redeemed on the earliest call date after the date on which the failure to properly use the proceeds occurs. Proceeds of the PAB Bonds (other than "transferred proceeds" (as that term is used in section 148-9 of the Regulations) of the PAB Bonds) shall not be used for this purpose. If the PAB Bonds are not redeemed within 90 days of the date on which the failure to properly use proceeds occurs, a defeasance escrow (as defined in section 1.141-12(d)(5) of the Regulations) shall be established for those Bonds within 90 days of that date. The City will provide written notice to the Commissioner of Internal Revenue of the establishment of the defeasance escrow within 90 days of the date the escrow is established.

(xi) If the failure to properly use proceeds is a disposition of personal property exclusively for cash, the requirements of this paragraph (xi) are met if the disposition proceeds are expended within 6 months of the date of the disposition to acquire replacement property for the same qualifying purpose of the PAB Bonds. For purposes of this paragraph (xi), disposition proceeds means disposition proceeds as defined in section 1.141-12(c) of the Regulations.

(b) When used in Section 11.02(a), the term Net Proceeds of the PAB Bonds or PAB Refunded Bonds means the proceeds from the sale of the PAB Bonds or PAB Refunded Bonds, including investment earnings on such proceeds, less accrued interest.

SECTION 11.03 USE OF PROCEEDS REGARDING NON-PAB BONDS. The City covenants and agrees that it will make such use of the proceeds of the Non-PAB Bonds including interest or other investment income derived from Bond proceeds, regulate the use of property financed or

refinanced, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Non-PAB Bonds will not be “private activity bonds” within the meaning of section 141 of the Code and the Regulations promulgated thereunder. Moreover, the City will certify, through an authorized officer, employee or agent, based upon all facts and estimates known or reasonably expected to be in existence on the date the Non-PAB Bonds are delivered, that the proceeds of the Non-PAB Refunded Bonds have not been and the proceeds of the Non-PAB Bonds will not be used in a manner that would cause the Non-PAB Bonds to be “private activity bonds” within the meaning of section 141 of the Code and the Regulations promulgated thereunder.

SECTION 11.04 NO FEDERAL GUARANTEE. The City covenants and agrees that it has not and will not take any action, and has not knowingly omitted and will not knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Tax-Exempt Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code and the applicable Regulations thereunder, except as permitted by section 149(b)(3) of the Code and such Regulations.

SECTION 11.05 NO HEDGE BONDS. The City covenants and agrees that it has not and will not take any action, and has not knowingly omitted and will not knowingly omit to take any action, within its control, that, if taken or omitted, respectively, would cause the Tax-Exempt Bonds to be “hedge bonds” within the meaning of section 149(g) of the Code and the applicable Regulations thereunder.

SECTION 11.06 NO ARBITRAGE. The City will certify, through an authorized officer, employee or agent that based upon all facts and estimates known or reasonably expected to be in existence on the date the Tax-Exempt Bonds are delivered, that the proceeds of the Tax-Exempt Bonds will not be used in a manner that would cause any issue of the Tax-Exempt Bonds to be “arbitrage bonds” within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder. Moreover, the City covenants and agrees that it will make such use of the proceeds of the Tax-Exempt Bonds including interest or other investment income derived from Bond proceeds, regulate investments of proceeds of the Tax-Exempt Bonds, and take such other and further action as may be required so that any issue of the Tax-Exempt Bonds will not be “arbitrage bonds” within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder.

SECTION 11.07 ARBITRAGE REBATE. If the City does not qualify for an exception to the requirements of Section 148(f) of the Code relating to the required rebate to the United States, the City will take all necessary steps to comply with the requirement that certain amounts earned by the City on the investment of the “gross proceeds” of each issue of the Tax-Exempt Bonds (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the City will (i) maintain records regarding the investment of the gross proceeds of each issue of the Tax-Exempt Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of each issue of the Tax-Exempt Bonds separately from records of amounts on deposit in the funds and accounts of the City allocable to other bond issues of the City or moneys that do not represent gross proceeds of any bonds of the City, (ii) calculate at such times as are required by applicable Regulations, the amount earned from the investment of the gross proceeds of each issue of the Tax-Exempt Bonds that is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of each issue of the Tax-Exempt Bonds or on such other dates as may be permitted under applicable Regulations, all amounts required to be rebated to the federal government. Further, the City will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Tax-Exempt Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm’s length and had the yield on the issue not been relevant to either party.

SECTION 11.08 INFORMATION REPORTING. The City covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which each issue of the Tax-Exempt Bonds are issued, an information statement concerning each issue of the Tax-Exempt Bonds, all under and in accordance with section 149(e) of the Code and the applicable Regulations promulgated thereunder.

SECTION 11.09 LIMITATION ON MATURITY. The City covenants and agrees that the average maturity of each issue of the PAB Bonds, taking into account the issue price of the various maturities of the PAB Bonds, will not exceed 120 percent of the reasonably expected economic life of the assets financed or refinanced by the PAB Bonds, taking into account the respective cost of each item composing the Project financed or refinanced with the PAB Bonds. For purposes of the preceding sentence, the reasonably expected economic life of such Project shall be determined as of the later of (i) the date on which the PAB Bonds or PAB Refunded Bonds were issued or (ii) the date on which any component of such Project was placed in service (or expected to be placed in service). In addition, land shall not be taken into account in determining the reasonably expected economic life of such Project, except that in the event 25 percent or more of the proceeds of the PAB Bonds or PAB Refunded Bonds was expended for land, such land shall be treated as having an economic life of 30 years and shall be taken into account for purposes of determining the reasonably expected economic life of the Project.

SECTION 11.10 COSTS OF ISSUANCE. The City covenants and agrees that the costs of issuance (within the meaning of section 147(g) of the Code and applicable regulations thereunder) financed with the proceeds of the PAB Bonds will not exceed 2 percent of the proceeds from the sale of the PAB Bonds.

SECTION 11.11 PUBLIC APPROVAL. It is found, determined and declared that, with respect to the PAB Bonds, a sufficient written notice or notices of the date, hour, place and subject of the public hearing or hearings to be conducted by the City will be published no less than 14 days before the date of each said hearing in a newspaper of general circulation available to residents of the City and the hearing or hearings will be conducted in a manner that provides a reasonable opportunity for persons with differing views on the issuance of the PAB Bonds to be heard, all as required by section 147(f) of the Code and the applicable Regulations thereunder. The Aviation Director or Barron Wallace or either of their designees are each hereby appointed as a Hearing Officer for one or more public hearings required by this Section and, based on the Hearing Officer's report on such hearing, the Mayor is hereby authorized to execute a certificate with respect to each such hearing, as necessary, of the kind required by such Section 147(f) of the Code with respect to the PAB Bonds and the Project to be financed or refinanced with the PAB Bonds. All actions taken by the City, its officers and its employees with respect to the publication of the notice or notices of such public hearings and the conducting of such public hearings are hereby authorized, approved and ratified.

SECTION 11.12 DELIBERATE ACTIONS. The City will not take a deliberate action that causes the PAB Bonds to fail to meet any requirement of the Code regarding the use of bond proceeds after the Issuance Date of the PAB Bonds unless an appropriate remedial action is permitted by section 1.142-2(e) of the Regulations and an opinion of Counsel is obtained that such remedial action cures any failure to meet the requirements with respect to the use of proceeds of the PAB Bonds.

SECTION 11.13 RECORD RETENTION. The City will retain all pertinent and material records relating to the use and expenditure of the proceeds of each issue of the Tax-Exempt Bonds until three years after such issue is redeemed, or such shorter period as authorized by subsequent guidance issued by the Department of Treasury, if applicable. All records will be kept in a manner that ensures their complete access throughout the retention period. For this purpose, it is acceptable that such records are kept either as hardcopy books and records or in an electronic storage and retrieval system, provided

that such electronic system includes reasonable controls and quality assurance programs that assure the ability of the City to retrieve and reproduce such books and records in the event of an examination of any issue of the Tax-Exempt Bonds by the Internal Revenue Service.

SECTION 11.14 CONTINUING OBLIGATION. Notwithstanding any other provision of this Ordinance, the City's obligations under the covenants and provisions of this Article XI will survive the defeasance and discharge of the Tax-Exempt Bonds for as long as such matters are relevant to the exclusion from gross income on the Bonds for federal income tax purposes.

SECTION 11.15 AUTHORIZATION TO DECLARE OFFICIAL INTENT TO REIMBURSE. The Aviation Director is hereby authorized, for purposes of section 1.150-2 of the Regulations to execute, on behalf of the City, Declarations of Official Intent to Reimburse for expenditures in connection with Authorized System Purposes, in substantially the form attached hereto as Exhibit I. The Aviation Director is hereby directed to deliver a copy of each executed Declaration of Official Intent to Reimburse to the City Attorney, the City Controller and Counsel, and to maintain a written record of each Declaration of Official Intent to Reimburse for so long as the related tax-exempt bond issue is outstanding and thereafter for a period as required by the Code or the Regulations for document retention. The Aviation Director is hereby authorized to take such further actions as may be necessary or useful to comply with the Reimbursement Regulations, as amended from time to time.

ARTICLE XII

BOND INSURANCE AND SUBORDINATE LIEN BOND RESERVE FUND SURETY POLICY

SECTION 12.01 AUTHORIZATION AND PURPOSE. In order to reduce the Debt Service Requirements on the Series 2012 Bonds and provide credit support for the Series 2012 Bonds, and more efficiently use the cash and other assets of the City, the City is authorized, subject to the provisions of Section 3.02A, to purchase a Bond Insurance Policy (one or more) and a 2012 Subordinate Lien Reserve Fund Surety Policy (one or more) with respect to any series of the Series 2012 Bonds. Moreover, in consideration for the issuance by the provider(s) of such Bond Insurance Policy (or policies) or 2012 Subordinate Lien Reserve Fund Surety Policy (or policies), the City hereby makes the agreements, covenants, provisions and representations set forth in this Article.

SECTION 12.02 SPECIAL PROVISIONS RELATED TO BOND INSURANCE POLICY. In order to obtain the lowest attainable interest rates on and to provide credit support for the Series 2012 Bonds, the City hereby authorizes the purchase by or on behalf of the City of one or more Bond Insurance Policy or Policies issued by one or more Bond Insurer(s). In consideration of the issuance of the Bond Insurance Policy or Policies, the agreements and covenants of the City in favor of the Bond Insurer(s) substantially in the form set forth in Exhibit J hereof, are hereby approved, along with such insertions, additions, and modifications thereto as shall be necessary to satisfy the conditions set forth in the commitment of any Bond Insurer(s) to issue a Bond Insurance Policy or Policies and as otherwise necessary to carry out the intents and purposes of this Ordinance. The Mayor is authorized to execute and deliver such agreement(s) (along with any related documents required in connection with the purchase of such policy or policies) on behalf of the City, the City Controller is authorized and directed to countersign such agreement(s) and the City Secretary is authorized to attest and affix the City's seal thereon.

SECTION 12.03 SPECIAL PROVISIONS FOR 2012 BONDS SUBORDINATE LIEN RESERVE FUND SURETY POLICY. The City hereby authorizes and approves one or more agreements to be entered into by or on behalf of the City with the issuer(s) of the 2012 Subordinate Lien Reserve Fund Surety Policy or Policies identified in each Officers Pricing Certificate, such agreements

substantially in the form set forth in Exhibit K, along with such insertions, additions, and modifications as shall be necessary to satisfy the conditions set forth in the commitment of any provider of a Subordinate Lien Bond Reserve Fund Surety Policy or Policies and as otherwise necessary to carry out the intents and purposes of this Ordinance. The Mayor is authorized to execute and deliver such agreement(s) (along with any related documents required in connection with the purchase of such policy or policies) on behalf of the City, the City Controller is authorized and directed to countersign such agreement(s) and the City Secretary is authorized and directed to attest such agreement(s) and impress the seal of the City thereon.

SECTION 12.04 BENEFIT OF ARTICLE. This article has been adopted solely for the benefit of the Bond Insurer and the provider of the 2012 Subordinate Lien Reserve Fund Surety Policy, and may be modified or amended at any time with the consent of, or may be waived in whole or in part by, the respective parties thereto, but may not be enforced or relied upon in any way by any of the Owners of the Series 2012 Bonds or the Owners of any Subordinate Lien Bonds.

ARTICLE XIII

CONTINUING DISCLOSURE UNDERTAKING

SECTION 13.01 ANNUAL REPORTS. (a) The City shall provide annually to the MSRB, within six months after the end of each fiscal year beginning with the fiscal year ending June 30, 2012, financial information and operating data with respect to the City of the general type included in the final Official Statement authorized by this Ordinance, being the information described in Exhibit L hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in the Official Statement or the financial statements included in the Official Statement and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the City shall provide audited financial statements for the applicable fiscal year to the MSRB, when and if audited financial statements become available but if such audited financial statements are unavailable the City will provide such financial statements on an unaudited basis within the above-described six-month period.

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

(c) The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document that is available from the MSRB or filed with the SEC, or may be provided in any other manner consistent with the Rule.

SECTION 13.02 EVENT NOTICES. (a) The City shall provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) Business Days after the occurrence of the event, notice of any of the following events with respect to the Series 2012 Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;

- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2012 Bonds, or other material events affecting the tax status of the Series 2012 Bonds;
- (vii) modifications to rights of holders of the Series 2012 Bonds, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Series 2012 Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership, or similar event of the obligated person;

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

(xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) the appointment of a successor or additional trustee or the change in the name of the trustee, if material.

(b) The City shall provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, notice of any failure by the City to provide the required annual financial information and notice of material events in accordance with Sections 13.01 and 13.02 of this Ordinance. All documents provided to the MSRB pursuant to this Article, shall be accompanied by identifying information as prescribed by the MSRB.

(c) As used in this section, the term “obligated person” means any person, including the City, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Series 2012 Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

SECTION 13.03 LIMITATIONS, DISCLAIMERS, AND AMENDMENTS. (a) The City shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the City remains an “obligated person” with respect to the Series 2012 Bonds within the meaning of the Rule, except that the City in any event will give the notice required by Section 13.02 of any Series 2012 Bond calls and defeasance that cause the City to be no longer such an “obligated person.”

(b) The notices and information required to be provided by the City pursuant to Sections 13.01 or 13.02 hereof will be provided in an electronic format or in such other format as required by the MSRB or the SEC and shall be accompanied by such identifying information as required by the MSRB or the SEC.

(c) The provisions of this Article are for the sole benefit of the Owners and Beneficial Owners of the Series 2012 Bonds, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City’s financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Series 2012 Bonds at any future date.

(d) UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY SERIES 2012 BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

(e) No default by the City in observing or performing its obligations under this Article shall constitute a breach of or default under this Ordinance for purposes of any other provisions of this Ordinance.

(f) Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The provisions of this Article may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell Series 2012 Bonds in the primary offering of the Series 2012 Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the Outstanding Series 2012 Bonds consent to such amendment or (b) a person or entity that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and Beneficial Owners of the Series 2012 Bonds. If the City so amends the provision of this Article, it shall include with any amended financial information or operating data next provided in accordance with Section 13.01 an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so

provided. The City may also amend or repeal the provisions of this Article if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the City also may amend the provisions of this Article in its discretion in any other manner or circumstances, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Series 2012 Bonds in the primary offering of the Series 2012 Bonds.

SECTION 13.04 DEFINITIONS. As used in this Article, the following terms have the meanings ascribed to such terms below:

“**MSRB**” means the Municipal Securities Rulemaking Board. Until such time as the SEC or the MSRB shall determine otherwise, information to be filed with the MSRB pursuant to the Rule will be submitted through the Electronic Municipal Market Access system (“EMMA”) maintained by the MSRB and will be accessible at <http://www.emma.msrb.org> or other such access location as designated by the SEC or the MSRB.

“**Rule**” means Rule 15c2-12, as amended from time to time, adopted by the SEC under the Securities Exchange Act of 1934.

“**SEC**” means the United States Securities and Exchange Commission.

ARTICLE XIV

AMENDMENTS OF OUTSTANDING BOND ORDINANCES

SECTION 14.01 FINDINGS RELATING TO AMENDMENTS.

(a) The City hereby ratifies and confirms any and all actions taken with respect to the amendment of each ordinance relating to the Senior Lien Obligations and Subordinate Lien Bonds, including the adoption of (i) Ordinance No. 2007-287 and the proposed amendments provided therein (hereafter, the “2007 Amendments”), (ii) Ordinance No. 2009-600 and the proposed amendments provided therein (hereafter, the “2009 Amendments”), (iii) Ordinance No. 2010-893 and the proposed amendments provided therein (hereafter, the “2010 Amendments” and, collectively with the 2007 Amendments and 2009 Amendments, the “Amendments”) and (iv) Ordinance No. 2011-484 and the proposed amendment provided therein (the “Proposed 2011 Amendment”, also a “Proposed Amendment”).

(b) With respect to the Amendments the City hereby makes the following findings and determinations for the benefit of all holders of the Senior Lien Obligations and Subordinate Lien Bonds, as follows:

(1) With respect to the definition of “Debt Service Requirements”:

(A) Any Taxable Bond Credit Revenues received by the City shall not be applied as a credit against actual interest paid, or interest scheduled to accrue, on the related Bonds.

(B) Paragraph (C) is not intended to permit duplication of any credits utilized under Paragraph (A), and is intended to apply only to funds on deposit and available for the purpose so designated by the City, including Taxable Bond Credit Revenues.

(2) With respect to Article V, Sections 5.01 and 5.04, the phrase “the City may create one or more separate accounts within the Subordinate Lien Reserve Fund” as used in such sections means “the City shall create one or more separate accounts within the Subordinate Lien Reserve Fund.”

SECTION 14.02 EFFECTIVE DATE OF AMENDMENTS. The Amendments shall be effective and shall become incorporated into the ordinances authorizing the Outstanding Senior Lien Obligations and Outstanding Subordinate Lien Bonds on the Amendment Effective Date for the Amendments, which shall be set forth in the Officers Pricing Certificate. The City shall certify that (i) the Amendments have been consented to by the required bond insurers and surety providers and (ii) notice has been given to the rating agencies, as required by the ordinances authorizing the Outstanding Subordinate Lien Bonds and the various agreements with the bond insurers. The City shall not exercise its rights under the Amendments until such Amendment Effective Date.

SECTION 14.03 PROPOSED 2011 AMENDMENT. The City has determined that is in the best interest of the Airport System to amend the ordinances authorizing the issuance of all Senior Lien Obligations and Subordinate Lien Bonds with the Proposed 2011 Amendment, which is further described in Exhibit M of this Ordinance. The City intends to include the Proposed 2011 Amendment in each ordinance hereafter adopted authorizing any Additional Senior Lien Bonds, Additional Senior Lien Notes, or Additional Subordinate Lien Bonds and any series of Bonds issued to refund any Outstanding Bonds.

SECTION 14.04 INCORPORATION OF THE PROPOSED 2011 AMENDMENT. The City will seek to achieve the incorporation of the Proposed 2011 Amendment as follows:

(a) the Proposed 2011 Amendment is hereby adopted as part of this Ordinance, and shall be binding upon all Owners, from time to time, of the Series 2011 Bonds and the Series 2012 Bonds, and shall become effective on its Amendment Effective Date;

(b) the conditions for the effectiveness of the Proposed 2011 Amendment shall be deemed satisfied with respect to each series of Bonds upon either (x) payment in full or defeasance of such series of Bonds so that they are no longer Outstanding or (y) certification by the City that the applicable ordinance authorizing such series of Bonds has been duly amended to incorporate the Proposed 2011 Amendment and that the conditions for amendment of such ordinance have been satisfied, as described below;

(c) the City authorizes each of its previously adopted ordinances pursuant to which Bonds are Outstanding to be amended to include the Proposed 2011 Amendment, subject, however, in each case to satisfying the conditions in such prior ordinances and in related documents which are required in order to amend the respective prior ordinances. Such conditions with respect to amending certain of the prior ordinances include the following (provided that such conditions are included for reference herein but are subject in all respects to the actual terms of the prior ordinances and related documents, as such terms may be amended or modified from time to time by the terms thereof):

(1) with respect to each series of Outstanding Bonds, the City’s certification that:

(A) notice of the Proposed 2011 Amendment has been given as required by the ordinance authorizing the respective series of Bonds, including to the rating agencies;

(B) in accordance with Section 9.03 of the ordinance authorizing such series of Bonds, the City has received the consent of either (i) the Owners of not less than a

majority in aggregate unpaid amount of such Bonds or (ii) the bond insurer (if any) as deemed owner of such Bonds;

(C) the ordinance authorizing each respective series of Bonds has been duly amended to incorporate the Proposed 2011 Amendment; and

(2) to the extent applicable to any series of Outstanding Bonds, the City's certification that the City has received the consent of the provider of the reserve fund surety policy relating to such series or subseries of Bonds.

SECTION 14.05 EFFECTIVE DATE OF PROPOSED AMENDMENT. The Proposed 2011 Amendment shall become effective on the Amendment Effective Date for the Proposed 2011 Amendment. The Mayor, the City Attorney, the City's Director of Finance, the City Controller, and the Deputy City Controller are each authorized and directed to take any such actions and to prepare such notices, consents, certificates or other documentation as may be necessary to effectuate the amendment of the previously adopted ordinances pursuant to which Bonds are Outstanding. Further, the Mayor, the City Attorney, the City's Director of Finance, the City Controller, and the Deputy City Controller are each hereby authorized and directed to execute and deliver, individually or together, one or more certificates or other documents as may be necessary or desirable in order to evidence the amendment of the prior ordinances authorizing Outstanding Bonds to incorporate the Proposed 2011 Amendment, or to evidence compliance with any prerequisites or conditions to the Amendment Effective Date. The occurrence of the Amendment Effective Date for the Proposed 2011 Amendment shall be evidenced by such certificate executed on behalf of and in the name of the City. The City shall not exercise its rights under the Proposed 2011 Amendment until the Amendment Effective Date for the Proposed 2011 Amendment.

SECTION 14.06 SUPPLEMENTS TO ARTICLE XIV. The City may supplement, clarify, update, and otherwise amend the provisions of this Article XIV from time to time by ordinance as it deems necessary or appropriate. Counsel is hereby authorized to prepare and obtain such notices and/or consents, if any, as may be required in connection therewith.

ARTICLE XV

MISCELLANEOUS

SECTION 15.01 SEVERABILITY. If any Section, paragraph, clause or provision of this Ordinance shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such Section, paragraph, clause or provision shall not affect any of the remaining provisions of this Ordinance.

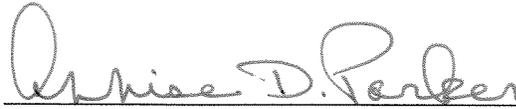
SECTION 15.02 OPEN MEETING. It is hereby found, determined and declared that a sufficient written notice of the date, hour, place and subject of the meeting of the City Council of the City at which this Ordinance was adopted was posted at a place convenient and readily accessible at all times to the general public at the City Hall of the City for the time required by law preceding this meeting, as required by the Open Meetings Act, Chapter 551, Texas Government Code, as amended, and that this meeting has been open to the public as required by law at all times during which this Ordinance and the subject matter thereof has been discussed, considered and formally acted upon. The City Council of the City further ratifies, approves and confirms such written notice and the contents and posting thereof.

SECTION 15.03 DECLARATION OF EMERGENCY. It is hereby officially found and determined that a case of emergency and urgent public necessity exists which requires the holding of the

meeting at which this Ordinance is passed and further requires that this Ordinance be passed finally and take effect immediately on the date of its introduction, such emergency and urgent public necessity being that the proceeds from the sale of the Series 2012 Bonds are required as soon as possible and without delay for the purposes set forth in Section 3.01 of this Ordinance. The Mayor has in writing declared the existence of such emergency and requested passage of this Ordinance, and this Ordinance is hereby passed finally on the date of its introduction and shall take effect immediately upon its passage and approval by the Mayor.

[END OF ORDINANCE]

PASSED AND APPROVED THIS 8th day of February, 2012.



Mayor
City of Houston, Texas

APPROVED AS TO FORM:



Senior Assistant
City Attorney
City of Houston, Texas
(L.D. File No. 0341200006001)

AYE	NO	
✓		MAYOR PARKER
....	COUNCIL MEMBERS
✓		BROWN
✓		DAVIS
✓		COHEN
✓		ADAMS
✓		SULLIVAN
✓		HOANG
✓		PENNINGTON
✓		GONZALEZ
✓		RODRIGUEZ
✓		LASTER
✓		GREEN
✓		COSTELLO
✓		BURKS
✓		NORIEGA
✓		BRADFORD
✓		CHRISTIE
CAPTION	ADOPTED	

ADDITION PUBLISHED IN DAILY COURIER
REVIEW
DATE: FEB 14 2012

EXHIBIT A

FORM OF SERIES 2012 BOND

The Series 2012 Bonds (which may be issued in one or more series) shall be in substantially the following form, with such additions, deletions and variations as may be necessary or desirable and permitted by this Ordinance:

(a) Form of Series 2012 Bond

(Face of Bond)

United States of America
State of Texas

NUMBER
¹ _____
REGISTERED

DENOMINATION
\$ _____
REGISTERED

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM SUBORDINATE LIEN _____² BOND
SERIES 2012 _____³

INTEREST RATE: _____⁴ % MATURITY DATE: July 1, _____⁴ ISSUANCE DATE: _____⁴, 2012 CUSIP NO. _____

Registered Owner:

Principal Amount: _____ DOLLARS

The CITY OF HOUSTON, TEXAS, a municipal corporation, situated principally in Harris County, Texas (the "City"), for value received, hereby promises to pay, solely from the pledged revenues and funds hereinafter specified and from no other source, to the Registered Owner identified above or the registered assigns thereof, on the date specified above, upon presentation and surrender of this bond at the Principal Office of the "Paying Agent/Registrar," initially The Bank of New York Mellon Trust Company, N.A., the Principal Amount identified above, in any coin or currency of the United States of America which on the date of payment of such principal is legal tender for the payment of debts due the United States of America, and to pay, solely from such pledged revenues and funds, interest thereon at the rate shown above, calculated on the basis of a 360-day year composed of twelve 30-day months, from the later of the Issuance Date set forth above or the most recent Interest Payment Date to which interest has been paid or duly provided for. Interest on this Series 2012 Bond is payable on each January 1 and July 1

¹ AG__-1 for the initial Bond of each series (with the blank to be completed with the letter matching the letter suffix in the Bond caption, e.g. AGA-1 for the initial series of Bonds and upward for each series); R-1 and upward, for all bonds issued in exchange therefor.

² May be captioned as "Revenue Bonds", "Revenue Refunding Bonds", "Revenue and Refunding Bonds" or such other appropriate designation provided in the Officers Pricing Certificate.

³ May be designated with any letter or other suffix as provided in the Officers Pricing Certificate. In addition, may include a designation as "PAB" or "Non-PAB", "Tax-Exempt" or "Taxable" or any other designation provided the Officers Pricing Certificate,

⁴ Insert from the Officers Pricing Certificate.

(each an "Interest Payment Date") beginning _____⁴, until the maturity or redemption date of this bond or until the City's obligation with respect to this bond has been satisfied. Interest on this Series 2012 Bond shall be payable by check or draft mailed by first class mail, postage prepaid by the Paying Agent/Registrar to the Registered Owner of record as of the 15th day of the month immediately preceding such Interest Payment Date, as shown on the books of registration kept by the Paying Agent/Registrar. The Series 2012 Bonds shall be issued in denominations of \$5,000 or any integral multiple thereof ("Authorized Denominations").

THIS BOND IS ONE OF A DULY AUTHORIZED SERIES OF BONDS, dated as of _____⁴, in the aggregate principal amount of \$_____⁴ (herein, the "Series 2012 Bonds"), issued pursuant to an ordinance adopted by the City Council of the City (herein the "Ordinance") for any one or more of the following purposes: (i) defeasing and/or refunding the Refunded Bonds; (ii) defeasing and/or refunding the City's obligations under that certain Special Facilities Lease Agreement relating to the Refunded Special Facilities Bonds thereby causing the defeasance and/or refunding of the Refunded Special Facilities Bonds; (iii) providing financing for any Authorized System Purposes, including reimbursement for amounts previously spent for Authorized System Purposes, and for any purpose set forth in Chapter 1371, Texas Government Code, as amended; (iv) funding capitalized interest; (v) funding the Subordinate Lien Bond Reserve Fund and any account therein; (vi) purchasing any Bond Insurance Policy (one or more) or 2012 Subordinate Lien Reserve Fund Surety Policy (one or more); and (vii) paying the related costs of issuance, all under and pursuant to the authority of Chapters 1201, 1207, 1371, and 1503, Texas Government Code, as amended, and all other applicable law.

THIS BOND AND ALL OF THE BONDS OF THIS SERIES are special obligations of the City that, together with all other Subordinate Lien Bonds (as defined in the Ordinance) from time to time issued and outstanding, are equally and ratably payable from and secured by a lien on Net Revenues (as defined in the Ordinance). THE LIEN ON SUCH NET REVENUES SECURING THIS BOND AND ALL BONDS OF THIS SERIES AND ALL OTHER SUBORDINATE LIEN BONDS IS EXPRESSLY MADE SUBORDINATE AND JUNIOR TO A SENIOR AND SUPERIOR LIEN ON NET REVENUES THAT THE CITY HAS GRANTED TO SECURE SENIOR LIEN OBLIGATIONS CURRENTLY OUTSTANDING OR TO BE ISSUED FROM TIME TO TIME IN THE FUTURE AS PROVIDED IN THE ORDINANCE. This bond and the series of which it is a part, together with the interest thereon, are payable solely from such Net Revenues and do not constitute an indebtedness or general obligation of the City.

THIS BOND shall not be valid or obligatory for any purpose or be entitled to any benefit under the Ordinance unless this bond is authenticated by the Paying Agent/Registrar by due execution of the authentication certificate manually endorsed hereon, except for the Initial Bond of this series which has been registered by the Comptroller of Public Accounts of the State of Texas by the Comptroller's Registration Certificate manually endorsed and affixed thereto. Such duly executed certificate of authentication shall be conclusive evidence that this bond was delivered by the Paying Agent/Registrar under the provisions of the Ordinance.

THIS BOND AND ALL BOND OF THIS SERIES are subject to certain proposed amendments that were adopted as part of the Ordinance, and shall be binding upon all Owners of this Bond, from time to time, and shall become effective on the Amendment Effective Date described in the Ordinance.

To the extent not defined herein, capitalized terms used in this Bond shall have the meanings as set forth in the Ordinance.

Optional Redemption. The Series 2012 Bonds maturing on or after _____ shall be subject to redemption prior to stated maturity at the option of the City on _____ or any date

thereafter, in whole or in part, at a price equal to the principal amount of the Series 2012 Bonds to be redeemed plus the accrued interest thereon to (but not including) the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Series 2012 Bonds issued as term bonds maturing on July 1 in the year(s) ____⁴ are subject to mandatory redemption prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates (“Mandatory Redemption Dates”), at a price equal to the principal amount of the Series 2012 Bonds to be redeemed plus accrued interest to (but not including) the applicable Mandatory Redemption Date, subject to the conditions set forth below:

\$ _____ ⁴ Term Bonds Maturing July ____, 20__ ⁴ <u>Mandatory</u> <u>Redemption Date (July 1)</u> ⁴	<u>Principal</u> <u>Amount to be Redeemed</u> ⁴
--	---

*Maturity

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bonds or portions of Term Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided below. The principal amount of any Term Bonds to be mandatorily redeemed on a Mandatory Redemption Date shall be reduced by the principal amount of such Term Bonds which, by the 45th day prior to such Mandatory Redemption Date, either have been purchased in the open market and delivered or tendered for cancellation by or on behalf of the City to the Paying Agent/Registrar or optionally redeemed by the City and which, in either case, have not previously been made the basis for a reduction under this sentence.

Partial Redemption. The Series 2012 Bonds may be redeemed in part only in integral multiples of \$5,000. If a Series 2012 Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Series 2012 Bond may be redeemed, but only in integral multiples of \$5,000. In selecting portions of Series 2012 Bonds for redemption, the Paying Agent/Registrar shall treat each bond as representing that number of Series 2012 Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Series 2012 Bond by \$5,000. Upon presentation and surrender of any Series 2012 Bond for redemption in part, the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, shall authenticate and deliver in exchange therefor a Series 2012 Bond(s) of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Series 2012 Bond so presented and surrendered.

Selection of Bond to be Redeemed. In the case of any optional redemption in part of the Series 2012 Bonds, the City shall select the stated maturities of Series 2012 Bonds to be redeemed. If less than all of the Series 2012 Bonds of a stated maturity are to be redeemed the Paying Agent/Registrar shall select the particular Series 2012 Bonds of such stated maturity to be redeemed in such manner as it deems fair and appropriate and consistent with the requirements contained herein.

Notice of Redemption. In the event any of the Series 2012 Bonds are called for optional redemption, the Paying Agent/Registrar shall give notice, in the name of the City, of the redemption of such Series 2012 Bonds, which notice shall (i) specify the Series 2012 Bonds to be redeemed, the

⁴ Insert from the Officers Pricing Certificate.

redemption date, the redemption price, and the place or places where amounts due upon such redemption will be payable (which shall be the designated principal corporate trust office of the Paying Agent/Registrar) and, if less than all of the Series 2012 Bonds are to be redeemed, the portions of the Series 2012 Bonds so to be redeemed, (ii) state any condition to such redemption, and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Series 2012 Bonds to be redeemed shall cease to bear interest. CUSIP number identification shall accompany all redemption notices. Such notice may set forth any additional information relating to such redemption. Such notice shall be given by mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption to each Registered Owner of Series 2012 Bonds to be redeemed at its address shown on the registration books kept by the Paying Agent/Registrar; provided, however, that failure to give such notice to any Registered Owner or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Series 2012 Bonds. Any notice given as provided in this paragraph shall be conclusively presumed to have been duly given, whether or not the Registered Owner or Beneficial Owner receives such notice. When the Series 2012 Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as provided herein and in the Ordinance, the Series 2012 Bonds or portions thereof to be so redeemed shall no longer be regarded as Outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Series 2012 Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

THIS BOND IS TRANSFERABLE only upon presentation and surrender at the principal corporate office of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his authorized representative, subject to the terms and conditions of the Ordinance.

THE SERIES 2012 BONDS ARE EXCHANGEABLE at the designated payment office of the Paying Agent/Registrar for Series 2012 Bonds of the same series, maturity and interest rate in the principal amount of \$5,000 or any integral multiple thereof, subject to the terms and conditions of the Ordinance.

THE CITY OR THE PAYING AGENT/REGISTRAR may require the Registered Owner of any Series 2012 Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Series 2012 Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City.

THE PAYING AGENT/REGISTRAR IS NOT REQUIRED TO ACCEPT any Series 2012 Bond for transfer or exchange during the 45-day period prior to the date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of any Series 2012 Bond called for redemption in part.

THE OWNER OF THIS BOND SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THIS BOND OR THE INTEREST THEREON OUT OF ANY FUNDS RAISED OR TO BE RAISED BY TAXATION.

THE CITY HAS RESERVED THE RIGHT TO ISSUE ADDITIONAL AIRPORT REVENUE BONDS and other obligations, subject to the restrictions contained in the Ordinance, which may be secured by a lien superior to, on a parity with, or inferior to, the lien on the aforesaid Net Revenues securing this Series 2012 Bond and the series of which it is a part.

THE ORDINANCE CONTAINS PROVISIONS permitting the City to defease and discharge the Ordinance and to amend the Ordinance without the consent of the Registered Owner of this Series 2012 Bond. Any amendment to the Ordinance shall be binding upon the Registered Owner of this Series 2012 Bond without endorsement hereon or any reference to such amendment, provided that no amendment shall permit (a) an extension of the maturity of the principal of or the interest on this Series 2012 Bond, or (b) a reduction of the principal amount of this Series 2012 Bond or the rate of interest thereon.

IT IS HEREBY CERTIFIED, RECITED AND REPRESENTED that the issuance of the Series 2012 Bonds is duly authorized by law; that all acts, conditions and things required to exist and be done precedent to and in the issuance of the Series 2012 Bonds to render the same lawful and valid obligations of the City have been properly done and performed and have happened in regular and due time, form and manner, as required by law; that due provision has been made for the payment of the principal of and interest on the Series 2012 Bonds by granting a lien on and pledge of the Net Revenues as provided in the Ordinance; and that the issuance of the Series 2012 Bonds does not exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the City has caused its corporate seal to be impressed or placed in facsimile hereon and this bond to be signed by the Mayor and the City Controller and countersigned by the City Secretary by their manual, lithographed, or printed facsimile signatures.

CITY OF HOUSTON, TEXAS

(SEAL)

Mayor

City Controller

City Secretary

(b) Form of Assignment

The following form of assignment shall be printed on the back of each of the Series 2012 Bonds, except for the Initial Bond:

ASSIGNMENT

For value received, the undersigned hereby sells, assigns, and transfers unto

(Please print or type name, address, and zip code of Transferee)

(Please insert Social Security or Taxpayer Identification Number of Transferee)

the within bond and hereby irrevocably constitutes and appoints _____ attorney to transfer said bond on the books kept for registration thereof, with full power of substitution in the premises.

DATED: _____

Registered Owner

Signature Guaranteed:

NOTICE: The signature above must correspond to the name of the registered owner as shown on the face of this bond in every particular, without any alteration, enlargement or change whatsoever.

NOTICE: The signatures must be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program) pursuant to S.E.C. 17 Ad-15.

(c) Form of Registration Certificate

The Series 2012 Bonds initially delivered hereunder shall be registered by the Comptroller of Public Accounts of the State of Texas, as provided by law. The registration certificate of the Comptroller of Public Accounts for the Series 2012 Bonds shall be in substantially the following form:

OFFICE OF THE COMPTROLLER
THE STATE OF TEXAS

REGISTER NO. _____

I HEREBY CERTIFY that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this bond has been examined by him as required by law, and that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding special obligation of the City of Houston, Texas, payable from the revenues pledged to its payment by and in the ordinance authorizing the same; and this bond has this day been registered by me.

WITNESS MY HAND AND SEAL OF OFFICE this _____.

Comptroller of Public Accounts of
the State of Texas

(SEAL)

(d) Form of Authentication Certificate

The following form of authentication certificate shall be printed on each series of the Series 2012 Bonds, except for the Initial Bond of each series registered by the Comptroller of Public Accounts of the State of Texas.

AUTHENTICATION CERTIFICATE

Registration Date: _____

It is hereby certified that this bond is one of the series described in and delivered pursuant to the Ordinance described in the text of this bond, in exchange for or in replacement of a bond, bonds or a portion of a bond or bonds of a Series which was originally approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

THE BANK OF NEW YORK MELLON TRUST COMPANY,
NATIONAL ASSOCIATION

By: _____
Authorized Officer

(e) Legal Opinion, CUSIP Numbers, and Statement of Insurance

The CUSIP Numbers and a statement of bond insurance from the Bond Insurer, if any, may be printed on the Series 2012 Bonds, and the approving opinion of Co-Bond Counsel may at the City's option be printed on the Series 2012 Bonds, but errors or omissions in the printing of such opinion, statement of insurance, and number shall have no effect on the validity of the Series 2012 Bonds.

(f) Unique Provisions for the Initial Bond

The Initial Bond for each series of Series 2012 Bonds shall be in the form set forth in paragraph (a) above, except for the following alterations:

(i) the registered owner shall be the entity designated as the Underwriter in the Ordinance and/or in the Officers Pricing Certificate;

(ii) immediately under the name of the bond, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As Shown Below" and the word "CUSIP" deleted;

(iii) in the first paragraph of the Series 2012 Bond, the words "on the date specified above" and "at the rate shown above" shall be deleted and the following shall be inserted at the end of the first sentence "..., with such principal to be paid in installments on July 1 in each of the years and in the principal amounts identified in the following schedule and with such installments bearing interest at the per annum rates set forth in the following schedule:

[Information to be inserted from Officers Pricing Certificate]

(iv) the Initial Bond of each series shall be numbered AG___-1 (with the blank completed as provided in the Form of Series 2012 Bond and/or the Officers Pricing Certificate.

EXHIBIT B

FORM OF OFFICERS PRICING CERTIFICATE

**FOR
CITY OF HOUSTON, TEXAS AIRPORT SYSTEM
SUBORDINATE LIEN REVENUE REFUNDING* BONDS
SERIES 2012_____***

THIS OFFICERS PRICING CERTIFICATE is executed as of the _____ day of _____, 2012 by [the Mayor or the City’s Director of Finance] and [the City Controller or the Deputy City Controller] of the City of Houston, Texas (the “City”) pursuant to the authorization contained in City Ordinance No. 2012-_____ adopted on February __, 2012 (the “Ordinance”), authorizing the issuance of the City of Houston, Texas Airport System Subordinate Lien Revenue Refunding* Bonds, Series 2012__* (herein, the “Series 2012 Bonds”) and delegating to the undersigned the authority to agree to and stipulate certain terms and provisions thereof, all of which are set forth herein.

Capitalized terms used in this Officers Pricing Certificate and not otherwise defined shall have the meanings assigned to them in the Ordinance.

I. TERMS OF THE SERIES 2012 BONDS

1. Principal Amounts. The Series 2012 Bonds shall be issued in the aggregate principal amount of \$_____.
2. Bond Date. The Series 2012 Bonds will be dated _____, 2012 (the “Dated Date”), but shall accrue interest from the date of delivery, which is _____, 2012 (the “Issuance Date”).
3. Initial Interest Payment Date. The initial interest payment date for the Series 2012 Bonds shall be _____, 20__.
4. Maturities, Amounts and Interest Rates. The Series 2012 Bonds shall mature on the following dates in the following principal amounts and bear interest from the date of delivery at the following rates:

<u>Maturity (July 1)</u>	<u>Principal Amount Maturing (\$)</u>	<u>Interest Rate (%)</u>
--------------------------	---------------------------------------	--------------------------

5. Optional Redemption.

The Series 2012 Bonds maturing on or after _____ shall be subject to optional redemption on _____ and on any date thereafter at a redemption price equal to the principal amount of the Series 2012 Bonds to be redeemed plus accrued interest to but not including the redemption date.

*To be conformed to Series 2012 Bonds caption, as applicable.

6. Mandatory Redemption. The Series 2012 Bonds maturing on ____ 1 of the years ____, ____ and ____ will be issued as term bonds and will be subject to mandatory sinking fund redemption on the dates, in the principal amounts, as follows:

\$ ____ Term Bonds Maturing ____ 1, 20 ____

<u>Mandatory Redemption Date (____ 1)</u>	<u>Principal Amount to be Redeemed</u>
---	--

7. Sales Price. The sale of the Series 2012 Bonds is authorized pursuant to the form of Bond Purchase Agreement approved in the Ordinance at the following price:

PRINCIPAL AMOUNT	\$ _____
LESS OID/PLUS PREMIUM	_____
LESS UNDERWRITERS' DISCOUNT	_____
PURCHASE PRICE	\$ _____

8. Bond Tax Designations. The Bonds are designated as ["PAB" private activity bonds] OR ["Non-PAB" non-private activity bonds] and are further designated as ["Tax-Exempt Bonds"] OR ["Taxable Bonds"].
9. Bond Insurance. The payment of principal of and interest on the Series 2012 Bonds shall be insured by a Bond Insurance Policy issued by the following Bond Insurer: _____, upon the terms and conditions of the commitment attached to this Officers Pricing Certificate as Attachment _____. [To be attached if Bond Insurance is purchased]
10. Reserve Fund Requirement; Subordinate Lien Reserve Fund Surety Policy. Upon the issuance of the Series 2012 Bonds under the terms and conditions of the Ordinance and this Officers Pricing Certificate, the aggregate Reserve Fund Requirement for the Subordinate Lien Bond Reserve Fund shall be \$ _____. A Subordinate Lien Reserve Fund Surety Policy shall be purchased from _____, upon the terms and conditions of the commitment attached to this Officers Pricing Certificate as Attachment _____, in an amount which, together with existing Subordinate Lien Bond Reserve Fund Surety Policies and any amounts currently on deposit in the Subordinate Lien Bond Reserve Fund, is sufficient to satisfy the above Reserve Fund Requirement for the Subordinate Lien Bond Reserve Fund. [To be attached if a Debt Service Reserve Fund Policy is purchased]
11. Authorization to Refund the Refunded Obligations. Pursuant to the Ordinance, proceeds of the Series 2012 Bonds, together with lawfully available amounts, will be applied to [defease and/or redeem the Refunded Bonds] and [to pay those amounts required to pay the City's obligation under the Refunded Special Facilities Bonds] [To Be Added If Necessary] [and to fund the Refunded Bonds Escrow Fund, the Refunded Special Facilities Bonds Escrow Fund or other applicable fund created for the respective Refunded Obligations and to purchase escrowed securities in the amounts set forth in the Refunded Bonds Escrow Agreement and the Refunded Special Facilities Bonds Escrow Agreement, as applicable]. The Refunded Obligations are set forth in the schedule attached as Attachment B hereto. The redemption date for the Refunded Obligations

shall be as set forth in the Notices of Redemption attached as Attachment C hereto. [To be revised as applicable] [The Refunded Bonds Escrow Agreement and the Refunded Special Facilities Bonds Escrow Agreement are hereby approved in substantially the form(s) attached hereto as Attachment D]

12. Form of Bond. Pursuant to Section [3.02A] of the Ordinance, the form of bond as set forth in Attachment A hereto is hereby approved and supercedes the form of bond set forth in the Ordinance.
13. Notice of Redemption. The notice(s) of redemption set forth in Attachment C hereto and the distribution thereof to Owners of the Refunded Obligations and other required notice parties is hereby ratified and approved.

II. FINDINGS AND DETERMINATIONS

The undersigned hereby find, determine and declare that, in accordance with the requirements of the Ordinance, this Officers Pricing Certificate complies with and satisfies the terms and provisions of the Ordinance in accordance with the delegation contained therein. Specifically, this Officers Pricing Certificate calls for the Series 2012 Bonds to be issued in an aggregate principal amount not to exceed \$_____, to have a final maturity date not later than _____ 1, _____, to have a true interest cost not to exceed 10% per annum, to be sold for a price not less than 90% of the aggregate principal amount thereof, for none of the Series 2012 Bonds to bear interest at a rate greater than 15% per annum or in excess of the maximum rate allowed by Chapter 1204, Texas Government Code, as amended, and for the bonds to be sized in accordance with the provisions of Section 3.02A of the Ordinance. In addition, the Series 2012 Bonds have been rated by a nationally recognized rating agency in one of the four highest rating categories for long-term obligations, all as required in Section 3.02A of the Ordinance.

It is hereby found, determined, and declared that, upon the issuance of the Series 2012 Bonds, the Reserve Fund Requirement shall be equal to \$_____, which is less than the actual value of the investments and the Subordinate Lien Bond Reserve Fund Surety Policies in effect, and therefore, the Reserve Fund Requirement shall have been satisfied with respect to the Subordinate Lien Bonds. The City has further found and determined that it is in the best interest of the City to deposit a portion of the Series 2012 Bond proceeds into the Subordinate Lien Bond Reserve Fund to supplement the current balances referenced above.

[It is hereby found, determined and declared that (i) the purchase of the bond insurance and reserve fund surety policy or policies stipulated are, either individually or in the aggregate, the most cost effective available to the City and (ii) the cost of the reserve fund surety policy or policies stipulated above is less than the cost of funding the additional Reserve Fund Requirement that results from the issuance of the Bonds or the reserve fund surety policy or policies are necessary to replace existing Subordinate Lien Reserve Fund Surety Policy or Policies that have been issued by a bond insurer that has been downgraded and (iii) the purchase of the bond insurance results in a net interest rate savings to the City which is greater than the cost of the premium of such bond insurance].

III. [AMENDMENTS

It is hereby found and determined that the Amendment Effective Date for the Amendments is _____, 2012.]

EXECUTED as of this ____ day of _____, 2012.

Mayor

City Controller

ATTACHMENT A TO OFFICERS PRICING CERTIFICATE

FORM OF BOND

ATTACHMENT B TO OFFICERS PRICING CERTIFICATE
SCHEDULE OF REFUNDED OBLIGATIONS

ATTACHMENT C TO OFFICERS PRICING CERTIFICATE

NOTICE(S) OF REDEMPTION

ATTACHMENT D TO OFFICERS PRICING CERTIFICATE
ESCROW AGREEMENT(S)

EXHIBIT C

FORM OF PAYING AGENT/REGISTRAR AGREEMENT

THIS PAYING AGENT/REGISTRAR AGREEMENT dated as of _____, 2012 (together with any amendments or supplements hereto, the "Agreement") is entered into by and between THE CITY OF HOUSTON, TEXAS (the "Issuer"), and The Bank of New York Mellon Trust Company, N.A., as paying agent/registrar (together with any successor in such capacity, the "Bank").

WITNESSETH:

WHEREAS, the Issuer has duly authorized and provided for the issuance of bonds, entitled "City of Houston, Texas Airport System Subordinate Lien [INSERT FROM BOND CAPTION], Series 2012 [INSERT FROM BOND CAPTION] (the "Series 2012 Bonds") issued in fully registered form;

WHEREAS, all things necessary to make the Series 2012 Bonds the valid obligations of the Issuer, in accordance with their terms, will be done upon the issuance and delivery thereof;

WHEREAS, the Issuer and the Bank wish to provide the terms under which the Bank will act as Paying Agent to pay the principal of and interest on the Series 2012 Bonds, in accordance with the terms thereof, and under which the Bank will act as Registrar for the Series 2012 Bonds; and

WHEREAS, the Issuer and the Bank have duly authorized the execution and delivery of this Agreement; and all things necessary to make this Agreement the valid agreement of the parties, in accordance with its terms, have been done.

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE ONE

APPOINTMENT OF BANK AS PAYING AGENT AND REGISTRAR

Section 1.01. Appointment.

The Issuer hereby appoints the Bank to act as Paying Agent with respect to the Series 2012 Bonds, to pay to the Registered Owners of the Series 2012 Bonds, in accordance with the terms and provisions of this Agreement and the ordinance authorizing the issuance of the Series 2012 Bonds (the "Ordinance"), the principal of and interest on all or any of the Series 2012 Bonds.

The Issuer hereby appoints the Bank as Registrar with respect to the Series 2012 Bonds. As Registrar for the Series 2012 Bonds, the Bank shall keep and maintain for and on behalf of the Issuer books and records as to the ownership of said Series 2012 Bonds and with respect to the transfer and exchange thereof as provided herein and in the Ordinance.

The Bank hereby accepts its appointment, and agrees to act as Paying Agent and Registrar with respect to the Series 2012 Bonds.

Section 1.02. Compensation.

As compensation for the Bank's services as Paying Agent/Registrar, the Issuer hereby agrees to pay the Bank the fees and amounts set forth in Schedule A attached hereto for the first year of this Agreement and thereafter the fees and amounts set forth in the Bank's current fee schedule then in effect for services as Paying Agent/Registrar for municipalities, which shall be supplied to the Issuer on or before 90 days prior to the close of the Fiscal Year of the Issuer, and shall be effective upon the first day of the following Fiscal Year.

In addition, the Issuer agrees to reimburse the Bank upon its request for all reasonable expenses, disbursements and advances incurred or made by the Bank in accordance with any of the provisions hereof (including the reasonable compensation and the expenses and disbursements of its agents and counsel).

ARTICLE TWO

DEFINITIONS

Section 2.01. Definitions.

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

"Authorized Officer" means the City Controller and any other officer or employee of the Issuer designated as an Authorized Officer for the purposes of this Agreement in a written communication delivered to the Paying Agent/Registrar.

"Bank" means The Bank of New York Mellon Trust Company, N.A. (together with any successor in such capacity), a commercial bank, which is duly organized and existing under the laws of the United States of America and authorized to do business in the State of Texas.

"Issuer" means the City of Houston, Texas.

"Ordinance" means the ordinance of the Issuer approved by its City Council on _____, 2012, pursuant to which the Series 2012 Bonds are issued.

"Paying Agent" means the Bank when it is performing the function of paying agent.

"Person" means any individual, corporation, partnership, joint venture, associations, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government or any entity whatsoever.

"Registrar" means the Bank when it is performing the function of registrar.

"Registered Owner" means the Person in whose name any Bond is registered in the books of registration maintained by the Bank under this Agreement.

"Series 2012 Bond" or "Series 2012 Bonds" means _____.

All other capitalized terms shall have the meanings assigned to them in the Ordinance or the recital paragraphs of this Agreement.

ARTICLE THREE

DUTIES OF THE BANK

Section 3.01. Initial Delivery of the Bonds.

The Series 2012 Bonds will be initially registered and delivered by the Bank to the purchaser designated by the Issuer as set forth in the Ordinance. If such purchaser delivers a written request to the Bank not later than five Business Days prior to the date of initial delivery, the Bank will, on the date of initial delivery, exchange the Series 2012 Bonds initially delivered for Series 2012 Bonds of authorized denominations, registered in accordance with the instructions in such request and the Ordinance.

Section 3.02. Duties of Paying Agent.

As Paying Agent, the Bank shall, provided adequate funds have been provided to it for such purpose by or on behalf of the Issuer, timely pay on behalf of the Issuer the principal of and interest on each Bond, in accordance with the provisions of the Ordinance.

Since the issue will be Depository Trust Company (DTC) eligible, the Paying Agent shall comply with all eligibility requirements as outlined and agreed upon in the eligibility questionnaire.

Section 3.03. Duties of Registrar.

The Bank shall provide for the proper registration of the Series 2012 Bonds and the timely exchange, replacement and registration of transfer of the Series 2012 Bonds in accordance with the provisions of the Ordinance. Any changes to Registered Owners for such exchange, replacement and registration shall be made by the Bank only in accordance with the Ordinance. The Bank will maintain the books of registration in accordance with the Bank's general practices and procedures in effect from time to time; provided, however, that the Bank agrees to comply with the terms of Chapter 1203 of the Texas Government Code, as amended, and more specifically agrees also to maintain books of registration for the Series 2012 Bonds at the Bank's offices in Texas, which books of registration may be a copy of the register which shall be kept current by the Bank. The books of registration may be maintained in written form or in any other form capable of being converted into written form within a reasonable period of time.

Section 3.04. Unauthenticated Bonds.

The Issuer shall provide an adequate inventory of unauthenticated Series 2012 Bonds to facilitate transfers. The Bank covenants that it will maintain such unauthenticated Series 2012 Bonds in safekeeping and will use reasonable care in maintaining such Series 2012 Bonds in safekeeping, which shall be not less than the care it maintains for debt securities of other government entities or corporations for which it serves as registrar, or which it maintains for its own obligations.

Section 3.05. Reports.

Upon request of the Issuer, the Bank will provide the Issuer reports, which will describe in reasonable detail all transactions pertaining to the Series 2012 Bonds and the books of registration for the period of time specified by the Issuer. The Issuer may also inspect and make copies of the information in the books of registration and such other documents related to the Series 2012 Bonds and in the Bank's possession at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

The Bank will not release or disclose the content of the books of registration to any person other than to, or at the written request of, an authorized officer or employee of the Issuer, except upon receipt of a subpoena, court order or as otherwise required by law. Upon receipt of a subpoena, court order or other lawful request, the Bank will notify the Issuer immediately so that the Issuer may contest the subpoena, court order or other request if it so chooses.

Section 3.06. Cancelled Bonds.

All Series 2012 Bonds surrendered for payment, redemption, transfer, exchange or replacement, if surrendered to the Bank, shall be promptly cancelled by it and, if surrendered to the Issuer, shall be delivered to the Bank and, if not already cancelled, shall be promptly cancelled by the Bank. The Issuer may at any time deliver to the Bank for cancellation any Series 2012 Bonds previously authenticated and delivered which the Issuer may have acquired in any manner whatsoever, and all Series 2012 Bonds so delivered shall be promptly cancelled by the Bank. All cancelled Series 2012 Bonds held by the Bank shall be destroyed and evidence of such destruction shall be furnished to the Issuer; provided however that no Bond shall be destroyed before the expiration of one year after the date of its payment or before the expiration of three months after the date the Paying Agent/Registrar files with the Issuer a list identifying the Series 2012 Bonds to be destroyed.

Section 3.07. Reliance on Documents, Etc.

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank by the Issuer.

(b) The Bank shall not be liable to the Issuer for actions taken under this Agreement as long as it acts in good faith and exercises due diligence, reasonableness and care, as prescribed by law, with regard to its duties hereunder.

(c) This Agreement is not intended to require the Bank to expend its own funds for performance of any of its duties hereunder.

(d) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys.

Section 3.08. Money Held by Bank.

Money held by the Bank hereunder shall be held in trust for the benefit of the Registered Owners of the Series 2012 Bonds and the Bank shall have a fiduciary responsibility as to such funds.

All money deposited with the Bank hereunder shall be secured in the manner and to the fullest extent required by law for the security of funds of the Issuer.

All amounts held by the Bank may be invested, pending their disbursement, at the direction of an Authorized Officer of the Issuer to the extent permitted by law either in (a) money market mutual funds (investing in U.S. Treasury obligations or tax exempt obligations) maturing no later than the date of scheduled disbursements or (b) other legally authorized short term investments which are scheduled to mature on or before the date or dates on which proceeds of such other investments are required to pay interest and/or principal on the maturing Series 2012 Bonds; provided however, that if for any reason such funds are not disbursed on a scheduled payment date, any continued investment of such funds pending disbursement shall be limited to short term direct obligations of the United States of America.

The Bank shall deposit any moneys received from the Issuer into a trust account to be held in a paying agent capacity for the payment of the Bonds, with such moneys in the account that exceed the deposit insurance, available to the Issuer, provided by the Federal Deposit Insurance Corporation to be fully collateralized with securities or obligations that are eligible under the laws of the State of Texas and to the extent practicable under the laws of the United States of America to secure and be pledged as collateral for trust accounts until the principal and interest on the Bonds have been presented for payment and paid to the owner thereof. Payments made from such trust account shall be made by check drawn on such trust account unless the owner of such Bonds shall, at its own expense and risk, request such other medium of payment.

Any money deposited with the Bank for the payment of the principal of or interest on any Series 2012 Bonds and remaining unclaimed by the Registered Owner after the expiration of three years from the date such funds have become due and payable shall be reported and disposed of by the Bank in accordance with the provisions of Texas law including, to the extent applicable, Title 6 of the Texas Property Code, as amended. To the extent such provisions of the Property Code do not apply to the funds, such funds shall be paid by the Bank to the Issuer upon receipt of a written request therefor from the Issuer. The Bank shall have no liability to the Registered Owners of the Series 2012 Bonds by virtue of actions taken in compliance with the foregoing provision.

ARTICLE FOUR

MISCELLANEOUS PROVISIONS

Section 4.01. May Own Bonds.

The Bank, in its individual or any other capacity, may become the owner or pledgee of the Series 2012 Bonds with the same rights it would have if it were not the Paying Agent and Registrar for the Series 2012 Bonds.

Section 4.02. Amendment.

This Agreement may be amended only by an agreement in writing signed by both of the parties hereto. As soon as practicable, after any amendment to this Agreement, the Paying Agent shall provide notice of such amendment to each of the rating agencies then providing a rating on the Series 2012 Bonds.

Section 4.03. Assignment.

This Agreement may not be assigned by either party without the prior written consent of the other.

Section 4.04. Notices.

Any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer or the Bank, respectively, at the addresses shown herein, or such other address as may have been given by one party to the other by 15 days' written notice.

Section 4.05. Effect of Headings.

The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 4.06. Successors and Assigns.

All covenants and agreements herein by the Issuer and the Bank shall bind their successors and assigns, whether so expressed or not. This Agreement shall not be assigned by the Bank without the prior written consent of the Issuer. The Bank shall give the Issuer notice within three (3) Business Days of any change of name of the Bank.

Section 4.07. Severability.

If any provision of this Agreement shall be invalid or unenforceable, the validity and enforceability of the remaining provisions hereof shall not in any way be affected or impaired.

Section 4.08. Benefits of Agreement.

Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy or claim hereunder.

Section 4.09. Ordinance Govern Conflicts.

This Agreement and the Ordinance constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent and Registrar and if any conflict exists between this Agreement and the Ordinance, the Ordinance shall govern. The Bank agrees to be bound by the terms of the Ordinance with respect to the Series 2012 Bonds.

Section 4.10. Term and Termination.

This Agreement shall be effective from and after its date and may be terminated for any reason by the Issuer or the Bank at any time upon 60 days' written notice; provided, however, that no such termination shall be effective until a successor has been appointed and has accepted the duties of the Bank hereunder. In the event of early termination, regardless of circumstances, the Bank shall deliver to the Issuer or its designee all funds, Series 2012 Bonds and all books and records pertaining to the Bank's role as Paying Agent and Registrar with respect to the Series 2012 Bonds, including, but not limited to, the books of registration.

Section 4.11. Section 4.11 Merger, Conversion, Consolidation or Succession.

Any corporation into which the Bank may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion, or consolidation to which the Bank shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Bank shall be the successor of the Bank hereunder without the execution or filing of any paper or any further act on the part of either of the parties hereto. In case any Bond shall have been authenticated and registered, but not delivered, by the Bank as then in existence, any successor to the Bank by merger, conversion, or consolidation to such registering and authenticating Bank may accept such authentication and registration and deliver the Bond so authenticated and registered with the same effect as if such successor Bank had itself authenticated and registered such Bond.

Section 4.12. Section 4.12 Email and Facsimile Authorization.

The Bank agrees to accept and act upon instructions or directions pursuant to this Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Bank shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Issuer elects to give the Bank e-mail or facsimile instructions (or instructions by a similar electronic method) and the Bank in its discretion elects to act upon such instructions, the Bank's understanding of such instructions shall be deemed controlling. The Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bank's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Issuer agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Bank, including without limitation the risk of the Bank acting on unauthorized instructions, and the risk of interception and misuse by third parties.

Section 4.13. Execution; Governing Law.

This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same agreement. This Agreement shall be construed in accordance with and shall be governed by the laws of the State of Texas.

Section 4.14. Counterparts.

This Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which constitute one and the same instrument. The section headings of this Agreement are for convenience of reference only and shall not affect its interpretation.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

THE CITY OF HOUSTON, TEXAS

By: _____
Mayor

COUNTERSIGNED AS OF THE DATE HEREOF:

By: _____
City Controller

ADDRESS: City of Houston, Texas
P.O. Box 1562
Houston, TX 77251

Attention: City Controller

ATTEST:

City Secretary
City of Houston, Texas

APPROVED AS TO FORM:

Senior Assistant City Attorney

(CITY SEAL)

THE BANK OF NEW YORK MELLON TRUST
COMPANY, NATIONAL ASSOCIATION

By: _____
Title: _____

ADDRESS: _____

Attention: _____

ATTEST:

By: _____
Title: _____

(SEAL)

SCHEDULE A TO PAYING AGENT/REGISTRAR AGREEMENT

FEE SCHEDULE OF PAYING AGENT/REGISTRAR

EXHIBIT D
FORM OF BOND PURCHASE AGREEMENT

PURCHASE AGREEMENT

Relating to

§ _____
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
SUBORDINATE LIEN REVENUE REFUNDING BONDS,
SERIES 2012A (AMT)
SERIES 2012B (NON-AMT)
SERIES 2012C (TAXABLE)

_____, 2012

Mayor, City Council and City Controller
City of Houston, Texas
901 Bagby, 2nd Floor
Houston, Texas 77002

Ladies and Gentlemen:

The undersigned (the “Representative”), acting as the representative to the Underwriters appearing on the signature page hereof (collectively, the “Underwriters”), offers to enter into this Purchase Agreement (this “Purchase Agreement”) with the City of Houston, Texas (the “Issuer”) which, upon your acceptance of this offer and the approval of certain terms by the Mayor and the City Controller of the Issuer pursuant to one or more officers’ pricing certificates, a substantial copy of which is attached hereto as **Exhibit A** (the “Pricing Certificate”), will be binding upon you and the Underwriters. This offer is made subject to its acceptance by the execution of this Purchase Agreement on or before 9:00 p.m., Houston time, on the date set out above, and, if not so accepted by the execution hereof, will be subject to withdrawal by the Underwriters upon notice delivered to the Issuer at any time prior to its acceptance by the execution, counter execution and attestation hereof. Terms not otherwise defined herein shall have the same meanings as set forth in the ordinance adopted by the Issuer on February 8, 2012 (the “Ordinance”) authorizing the issuance of the Issuer’s Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012A (AMT) (the “Series 2012A Bonds”), the Issuer’s Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012B (Non-AMT) (the “Series 2012B Bonds”) and the Issuer’s Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012C (Taxable) (the “Series 2012C Bonds” and together with the 2012A Bonds and the 2012B Bonds, the “Bonds”).

1. Purchase and Sale of the Bonds. Upon the terms and conditions, and in reliance upon the representations, warranties, and covenants herein, the Underwriters hereby agree to purchase from the Issuer, and the Issuer hereby agrees to sell to the Underwriters, all, but not less than all, of the Bonds. The Issuer acknowledges and agrees that: (a) the transaction contemplated by this Purchase Agreement is an arm’s length, commercial transaction between the Issuer and the Underwriters in which Underwriters are acting solely as principals and are not

acting as municipal advisors (as defined in Section 15B of the Exchange Act of 1934, as amended), financial advisors or fiduciaries to the Issuer; (b) the Underwriters have not assumed any advisory or fiduciary responsibility to the Issuer with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether Underwriters have provided other services or are currently providing other services to the Issuer on other matters); (c) the only obligations the Underwriters have to the Issuer with respect to the transaction contemplated hereby expressly are set forth in this Purchase Agreement; and (d) the Issuer has consulted its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate.

The Representative represents and warrants to the Issuer that it has been duly authorized to act on behalf of itself and the other Underwriters to enter into this Purchase Agreement and to take all actions, on behalf of the Underwriters, required or contemplated to be performed by the Underwriters under this Purchase Agreement.

The principal amount, the dated date, the maturities, the redemption provisions, and the interest rates per annum for the Bonds are set forth in the Pricing Certificate.

The Series 2012A Bonds shall be issued in the aggregate principal amount of \$ _____. The purchase price for the Series 2012A Bonds is \$ _____, representing the principal amount of the Series 2012A Bonds plus the net original issue premium of \$ _____ and less an Underwriters' discount of \$ _____.

The Series 2012B Bonds shall be issued in the aggregate principal amount of \$ _____. The purchase price for the Series 2012B Bonds is \$ _____, representing the principal amount of the Series 2012B Bonds plus the net original issue premium of \$ _____ and less an Underwriters' discount of \$ _____.

The Series 2012C Bonds shall be issued in the aggregate principal amount of \$ _____. The purchase price for the Series 2012C Bonds is \$ _____, representing the principal amount of the Series 2012C Bonds plus the net original issue premium of \$ _____ and less an Underwriters' discount of \$ _____.

The Bonds shall be as described in, and shall be issued and secured under and pursuant to the provisions of the Ordinance.

As further described in the Ordinance, the Series 2012A Bonds may be issued for one or more of the following purposes: (i) defeasing and/or refunding the Refunded Bonds; (ii) defeasing and/or refunding the Issuer's obligations under that certain Special Facilities Lease Agreement relating to the Refunded Special Facilities Bonds thereby causing the defeasance and/or refunding of the Refunded Special Facilities Bonds; (iii) providing financing for any Authorized System Purposes, including reimbursement for amounts previously spent for Authorized System Purposes, and for any purpose set forth in Chapter 1371, Texas Government Code, as amended; (iv) funding capitalized interest; (v) funding the Subordinate Lien Bond Reserve Fund and any account therein; (vi) purchasing any Bond Insurance Policy (one or more) or 2012 Subordinate Lien Reserve Fund Surety Policy (one or more); and (vii) paying the related costs of issuance, all under and pursuant to the authority of Chapters 1201, 1207, 1371, and

1503, Texas Government Code, as amended, and all other applicable laws (collectively, the “Applicable Law”).

As further described in the Ordinance, the Series 2012B Bonds may be issued for one or more of the following purposes: (i) defeasing and/or refunding the Refunded Bonds; (ii) defeasing and/or refunding the Issuer’s obligations under that certain Special Facilities Lease Agreement relating to the Refunded Special Facilities Bonds thereby causing the defeasance and/or refunding of the Refunded Special Facilities Bonds; (iii) providing financing for any Authorized System Purposes, including reimbursement for amounts previously spent for Authorized System Purposes, and for any purpose set forth in Chapter 1371, Texas Government Code, as amended; (iv) funding capitalized interest; (v) funding the Subordinate Lien Bond Reserve Fund and any account therein; (vi) purchasing any Bond Insurance Policy (one or more) or 2012 Subordinate Lien Reserve Fund Surety Policy (one or more); and (vii) paying the related costs of issuance, all under and pursuant to the authority of Applicable Law.

As further described in the Ordinance, the Series 2012C Bonds may be issued for one or more of the following purposes: (i) defeasing and/or refunding the Refunded Bonds; (ii) defeasing and/or refunding the Issuer’s obligations under that certain Special Facilities Lease Agreement relating to the Refunded Special Facilities Bonds thereby causing the defeasance and/or refunding of the Refunded Special Facilities Bonds; (iii) providing financing for any Authorized System Purposes, including reimbursement for amounts previously spent for Authorized System Purposes, and for any purpose set forth in Chapter 1371, Texas Government Code, as amended; (iv) funding capitalized interest; (v) funding the Subordinate Lien Bond Reserve Fund and any account therein; (vi) purchasing any Bond Insurance Policy (one or more) or 2012 Subordinate Lien Reserve Fund Surety Policy (one or more); and (vii) paying the related costs of issuance, all under and pursuant to the authority of Applicable Law.

2. Public Offering. The Underwriters agree to make a bona fide public offering of all the Bonds at the initial offering prices set forth on the inside cover pages of the Final Official Statement; provided, however, that the Underwriters may change such initial offering price or prices as they deem necessary in connection with the offering of the Bonds without any requirement of prior notice, and may offer and sell the Bonds to certain institutions (including dealers depositing the Bonds into investment trusts) at prices lower than those stated in the Official Statement. The Underwriters also reserve the right to: (i) over-allot or effect transactions that stabilize or maintain the market price of the Bonds at levels above those that might otherwise prevail in the open market, and (ii) discontinue such stabilizing, if commenced, at any time without prior notice; provided, however that no such actions shall effect the certification of original issue price of the Bonds as provided below. On or before the Closing, the Representative shall execute a certificate, in form and substance mutually acceptable to Co-Bond Counsel (as defined herein) and the Underwriters, verifying the initial offering prices to the public at which a substantial amount of each stated maturity of the Bonds were sold to the public.

3. Official Statement.

(a) The Issuer previously has delivered copies of the Preliminary Official Statement dated _____, 2012, (the “Preliminary Official Statement”), to the Underwriters in a “designated electronic format,” as defined in the Municipal Securities Rulemaking Board’s

("MSRB") Rule G-32 ("Rule G-32"). The Issuer will prepare or cause to be prepared a final Official Statement relating to the Bonds, which will be (1) dated the date of this Purchase Agreement, (2) complete within the meaning of the United States Securities and Exchange Commission's Rule 15c2-12, as amended (the "Rule"), and (3) substantially in the form of the most recent version of the Preliminary Official Statement provided to the Underwriters before the execution hereof and (4) in both a "designated electronic format" consistent with the requirements of Rule G-32 and in a printed format. Such final Official Statement, including the cover page thereto, all exhibits, appendices, maps, charts, pictures, diagrams, reports, and statements included or incorporated therein or attached thereto, and all amendments and supplements thereto that may be authorized for use with respect to the Bonds, is herein referred to as the "Official Statement." Until the final Official Statement has been prepared and is available for distribution, the Issuer shall provide to the Underwriters sufficient quantities of the Preliminary Official Statement (which may be in electronic form) as the Underwriters reasonably deem necessary to satisfy the obligation of the Underwriters under the Rule with respect to distribution to each potential customer, upon request, of a copy of the Preliminary Official Statement.

(b) The Preliminary Official Statement has been prepared by the Issuer for use by the Underwriters in connection with the public offering, sale and distribution of the Bonds. The Issuer hereby represents and warrants that (a) the Preliminary Official Statement was "deemed final" by the Issuer as of its date for purposes of the Rule, except for the omission of such information which is dependent upon the final pricing of the Bonds for completion, all as permitted to be excluded by Section (b)(1) of the Rule; and (b) that the Issuer will not supplement or amend the Preliminary Official Statement without the prior written consent of the Representative on behalf of the Underwriters.

(c) The Issuer represents and warrants that it has reviewed and approved the information in the Official Statement and the Issuer hereby authorizes the distribution and use of the Official Statement, and the information therein contained, by the Underwriters in connection with the public offering and the sale of the Bonds. The Issuer ratifies and consents to the distribution and use by the Underwriters prior to the date hereof of the Preliminary Official Statement in connection with the public offering and sale of the Bonds. The Issuer shall provide, or cause to be provided, to the Underwriters as soon as practicable after the date of the Issuer's acceptance of this Purchase Agreement (but, in any event, not later than within seven business days after the Issuer's acceptance of this Purchase Agreement and in sufficient time to accompany any confirmation that requests payment from any customer) copies of the Official Statement which is complete as of the date of its delivery to the Underwriters (i) in a "designated electronic format" consistent with the requirements of Rule G-32 and (ii) in a printed format in such quantity as the Representative shall reasonably request in order for the Underwriters to comply with Section (b)(4) of the Rule and the rules of the MSRB. The Issuer hereby confirms that it does not object to the distribution of the Preliminary Official Statement or the Official Statement in electronic form.

(d) If, after the date of this Purchase Agreement to and including the date the Underwriters are no longer required to provide an Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in Rule) and (ii) the time when the Official Statement is available to any

person from the MSRB, but in no case less than 25 days after the “end of the underwriting period” for the Bonds), the Issuer becomes aware of any fact or event which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or if it is necessary to amend or supplement the Official Statement to comply with law, the Issuer will notify the Representative (and for the purposes of this clause provide the Representative with such information as it may from time to time request), and if, in the reasonable opinion of the Representative, such fact or event requires preparation and publication of a supplement or amendment to the Official Statement, the Issuer will forthwith prepare and furnish, at the Issuer’s own expense (in a form and manner approved by the Representative), a reasonable number of copies of either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended and supplemented will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or so that the Official Statement will comply with law; provided, however, that for all purposes of this Purchase Agreement and any representation, warranty or covenant made herein, or any certificate delivered by the Issuer in accordance herewith, the Issuer makes no representations with respect to the descriptions in the Preliminary Official Statement or the Official Statement of The Depository Trust Company, New York, New York (“DTC”), or its book-entry-only system. If such notification shall be subsequent to the Closing, the Issuer shall furnish such legal opinions, certificates, instruments and other documents as the Representative may reasonably deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement. The Issuer shall provide any such amendment or supplement, or cause any such amendment or supplement to be provided, (i) in a “designated electronic format” consistent with the requirements of Rule G-32 and (ii) in a printed format in such quantity as the Representative shall reasonably request in order for the Underwriters to comply with Section (b)(4) of the Rule and the rules of the MSRB.

(e) The Representative hereby agrees to timely file, or cause to be filed, the Official Statement (and any amendment or supplement to the Official Statement prepared in accordance with Section 3(d) above) with (i) the MSRB or its designee (including the MSRB’s Electronic Municipal Market Access System) or (ii) other repositories approved from time to time by the United States Securities and Exchange Commission (either in addition to or in lieu of the filing referred to in clause (i) above). Unless otherwise notified in writing by the Representative, the Issuer can assume that the “end of the underwriting period” for purposes of the Rule is the date of the Closing.

(f) The Issuer has agreed in the Ordinance to provide certain periodic information and notices of material events in accordance with the Rule as described in the Official Statement under “CONTINUING DISCLOSURE.” The Underwriters’ obligation to accept and pay for the Bonds is conditioned upon the Representative’s review and approval of a certified copy of the Ordinance containing the agreements described under such heading.

(g) To the knowledge and belief of the Issuer, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Bonds. Except as otherwise provided in the Official Statement, during the last five years the Issuer has

complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

4. **Good Faith Check.** In connection with the execution of this Purchase Agreement, the Representative, on behalf of the Underwriters, has delivered to the Issuer a corporate check of the Representative payable to the Issuer, in an amount equal to approximately 1% of the aggregate par amount of the Bonds as security for the performance by the Underwriters of their obligations to accept and pay for the Bonds at the Closing (described below) in accordance with the provisions of this Purchase Agreement. Such check shall be held by the Issuer uncashed until the Closing. At the Closing, such check shall be returned to the Representative upon receipt by or on behalf of the Issuer of the purchase price for the Bonds. In the event the Issuer fails to deliver the Bonds at the Closing, or if the Issuer shall be unable to satisfy the conditions to the Bonds of the Underwriters contained in this Purchase Agreement, or if such Bonds shall be terminated for any reason permitted by this Purchase Agreement, such check shall be returned to the Representative within two (2) business days of such event. In the event that the Underwriters fail (other than for a reason permitted under this Purchase Agreement) to accept and pay for the Bonds at the Closing, such check shall be retained and may be cashed by the Issuer as and for full liquidated damages for such failure for any and all defaults hereunder on the part of the Underwriters, and the cashing of such check and retention of such proceeds shall constitute a full release and discharge of all claims and rights hereunder against the Underwriters.

5. **Representations and Warranties of the Issuer.** The Issuer represents and warrants to the Underwriters that:

(a) The Issuer is a home rule city operating as such under the Constitution and laws of the State of Texas (the "State"), and the Issuer is authorized by the Applicable Law, among other things, (i) to issue the Bonds for the purposes described in the Ordinance and (ii) to secure the Bonds in the manner described in the Ordinance and as described in the Official Statement.

(b) The Issuer has the full legal right, power, and authority (i) to adopt the Ordinance authorizing the issuance of the Bonds; (ii) to authorize the Mayor and the City Controller to execute the Pricing Certificate awarding the sale of the Bonds; (iii) to enter into this Purchase Agreement; (iv) to issue, sell, and deliver the Bonds to the Underwriters as provided herein; and (v) to carry out and consummate all other transactions described in each of the aforesaid documents, and the Issuer has complied in all material respects with all provisions of applicable law in all matters relating to such transactions.

(c) The Issuer has duly authorized (i) the execution and delivery of the Bonds and the execution, delivery, and due performance of this Purchase Agreement; (ii) the distribution and use of the Official Statement; and (iii) the taking of any and all such actions as may be required on the part of the Issuer to carry out, give effect to, and consummate the transactions described in such instruments. All consents or approvals necessary to be obtained by the Issuer in connection with the foregoing have been received or will be received prior to, or in connection with, the Closing, and the consents or approvals so received are still in full force and effect.

(d) (i) The Ordinance has been duly adopted by the Issuer, is in full force and effect, and constitutes the valid, legal and binding act of the Issuer; (ii) this Purchase Agreement, the Escrow Agreement, and the Pricing Certificate, when executed and delivered, will constitute legal, valid, and binding obligations of the Issuer; and (iii) the Ordinance, including but not limited to the continuing disclosure undertaking included therein, the Escrow Agreement, and this Purchase Agreement are enforceable against the Issuer in accordance with their respective terms, except as enforceability thereof may be limited by bankruptcy, insolvency, or other laws affecting creditors' rights generally.

(e) When delivered to the Underwriters, the Bonds will have been duly authorized, executed, authenticated, issued, and delivered and will constitute legal, valid, and binding special obligations of the Issuer in conformity with the laws of the State and will be entitled to the benefit and security of the Ordinance.

(f) As of its date, the Preliminary Official Statement did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(g) At the time of the Issuer's acceptance hereof and (unless the Official Statement is amended or supplemented pursuant to paragraph (d) of Section 3 of this Purchase Agreement) at all times subsequent thereto during the period up to and including the date of Closing, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(h) If the Official Statement is supplemented or amended pursuant to paragraph (d) of Section 3 of this Purchase Agreement, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto during the period up to and including the date of Closing, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which made, not misleading.

(i) The adoption of the Ordinance (and the City's continuing disclosure undertaking included therein), the execution and delivery of this Purchase Agreement, the Pricing Certificate, or the Bonds, the consummation of the transactions described herein or therein or the compliance with the provisions hereof or thereof will not conflict with or constitute on the part of the Issuer or the Issuer's Airport System (the "Airport System") a violation of; or a breach of or default under, (i) any statute, indenture, mortgage, commitment, note, or other agreement or instrument to which the Issuer or the Airport System is a party or by which it is bound; (ii) any provision of the State Constitution; or (iii) any existing law, rule, regulation, charter provision, ordinance, judgment, order, or decree to which the Issuer (or the members of the City Council, or any of its officers in their respective capacities as such) is subject; and except as described in the Official Statement, the Issuer has not entered into any contract or arrangement of any kind which might give rise to any lien or encumbrance on the Net Revenues pledged to the payment of the Bonds superior to or on a parity with the pledge securing the payment of the Bonds.

(j) Except as may be disclosed in the Official Statement, the Issuer is not, in any material respect that would adversely affect the validity or marketability of the Bonds, in breach of or default under any applicable law or administrative regulation of the State or any department, division, agency, or instrumentality thereof, or of the United States or any agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, note, resolution, certificate, agreement, or other instrument to which the Issuer is a party or is otherwise subject.

(k) Except as is specifically disclosed in the Official Statement, there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, public board, or body or, to the best knowledge of the Issuer after due inquiry, threatened against the Issuer, affecting the existence of the Issuer or the titles of its officers to their respective offices or affecting or seeking to prohibit, restrain or enjoin the (i) sale issuance or delivery of the Bonds, (ii) the collection of Airport System revenues, or (iii) the application of the Airport System revenues pursuant to the Ordinance, nor is there any such action, suit, proceeding, inquiry or investigation which in any way questions the powers of the Issuer referred to in paragraph (b) above, or the validity of any proceeding taken by the Issuer in connection with the issuance of the Bonds, or wherein an unfavorable decision, ruling, or finding could materially adversely affect the transactions described in this Purchase Agreement, or of any other document or instrument required or described in this Purchase Agreement, or which, in any way, could adversely affect the validity or enforceability of the Ordinance (and the City's continuing disclosure undertaking included therein), the Bonds, or this Purchase Agreement, or, to the knowledge of the Issuer, which in any way questions the exclusion from gross income of the recipients thereof of the interest on the 2012A Bonds and 2012B Bonds (together the "Tax Exempt Bonds") for federal income tax purposes, or, to the knowledge of the Issuer, which in any way questions the status of the Bonds under federal or State tax laws or regulations.

(l) Any certificate signed by an official of the Issuer and delivered to the Underwriters shall be deemed a representation and warranty by the Issuer, as appropriate, to the Underwriters as to the truth of the statements therein contained.

(m) The Issuer has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

(n) The Issuer will not knowingly take or omit to take any action, which action or omission will in any way cause the proceeds from the sale of the Bonds be applied in a manner other than as provided in the Ordinance.

(o) To the best of the knowledge of the Issuer, the financial statements of the Issuer included in Appendix A to the Official Statement present fairly the financial position and the results of operations of the Issuer at the respective dates and for the respective periods indicated therein, in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods presented.

(p) As of the date of the Closing, there will not be any material adverse change in the financial position, results of operations, or condition, financial or otherwise, of the Issuer from

that described in the Official Statement other than in the ordinary course of business or as may be otherwise disclosed to the Underwriters in accordance with this Purchase Agreement.

(q) The Issuer covenants that between the date hereof and the Closing it will take no actions which will cause the representations and warranties made in this Section to be untrue as of the date of Closing.

(r) The Issuer, to the extent heretofore requested in writing by the Representative, has delivered to the Representative true, correct, complete, and legible copies of all information, applications, reports, or other documents of any nature whatsoever submitted to any rating agency for the purpose of obtaining a rating for the Bond and true, correct, complete, and legible copies of all correspondence or other communications relating, directly or indirectly, thereto.

6. Covenants of the Issuer. The Issuer covenants with the Underwriters as follows:

(a) The Issuer will cooperate, at no expense to the Issuer, with the Underwriters in qualifying the Bonds for offer and sale under the securities or Blue Sky laws of such jurisdictions of the United States as the Representative may request; provided, however, that the Issuer shall not be required to consent to suit or to service of process in any jurisdiction. The Issuer consents to the use by the Underwriters in the course of their compliance with the securities or Blue Sky laws of the various jurisdictions of the documents relating to the Bonds, subject to the right of the Issuer to withdraw such consent for cause by written notice to the Representative.

(b) To advise the Representative immediately of receipt by the Issuer of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose.

7. Closing. At or before 12:00 p.m., Houston, Texas time on _____, 2012 or at such other time and/or date as shall have been mutually agreed upon by the Issuer and the Representative, at the offices of Bracewell & Giuliani LLP, the Issuer will deliver, or cause to be delivered, to the Underwriters, the Bonds. The payment for the Bonds and simultaneous delivery of the Bonds to the Underwriters is herein referred to as a "Closing."

On the date of the Closing, the Issuer shall deliver the Bonds together with the other documents hereinafter mentioned and, provided the Underwriters have made arrangements with DTC, for the Bonds to be book-entry only securities, the Issuer shall take appropriate steps to provide DTC with one or more definitive bonds for each year of maturity of such Bonds (in the amount provided in Section 1 hereof), and the Underwriters will accept such delivery and pay the purchase price of such Bonds by making a federal funds wire transfer to the Issuer as more fully described in the Ordinance and the closing memorandum prepared for the Closing. Unless otherwise agreed to by the Representative, the Bonds will be delivered under DTC's FAST delivery system. Upon receipt of such payment and at the Closing, the Issuer immediately shall return to the Representative the good-faith check described in Section 4 hereof.

The activities relating to the final execution and delivery of the Bonds and the payment therefor and the delivery of the certificates, opinions, and other instruments as described in Section 8 of this Purchase Agreement shall occur at the offices of Bracewell & Giuliani LLP in

Houston, Texas, or such other place as shall have been mutually agreed upon by the Issuer and the Representative.

8. Closing Conditions. The obligations of the Underwriters to purchase the Bonds shall be subject (a) to the performance by the Issuer of its obligations to be performed hereunder at and prior to the Closing, (b) to the accuracy, in all material respects, of the representations and warranties of the Issuer herein as of the date hereof and as of the time of the Closing, and (c) to the following conditions, including the delivery by the Issuer of such documents as are enumerated herein in form and substance reasonably satisfactory to Co-Bond Counsel (named below), Special Disclosure Co-Counsel (named below) and Fulbright & Jaworski L.L.P. of Houston, Texas, as counsel to the Underwriters (the “Underwriters’ Counsel”):

(a) At the time of the Closing, (i) the Official Statement, this Purchase Agreement, the Pricing Certificate, the Ordinance, and the Escrow Agreement shall be in full force and effect and shall not have been amended, modified, repealed, or supplemented from the date hereof except as may have been agreed to in writing by the Representative; (ii) the proceeds of the sale of the Bonds shall be deposited and applied as described in the Ordinance and the Pricing Certificate; and (iii) the Issuer shall have duly adopted and there shall be in full force and effect such ordinances or resolutions as, in the opinion of Bracewell & Giuliani LLP and Bates & Coleman P.C., both of Houston, Texas, as co-bond counsel (“Co-Bond Counsel”), shall be necessary in connection with the transactions described herein.

(b) The Issuer shall not have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money payable from revenues of the Houston Airport System.

(c) All steps to be taken and all instruments and other documents to be executed, and all other legal matters in connection with the transactions described in this Purchase Agreement shall be reasonably satisfactory in legal form and effect to the Representative, Co-Bond Counsel and counsel to the Underwriters.

(d) At or prior to the Closing, the Representative shall receive the following executed or certified documents in such number or counterparts as shall be mutually agreeable to the Issuer, Underwriters’ Counsel, and Co-Bond Counsel:

(1) The Bonds, the Ordinance (containing the agreement to provide continuing disclosure of information as described in the Official Statement), and the Pricing Certificate;

(2) Final opinion(s) of Co-Bond Counsel dated the date of Closing, in substantially the form(s) set forth as Appendix C to the Official Statement;

(3) A letter of Co-Bond Counsel addressed to the Underwriters and dated the date of Closing, to the effect that Co-Bond Counsel’s final opinion(s) referred to in Section 8(d)(2) hereof and being delivered on such date may be relied upon by the Underwriters to the same extent as if such opinion was addressed to the Underwriters;

(4) A supplemental opinion of Co-Bond Counsel addressed to the Underwriters and dated the date of Closing, in substantially the form set forth in **Exhibit C** hereto;

(5) An opinion of Haynes and Boone LLP and Bratton & Associates LLP, both of Houston, Texas, Special Disclosure Co-Counsel to the Issuer (“Special Disclosure Co-Counsel”), addressed to the Underwriters, substantially in the form of **Exhibit D** attached hereto;

(6) An opinion of the City Attorney of the Issuer addressed to the Underwriters substantially in the form of **Exhibit E** attached hereto;

(7) A certificate signed by an authorized officer of the Issuer as prepared by Co-Bond Counsel setting forth facts, estimates, and circumstances in existence on the date of Closing, which facts, estimates, and circumstances shall be sufficiently set forth therein to support the conclusion that it is not expected that the proceeds of the Bonds will be used in a manner or that the Issuer will take any action or omit to take any action that would cause the Bonds to be “arbitrage bonds” within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations, temporary regulations, and proposed regulations promulgated under the Code, and stating that to the best knowledge and belief of such officer there are no other facts, estimates, or circumstances that would materially affect such expectations;

(8) A survey from Underwriters’ Counsel addressed to the Underwriters indicating the jurisdictions in which the Bonds have been qualified or exempt under the securities or “Blue Sky” laws;

(9) An opinion of Underwriters’ Counsel in substantially the form set forth in **Exhibit F** hereto;

(10) The approving opinion of the Attorney General of Texas with respect to the Bonds;

(11) The registration certificate of the Comptroller of Public Accounts of the State of Texas with respect to the Bonds;

(12) The Official Statement;

(13) Specimen Bonds;

(14) An executed copy of the escrow agreement for the Refunded Bonds between the City and the Escrow Agent for the Refunded Bonds (the “Escrow Agreement”);

(15) Letters from Standard and Poor’s Financial Services LLC Business and Fitch Ratings to the effect that the Bonds have been assigned ratings of “___” and “___”;

(16) A copy of an awareness letter from Deloitte & Touche LLP, independent certified public accountants and auditors acknowledging the inclusion in the Preliminary Official Statement and the Official Statement of the audited financial statements of the Issuer and its report thereon, for the fiscal year ended [June 30, 2011];

(17) A certificate, in form and substance reasonably satisfactory to the Representative and Underwriters' Counsel, of the Issuer or any duly authorized officer or official of the Issuer satisfactory to the Representative and Underwriters' Counsel, dated as of the Closing, to the effect that: (i) each of the Issuer's representations, warranties, and covenants contained herein are true and correct in all material respects as of the Closing; (ii) the Issuer has authorized, by all action necessary under the Applicable Law and the laws and Constitution of the State, the adoption of the Ordinance, and the execution, delivery, and due performance of the Bonds, this Purchase Agreement, the Pricing Certificate and the Escrow Agreement; (iii) no litigation is pending, or to the knowledge of the officer or official of the Issuer signing the certificate threatened, to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Ordinance, the Bonds, this Purchase Agreement, the Pricing Certificate and the Escrow Agreement; (iv) the Bonds, this Purchase Agreement, the Pricing Certificate and the Escrow Agreement are in the form or in substantially the form approved for such execution by appropriate proceedings of the Issuer; (v) since [June 30, 2011] there has not been any material adverse change in the properties, financial position, or results of operations of the Airport System, whether or not arising from transactions in the ordinary course of business, other than as set forth in the Official Statement or as otherwise disclosed to the Underwriters pursuant to this Purchase Agreement, and since such date the Issuer has not entered into any transaction or incurred any debt or other liability material as to the Airport System and except as otherwise set forth in the Official Statement or as otherwise disclosed to the Underwriters; (vi) the information contained in the Official Statement relating to the Issuer and the Airport System, their respective organization, activities, properties, and financial condition, is true and correct in all material respects and does not contain any untrue or incorrect statement of a material fact and does not omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading; and (vii) since the date of the Official Statement, there has been no material adverse change in the utilization of the Airport System and no material adverse change in the governmental rules or regulations under which the Airport System operates, except as may be disclosed in writing to the Representative;

(18) A Receipt and Cross Receipt, dated the date of Closing, of the Issuer and the Underwriters as to the receipt of the Bonds and the payment therefor;

(19) To the extent proceeds of the Bonds are used to refund and defease the Refunded Bonds, a copy of the special report prepared by Grant Thornton L.L.P., addressed to the Issuer, Co-Bond Counsel, and the Underwriters verifying the arithmetical computations of the adequacy of the maturing principal and interest on the escrowed securities and uninvested cash on hand to pay, when due, the principal of and interest on the Refunded Bonds and the computation of the yield with respect to such securities and the Bonds; and

(20) Such additional legal opinions, certificates, proceedings, instruments, and other documents as Underwriters' Counsel or Co-Bond Counsel may reasonably request to evidence compliance by the Issuer with legal requirements, the truth and accuracy, as of the time of Closing, of the representations of the Issuer herein contained, and the due performance or satisfaction by the Issuer at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Issuer.

If the Issuer shall be unable to satisfy the conditions to the obligations of the Underwriters contained in this Purchase Agreement, or if the obligations of the Underwriters to purchase and accept delivery of the Bonds shall be terminated for any reason permitted by this Purchase Agreement, the good faith check described in Section 4 hereof shall be returned to the Representative, this Purchase Agreement shall terminate, and neither the Underwriters nor the Issuer shall be under further obligation hereunder; except that the respective obligations to pay expenses, as provided in Section 12 hereof, shall continue in full force and effect.

9. Cancellation Rights. The Representative shall have the right to cancel the Underwriters' obligations to purchase the Bonds if between the date hereof and the date of Closing one or more of the following events shall have occurred:

(a) the House of Representatives or the Senate of the Congress of the United States, or a committee of either, shall have pending before it, or shall have passed or been recommended favorably, legislation introduced after the date hereof, which legislation, if enacted in its form introduced or as amended, would have the purpose or effect of imposing federal income taxation upon revenues or other income of the general character to be derived by the Issuer, or by any similar body, or upon interest received on obligations of the general character of the Tax-Exempt Bonds to be includable in gross income for purposes of federal income taxation, and such legislation, in the Representative's reasonable opinion, materially adversely affects the market price of, or market for, the Tax-Exempt Bonds; or

(b) a decision with respect to legislation shall be reached by a committee of the House of Representatives or the Senate of the Congress of the United States, or legislation shall be favorably reported by such a committee or be introduced, by amendment or otherwise, in or be passed by the House of Representatives or the Senate, or recommended to the Congress of the United States for passage by the President of the United States, or be enacted, or a decision by a federal court of the United States or the United States Tax Court shall have been rendered, or a ruling, release, order, regulation or official statement by or on behalf of the United States Treasury Department, the Internal Revenue Service, or other governmental agency shall have been made or proposed to be made having the purpose or effect, or any other action or event shall have occurred which has the purpose or effect, directly or indirectly, of adversely affecting the federal income tax consequences of owning the Tax-Exempt Bonds, or of any of the transactions contemplated in connection herewith, including causing interest on the Tax-Exempt Bonds, to be included in gross income for purposes of federal income taxation, or imposing federal income taxation upon revenues or other income of the general character to be derived by the Issuer, or by any similar body, which, in the Representative's reasonable opinion, materially adversely affects the market price of, or market for, the Bonds; or

(c) legislation shall have been enacted, or actively considered for enactment with an effective date prior to Closing, or a decision by a court of the United States shall have been rendered, the effect of which is that the Bonds, including any underlying obligations, or the Ordinance, as the case may be, are not exempt from the registration, qualification, or other requirements of the Securities Act of 1933, as amended and as then in effect, the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect; or

(d) a stop order, ruling, regulation, or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, shall have been issued or made, or any other event occurs, the effect of which is that the issuance, offering, or sale of the Bonds, including any underlying obligations, or the execution and delivery of the Ordinance, as contemplated hereby or by the Official Statement is, or would be, in violation of any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect; or

(e) (i) the Constitution of the State shall be amended or an amendment shall be proposed, or (ii) legislation shall be enacted, or (iii) a decision shall have been rendered as to matters of State law, or (iv) any order, ruling or regulation shall have been issued or proposed by or on behalf of the State by an official, agency or department thereof, affecting the tax status of the Issuer, its property or income, its notes or bonds or the interest thereon, which in the judgment of the Representative would make it impracticable to market the Bonds on the terms and in the manner contemplated in the Official Statement; or

(f) there shall exist any event or circumstance that either makes untrue or incorrect any statement of a material fact in the Official Statement (other than any statement provided by the Underwriters) or is not reflected in the Official Statement but should be reflected therein in order to make the statements therein, in light of the circumstances under which they were made, not misleading and, in either such event, the City refuses to permit the Official Statement to be supplemented to supply such statement or information, or the effect of the Official Statement as so supplemented is, in the reasonable judgment of the Representative, to materially adversely affect the market price or marketability of the Bonds; or

(g) There shall have occurred any (i) new material outbreak of hostilities (including, without limitation, an act of terrorism), or (ii) new material other national or international calamity or crisis, or any material adverse change in the financial or economic conditions affecting the United States, including, but not limited to, an escalation of hostilities that existed prior to the date hereof and the effect of any such event on the financial markets of the United States, shall be such as would make it impracticable, in the reasonable judgment of the Representative, for the Underwriters to sell the Bonds on the terms and in the manner described in the Preliminary Official Statement; or

(h) Any state blue sky or securities commission or other governmental agency or body in a state in which fifteen percent (15%) or more of the Bonds have been sold shall have withheld registration, exemption or clearance of the offering of the Bonds as described herein, or

issued a stop order or similar ruling relating thereto, provided that such withholding or stop order is not due to the malfeasance, misfeasance or nonfeasance of the Underwriters; or

(i) there shall be in force a general suspension of trading on the New York Stock Exchange, the NYSE Amex Equities or any other major exchange, the effect of which on the financial markets of the United States is such, in the reasonable judgment of the Representative, would materially adversely affect the market price of, or market for, the Bonds; or

(j) a general banking moratorium shall have been declared by federal, New York, or State authorities; or

(k) any proceeding shall be pending by the Securities and Exchange Commission against the Issuer, which in the reasonable judgment of the Representative materially adversely affects the market price or marketability of the Bonds; or

(l) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange, which in the reasonable judgment of the Representative materially adversely affects the market price or marketability of the Bonds; or

(m) a material disruption in securities settlement, payment, or clearance services affecting any municipal securities shall have occurred that would make it impracticable for the Underwriters to market the Bonds on the terms and in the manner contemplated by the Official Statement; or

(n) there shall have occurred any downgrading, or any notice shall have been given of (A) any intended or potential downgrading or [(B) any review or possible change that does not indicate the direction of a possible change,] in the rating of the Airport System (including the rating to be accorded the Bonds) by any “nationally recognized statistical rating organization”, as such term is defined for purposes of Rule 436(g)(2) under the Securities Act of 1933, as amended; or

(o) the purchase of and payment for the Bonds by the Underwriters, or the resale of the Bonds by the Underwriters, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission; or

(p) any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a charge to the net capital requirements of, underwriters shall have been established by the New York Stock Exchange, the SEC, any other federal or State agency or the Congress of the United States, or by Executive Order, which in the reasonable judgment of the Representative materially adversely affects the market price or marketability of the Bonds.

10. Issuer Obligations Subject to Performance by Underwriters. The obligations of the Issuer hereunder are subject to the performance by the Underwriters of its obligations hereunder.

11. Survival of Representations, Warranties, and Agreements. Unless otherwise set forth herein, all representations, warranties, and agreements of the Issuer shall remain operative and in full force and effect, regardless of any investigations made by or on behalf of the Underwriters or the Issuer and shall survive the Closing.

12. Expenses.

(a) The Underwriters shall be under no obligation to pay, and the Issuer shall pay, any expenses incident to the performance of the Issuer's obligations hereunder, including, but not limited to (i) the cost of preparation, printing and delivery of the Official Statement in quantities as reasonably requested by the Underwriters and copies of any supplement or amendments to the Official Statement, (ii) the cost of preparation and printing of the Bonds, (iii) the fees and disbursements of Co-Bond Counsel of the Issuer, (iv) the fees and disbursements of the Issuer's Special Disclosure Co-Counsel, (v) the fees and disbursements of Deloitte & Touche LLP for their services as Independent Accountants of the Issuer; (vi) the fees and disbursements of First Southwest Company and TKG & Associates LLC (the "Co-Financial Advisors"); (vii) the fees and disbursements of any other accountants, and other experts, consultants or advisers retained by the Issuer; (viii) the fees, if any, for bond ratings; (ix) any Paying Agent/Registrar fees and other fees for paying agents, if any, for the Refunded Bonds, (x) fees incident to the redemption of the Refunded Bonds, including publication expenses, if any, for redemption notices, (xi) the out-of-pocket, miscellaneous and closing expenses, including the cost of travel of the officers, officials, employees, consultants or counsel of the Issuer and (xii) any other expenses mutually agreed to by the Issuer and the Representative to be reasonably considered expenses of the Issuer which are incident to the transaction described herein.

(b) The Underwriters shall pay (i) the cost of preparation and printing of this Purchase Agreement, the Agreement Among Underwriters and the Blue Sky Survey, if any; (ii) all advertising expenses in connection with the public offering of the Bonds; and (iii) all other expenses incurred by them or any of them in connection with the public offering of the Bonds, including the fees and disbursements of counsel retained by the Underwriters.

(c) In order to ensure compliance with applicable state and/or local ethics statutes that may apply to representatives of the Issuer as well as federal securities regulations that may apply to the Underwriters, the Issuer shall be solely responsible for and shall pay for any expenses incurred by the Underwriters on behalf of the Issuer's employees and representatives in connection with this Purchase Agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees and representatives. Such payment may be in the form of inclusion of such expenses in the expense component of the Underwriters' discount.

(d) If this Purchase Agreement shall be terminated by the Underwriters because of any failure or refusal on the part of the Issuer to comply with the terms or to fulfill any of the conditions of this Purchase Agreement, or if for any reason the Issuer shall be unable to perform its obligations under this Purchase Agreement, the Issuer will reimburse the Underwriters for all out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by the Underwriters in connection with this Purchase Agreement or the offering contemplated hereunder.

13. **Other Transactions by Underwriters and Issuer.** The Underwriters or their affiliates may from time to time, in their individual capacity and separate and apart from the transactions contemplated hereby and the compensation provided for herein, sell securities to, provide derivative products to, engage in swaps with, and enter into other transactions with the Issuer, or its agents acting in its behalf, and shall be entitled to retain any compensation or profits inuring to the Underwriters or its affiliates in connection therewith as approved by the Issuer.

14. **Notices.** Any notice or other communication to be given to the Issuer under this Purchase Agreement may be given by delivering the same in writing at its address set forth above, Attention: City Secretary, with a copy to (i) the City Attorney and (ii) the Director, Department of Finance; and any notice or other communication to be given to the Underwriters under this Purchase Agreement may be given by delivering the same in writing to Morgan Stanley & Co., LLC, 600 Travis, 37th Floor, Houston, Texas 77002, Attention: Keith Richard.

15. **No Recourse Against Individuals.** No recourse shall be had for payment of the principal of or interest on any Bonds or for any claim based thereon, against any official or employee of the Issuer or any person executing any Bonds.

16. **Parties in Interest.** This Purchase Agreement is made solely for the benefit of the Issuer and the Underwriters (including the successors or assigns of the Underwriters) and no other person, including any purchaser of the Bonds, shall acquire or have any right hereunder or by virtue hereof.

17. **Effectiveness.** This Purchase Agreement shall become effective upon the acceptance hereof by the Issuer and shall be valid and enforceable at the time of such acceptance.

18. **Entire Agreement.** This Purchase Agreement constitutes the entire agreement between the parties hereto with respect to the matters covered hereby, and supersedes all prior agreements and understandings between the parties. This Purchase Agreement shall only be amended, supplemented or modified in a writing signed by both of the parties hereto.

19. **Governing Law.** This Purchase Agreement shall be governed by and construed in accordance with the laws of the State of Texas and the United States of America.

20. **Severability.** If any provision of this Purchase Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any Constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Purchase Agreement invalid, inoperative or unenforceable to any extent whatever.

21. **Section Headings.** Headings have been inserted in this Purchase Agreement as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Purchase Agreement and will not be used in the interpretation of any provisions of this Purchase Agreement.

22. **Counterparts.** This Purchase Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same document. This Purchase Agreement shall become effective upon the execution of the acceptance hereof by the officially authorized and designated officers of the Issuer shown below and shall be valid and enforceable as of the time of such acceptance.

[Execution pages to follow]

Very truly yours,

RAMIREZ & CO.
RBC CAPITAL MARKETS LLC.
BLAYLOCK ROBERT VAN
JEFFERIES & COMPANY
WELLS FARGO SECURITIES

By: MORGAN STANLEY & CO., LLC, Individually
and as Representative of the Underwriters

By: _____
Keith Richard

[Signature Page to the Purchase Agreement]

Accepted and agreed to as
of the date first written above:

CITY OF HOUSTON, TEXAS

By: _____
Annise D. Parker, Mayor

ATTEST:

COUNTERSIGNED:

By: _____
Anna Russell, City Secretary

By: _____
Ronald C. Green, City Controller

[Signature Page to the Purchase Agreement]

EXHIBIT A
PRICING CERTIFICATE

A-1

Exhibit D to Ordinance
D-22

EXHIBIT B

RESERVED.

B-1

EXHIBIT C

FORM OF SUPPLEMENTAL OPINION OF CO-BOND COUNSEL

[LETTERHEAD OF CO-BOND COUNSEL]

[Insert Closing Date]

Morgan Stanley & Co., LLC
as Representative for the Underwriters
600 Travis Street, 37th Floor
Houston, Texas 77002

Re: City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012A (AMT), Series 2012B (Non-AMT), and Series 2012C (Taxable) (the “Bonds”)

Ladies and Gentlemen:

This opinion is being rendered pursuant to the Purchase Agreement, dated [], 2012 (the “*Purchase Agreement*”), between Morgan Stanley & Co., LLC, as Representative of the Underwriters named in the Purchase Agreement, and the City of Houston, Texas (the “*City*”) relating to the issuance, sale, and delivery of the Bonds by the City to the Underwriters. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Purchase Agreement.

We have acted as Co-Bond Counsel to the City in connection with the issuance, sale and delivery of the Bonds. Based upon our discussions with the City, its financial advisors, the Underwriters and others, and our review of the documents, certificates, opinions and other instruments delivered at the Closing of the Bonds on the date hereof and such other materials as we deem relevant, we are of the opinion that:

1. The offer and sale of the Bonds is exempt from the registration requirements of the Securities Act of 1933, as amended, when sold by a registered broker dealer; and neither the Bonds nor the Ordinance require qualification under the Trust Indenture Act of 1939, as amended.

2. The descriptions and summaries of the Bonds and the Ordinance contained in the Official Statement under the headings “PURPOSE AND PLAN OF FINANCING – The

Refunded Bonds,” “THE SERIES 2012 BONDS,” “STATUS OF CERTAIN ORDINANCE AMENDMENTS,” “SECURITY FOR THE SERIES 2012 BONDS” (except for the information under the subheading “Bondholders Remedies” as to which we express no opinion), “COVENANTS AND TERMS OF THE ORDINANCE” (except for the information under the subheading “Rate Covenant – Other Factors Impacting Rate Covenant” as to which we express no opinion), “CONTINUING DISCLOSURE” (except for the information under the subheadings “Compliance with Prior Undertakings” and “No Continuing Disclosure Undertakings by Airlines” as to which we express no opinion) and “APPENDIX B-1--THE ORDINANCE – AND CERTAIN DEFINED TERMS,” in all material respects, fairly and accurately describe the provisions of the Bonds and the Ordinance; and further, the statements contained in the Official Statement under the headings “TAX MATTERS” and “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS” are correct as to matters of law.

Except as stated in numbered paragraph (2) above, we have not assumed responsibility with respect to the Official Statement or undertaken to verify the accuracy, completeness or fairness of the statements contained therein. However, we advise you that in the course of our participation described above, nothing has come to our attention that would cause us to believe that the Official Statement as of its date and as of the date of this opinion (except for the financial statements and other financial, statistical or technical data, as to which we express no opinion) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Reference is made to our opinion of even date herewith regarding the validity of the Bonds and the exclusion of interest on the Bonds from gross income for federal income tax purposes. Such opinion may be relied upon by the Underwriters as if such opinion were addressed to them.

This opinion may be relied upon only by the parties to whom it is addressed. We disclaim any obligation to supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any other changes in the law that may hereafter occur.

Very truly yours,

C-2

EXHIBIT D

OPINION OF SPECIAL DISCLOSURE CO-COUNSEL TO THE ISSUER

[LETTERHEAD OF SPECIAL DISCLOSURE CO-COUNSEL]

[insert Closing Date]

City of Houston, Texas
901 Bagby Street
Houston, Texas 77002

Morgan Stanley & Co., LLC
as Representative for the Underwriters
600 Travis Street, 37th Floor
Houston, Texas 77002

Re: City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012A (AMT), Series 2012B (Non-AMT), and Series 2012C (Taxable) (the "Bonds")

Ladies and Gentlemen:

We have served as Special Disclosure Co-Counsel to the City of Houston, Texas (the "City") with respect to the issuance of the Bonds. In that connection, we have reviewed (1) the Ordinance adopted by the City Council of the City on February ____, 2012 (the "Ordinance"), authorizing the issuance of the Bonds and containing other matters, (2) the Pricing Certificate executed in connection with the sale of the Bonds containing certain terms with respect to the sale of the Bonds, and (3) the official statement for the Bonds dated _____, 2012 (as supplemented, the "Official Statement").

Based upon our participation in the preparation of the Official Statement, nothing has come to our attention to lead us to believe that the Official Statement (except for financial, statistical or technical data therein, including Appendix A, about which we are not called upon to comment), as of its date or as of the date hereof, contained or contains any untrue statement of a material fact, or omitted or omits to state any material facts required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. Our participation in the preparation of the Official Statement included meetings with representatives of the City and the Underwriters, but did not include independent investigation as to the accuracy, completeness, or fairness of the statements contained therein.

This letter is being delivered to the City as its Special Co-Counsel and to Morgan Stanley & Co., LLC, as Representative for the Underwriters, pursuant to Section 8(d)(5) of the Purchase Agreement dated _____, 2012 (the "Purchase Agreement") between the City and the

D-1

Underwriters referred to therein (the "Underwriters") relating to the sale of the Bonds. This opinion is as of the date hereof and we undertake no, and hereby disclaim any, obligation to advise you of any change in any matter set forth herein. This opinion may only be relied upon by the addressees and by other persons to whom we grant written permission to rely hereon. In rendering this opinion and in connection with the delivery by the City of the Bonds, we have not represented the Underwriters nor rendered any advice to the Underwriters in connection with the transactions contemplated by the Purchase Agreement, the Ordinance, or the Official Statement, other than that set forth herein.

Very truly yours,

D-2

EXHIBIT E

FORM OF OPINION OF CITY ATTORNEY

[LETTERHEAD OF THE CITY ATTORNEY]

[insert Closing Date]

Morgan Stanley & Co., LLC
as Representative for the Underwriters
600 Travis Street, 37th Floor
Houston, Texas 77002

Re: City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012A (AMT), Series 2012B (Non-AMT), and Series 2012C (Taxable) (the “Bonds”)

Ladies and Gentlemen:

This opinion is being rendered pursuant to Section 8(d)(6) of the Purchase Agreement, dated _____, 2012 (the “Purchase Agreement”), between the City of Houston, Texas (the “City”) and the Underwriters referred to therein (the “Underwriters”) relating to the issuance, sale and delivery by the City to the underwriters of the Bonds. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Purchase Agreement.

I and/or my designated attorneys have reviewed City Ordinance No. 2012-[] adopted by the City Council of the City on _____, 2012 (the “Ordinance”) and the Pricing Certificate delivered pursuant to the Ordinance, the Purchase Agreement, and the Bonds. I and/or my designated attorneys have also conducted such other investigations of fact and law as I have found necessary or advisable for the purpose of this opinion. As the City Attorney, I am also aware of litigation and other legal matters related to the City that come to my attention in the performance of my duties.

It is my opinion that:

A. The City is a home-rule city duly organized and existing under the constitution and laws of the State of Texas with full power and authority, among other things, (1) to adopt and perform its duties and obligations under the Ordinance and the Purchase Agreement, (2) to authorize, issue, sell and deliver the Bonds, (3) to authorize, execute, and deliver the Pricing Certificate, and (4) to operate and maintain the Airport System and to collect and enforce the collection of revenues of the Airport System as covenanted in the Ordinance.

B. The Purchase Agreement, the Escrow Agreement, and the Pricing Certificate have been duly authorized, executed, and delivered by, and the Ordinance has been duly adopted by, the City and such instruments constitute legal, valid and binding obligations of the City enforceable in accordance with their terms, except to the extent that their enforceability may be limited by applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and except that such enforceability is subject to general principles of equity and the exercise of judicial discretion (regardless of whether such enforceability is considered in a proceeding in law or at equity).

C. To my knowledge compliance with the provisions of the Ordinance, the Purchase Agreement, the Escrow Agreement, and the Pricing Certificate does not conflict with, or constitute a breach of or default under, any applicable law, administrative regulation, court order or consent decree of the State of Texas or any department, division, agency, or instrumentality thereof or of the United States of America to which the City may be subject or any loan agreement, note, resolution, indenture, agreement or other instrument to which the City is a party.

D. All approvals, consents, and orders of any governmental authority, board, agency, or commission having jurisdiction which would constitute conditions precedent to the performance by the City of its obligations under the Ordinance, the Purchase Agreement, the Escrow Agreement, the Pricing Certificate, and the Bonds and which can reasonably be obtained at this time have been obtained.

E. Except as disclosed in writing by the City to the Representative on or prior to the date of the sale of the Bonds, there is no litigation or proceeding, pending or to my knowledge, after due inquiry, threatened, in any way affecting the existence of the City, or the title of its officers to their respective offices, or seeking to restrain or to enjoin the issuance, sale, or delivery of the Bonds, or the right, power, and authority of the City to collect revenues pledged or to be pledged to pay the principal of and interest on the Bonds or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Ordinance, the Purchase Agreement, the Escrow Agreement, or the Pricing Certificate or contesting in any way the completeness or accuracy of portions of the Preliminary Official Statement relating to the Bonds dated _____, 2012 (the "Preliminary Official Statement"), under the captions "THE CITY AND THE CITY FINANCIAL INFORMATION," "THE HOUSTON AIRPORT SYSTEM," and "LITIGATION AND REGULATION" (collectively, the "City Portions"), or the City portions of the Official Statement relating to the Bonds dated _____, 2012 (the "Official Statement"), or contesting the powers of the City or its authority with respect to the Bonds, the Ordinance, the Purchase Agreement, or the Pricing Certificate. In making the above statement, I have not reviewed the dockets of courts or relevant administrative agencies nor have I contacted such courts or agencies; I have relied solely on information brought to my attention as City Attorney as of the date of this letter.

F. Based on the examination made by the participation of my representatives at conferences at which the Official Statement was discussed, and without having undertaken to determine independently the accuracy and completeness of the statements contained in the Official Statement, I have no reason to believe that the information contained in the City Portions

of the Official Statement as of its date and as of the date of this letter, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect (except for the financial statements and other financial, demographic and statistical projections and data included therein, as to which I express no view).

The information set forth herein is as of the date of this letter, and I disclaim any undertaking to advise you of changes which thereafter may be brought to my attention. This letter is solely for your information in connection with the sale of the Bonds and may not be relied upon by any other person without my prior written consent. It is not to be quoted in whole or in part or otherwise referred to in any documents, except for a closing list or transcript of the proceedings related to the issuance of the Bonds, and is not to be filed with or furnished to any governmental entity or person, without my prior written consent. The opinions herein expressed and the statements herein made are limited in all respects the laws of the State of Texas and applicable federal law.

Very truly yours,

David M. Feldman
City Attorney

EXHIBIT F

FORM OF OPINION OF UNDERWRITERS' COUNSEL

[LETTERHEAD OF UNDERWRITERS' COUNSEL]

[insert Closing Date]

Morgan Stanley & Co., LLC
as Representative for the Underwriters
600 Travis Street, 37th Floor
Houston, Texas 77002

Re: City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012A (AMT), Series 2012B (Non-AMT), and Series 2012C (Taxable) (the "Bonds")

Ladies and Gentlemen:

We have acted as counsel to you, as the Underwriters, in connection with the purchase by you on this date of the captioned Bonds issued by the City of Houston, Texas (the "Issuer"). As your counsel, we have reviewed a transcript of certain proceedings relating to the issuance of the Bonds, including Ordinance No. 2012-[] adopted on _____, 2012 by the City Council of the Issuer, and a Pricing Certificate executed by the Mayor and the City Controller of the Issuer, which Bonds you are purchasing pursuant to the Purchase Agreement between the Issuer and you dated as of _____, 2012 (the "Purchase Agreement"), the Preliminary Official Statement of the Issuer dated _____, 2012 (the "Preliminary Official Statement"), the Official Statement of the Issuer dated _____, 2012 (the "Official Statement"), and the opinions of the Attorney General of the State of Texas and Co-Bond Counsel. This opinion and comments are being furnished to you pursuant to Section 8 of the Purchase Contract. Unless otherwise expressly provided herein, capitalized terms used herein shall have the meanings ascribed thereto in the Purchase Contract.

Based on the foregoing and in reliance on the matters described below, we are of the opinion that

(1) The offer and sale of the Bonds to the public by you are exempt from registration under Section 3(a)2 of the Securities Act of 1933, as amended and now in effect, and no filing is required under Section 304 of the Trust Indenture Act of 1939, as amended and now in effect, in connection with the Bonds or the Ordinance; and

(2) Assuming the enforceability of the Ordinance (as to which you have received an opinion of the City Attorney of the City of Houston, Texas, of even date herewith), you may reasonably determine that the continuing disclosure undertaking contained in the Ordinance satisfies the requirements of paragraph (b)(5)(i) of Rule 15c2-12 of the United States Securities and Exchange Commission (the "*Rule*").

Furthermore, we have participated in correspondence and conferences with representatives of the Issuer, the Co-Financial Advisors, Co-Bond Counsel and your representatives, at which conferences the contents of the Preliminary Official Statement and the Official Statement and related matters were discussed. Although we have not conducted an independent investigation of the accuracy or completeness of the Preliminary Official Statement or Official Statement, and we are not passing upon and do not assume any responsibility for the accuracy, completeness, or fairness of the statements contained therein, we advise you that, on the basis of the foregoing, no facts have come to our attention that lead us to believe that the Preliminary Official Statement or the Official Statement (other than certain information concerning the Co-Financial Advisors; any financial, forecast, technical, and statistical statements and data included in the Official Statement; and the information regarding DTC and its book-entry-only system, as to all of which you have not asked us to express any view), as of their respective dates and as of today's date, contain any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

This opinion may be relied upon only by the addressees hereof. This opinion may not be relied upon by or furnished to any other person without our prior written consent.

Respectfully submitted,

EXHIBIT E
PRELIMINARY OFFICIAL STATEMENT

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2012

NEW ISSUES – BOOK-ENTRY ONLY

RATINGS: Fitch: “ ”
S&P: “ ”
SEE “RATINGS” HEREIN

In the opinion of Co-Bond Counsel, under existing law, (i) (A) interest on the Series 2012A Bonds (as defined below) is excludable from gross income for federal income tax purposes except for any period a Series 2012A Bond is held by a person who, within the meaning of section 147(a) of the Internal Revenue Code, as amended, is a “substantial user” or a “related person” to a “substantial user” of the facilities financed or refinanced with the proceeds of the Series 2012A Bonds, as described under “TAX MATTERS” herein, and (B) interest on the Series 2012A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations, and (ii) (A) interest on the Series 2012B Bonds (as defined below) is excludable from gross income for federal income tax purposes, and (B) interest on the Series 2012B Bonds is not an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals. See “TAX MATTERS” herein for a discussion of the opinion of Co-Bond Counsel, including a description of alternative minimum tax consequences for corporations holding Series 2012B Bonds.

Interest on the Taxable Series 2012C Bonds described and defined below is not excludable from gross income for federal income tax purposes. See “TAX MATTERS – The Taxable Series 2012C Bonds” herein.

CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM

\$ _____ *

**SUBORDINATE LIEN REVENUE
REFUNDING BONDS,
SERIES 2012A (AMT)**

\$ _____ *

**SUBORDINATE LIEN REVENUE
REFUNDING BONDS,
SERIES 2012B (Non-AMT)**

\$ _____ *

**SUBORDINATE LIEN REVENUE
REFUNDING BONDS,
SERIES 2012C (Taxable)**

Interest Accrual Date: Date of Delivery

CUSIP Prefix: 442348

Due: As shown on inside cover

This Official Statement is provided to furnish information in connection with the offering by the City of Houston, Texas (the “City”) of its Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012A (AMT) (the “Series 2012A Bonds”), Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012B (Non-AMT) (the “Series 2012B Bonds”) and, together with the Series 2012A Bonds, the “Tax-Exempt Bonds”) and Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012C (Taxable) (the “Taxable Series 2012C Bonds”) and, together with the Series 2012A Bonds and Series 2012B Bonds, the “Series 2012 Bonds”). The Series 2012 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Proceeds of the sale of the Series 2012A Bonds will be used to (i) refund certain of the City’s Airport System Subordinate Lien Bonds as more specifically described in SCHEDULE 1 and collectively referred to herein as the “2012A Refunded Bonds” and (ii) pay the costs of issuance of the Series 2012A Bonds and costs relating to such refunding. Proceeds of the sale of the Series 2012B Bonds will be used to (i) refund certain of the City’s Airport System Subordinate Lien Bonds as more specifically described in SCHEDULE 1 and collectively referred to herein as the “2012B Refunded Bonds,” and (ii) pay the costs of issuance of the Series 2012B Bonds and costs relating to such refunding. Proceeds of the sale of the Taxable Series 2012C Bonds will be used to (i) refund certain of the City’s Airport System Subordinate Lien Bonds as more specifically described in SCHEDULE 1 and collectively referred to herein as the “2012C Refunded Bonds” and (ii) pay the costs of issuance of the Taxable Series 2012C Bonds and costs relating to such refunding. The 2012A Refunded Bonds, the 2012B Refunded Bonds and the 2012C Refunded Bonds are collectively referred to herein as the “Refunded Bonds.” See “PURPOSE AND PLAN OF FINANCING.”

Interest on the Series 2012 Bonds will accrue from their Date of Delivery (as defined below) until maturity or prior redemption and is payable semi-annually on each July 1 and January 1 commencing July 1, 2012. The Bank of New York Mellon Trust Company, National Association (the “Paying Agent/Registrar”) is the initial Paying Agent/Registrar.

The Series 2012 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2012 Bonds, until DTC resigns or is discharged. The Series 2012 Bonds will be available to purchasers only in book-entry form. For as long as Cede & Co. is the exclusive registered owner of the Series 2012 Bonds, the principal of and interest on the Series 2012 Bonds will be payable by the Paying Agent/Registrar to DTC, which will be responsible for making such payments to DTC Participants for subsequent remittance to the owners of beneficial interests in the Series 2012 Bonds. The purchasers of the Series 2012 Bonds will not receive certificates representing their beneficial ownership interests therein.

The Series 2012 Bonds are special obligations of the City that, together with the Outstanding Subordinate Lien Bonds and any Additional Subordinate Lien Bonds hereafter issued, are payable from and equally and ratably secured by a lien on the Net Revenues of the Houston Airport System, subject and subordinate to the prior and superior lien of Outstanding Senior Lien Obligations and Additional Senior Lien Obligations, if any, all as defined and provided in any ordinance authorizing the issuance of such bonds, and certain Funds established pursuant to such ordinances. See “COVENANTS AND TERMS OF THE ORDINANCE.”

THE SERIES 2012 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY. OWNERS OF THE SERIES 2012 BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2012 BONDS FROM ANY FUNDS RAISED OR TO BE RAISED BY TAXATION.

The Series 2012 Bonds are subject to redemption prior to maturity, as described herein. See “THE SERIES 2012 BONDS – Redemption.”

SEE INSIDE COVER PAGES FOR MATURITY, PRICING SCHEDULES, AND CUSIP NUMBERS

This cover page is not intended to be a summary of the terms of, or the security for, the Series 2012 Bonds. Investors are advised to read the Official Statement in its entirety to obtain information essential to the making of an informed investment decision.

The Series 2012 Bonds are offered by the Underwriters listed below when, as and if issued by the City and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bracewell & Giuliani LLP, Houston, Texas, and Bates & Coleman, P.C., Houston, Texas, Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2012 Bonds under the Constitution and the laws of the State of Texas. Certain matters will be passed upon for the City by its Special Disclosure Co-Counsel, Haynes and Boone, LLP, Houston, Texas and Bratton & Associates, Houston, Texas. Certain other legal matters will be passed upon for the Underwriters by its counsel, Fulbright & Jaworski L.L.P., Houston, Texas. The Series 2012 Bonds are expected to be available for delivery through the facilities of DTC on or about _____, 2012 (“Date of Delivery”).

RAMIREZ & CO.
BLALOCK ROBERT VAN

MORGAN STANLEY
JEFFERIES & COMPANY

RBC CAPITAL MARKETS INC.
WELLS FARGO SECURITIES

* Preliminary, subject to change.

This Preliminary Official Statement and any information contained herein are subject to completion or amendment. The Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement becomes final. Under no circumstances may this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), as amended and in effect on the date of this Preliminary Official Statement, this document constitutes an Official Statement of the City with respect to the Bonds that has been deemed "final" by the City as of its date, except for the omission of no more than the information permitted by the Rule.

THE SERIES 2012 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2012 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE SERIES 2012 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE SERIES 2012 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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

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

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2012 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale. No dealer, salesperson, or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, the Underwriters, or any other person. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof.

The prices and other terms respecting the offering and sale of the Series 2012 Bonds may be changed from time to time by the Underwriters after such Bonds are released for sale, and the Series 2012 Bonds may be offered and sold at prices other than the initial offering prices, including to dealers who may sell the Series 2012 Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2012 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

City of Houston, Texas

ELECTED OFFICIALS

Annise D. Parker, Mayor

Ronald C. Green, City Controller

CITY COUNCIL

Council Member, District A	Helena Brown	Council Member, District I	James G. Rodriguez
Council Member, District B	Jerry Davis	Council Member, District J	Mike Laster
Council Member, District C	Ellen Cohen	Council Member, District K	Larry Green
Council Member, District D	Wanda Adams	Council Member, At-Large Position 1	Stephen C. Costello
Council Member, District E	Mike Sullivan	Council Member, At-Large Position 2	Andrew C. Burks, Jr.
Council Member, District F	Al Hoang	Council Member, At-Large Position 3	Melissa Noriega
Council Member, District G	Oliver Pennington	Council Member, At-Large Position 4	C.O. "Brad" Bradford
Council Member, District H	Edward Gonzales	Council Member, At-Large Position 5	Jack Christie

APPOINTED OFFICIALS

City Attorney	David M. Feldman
Deputy City Controller	Shawnell Holman
Director, Department of Finance	Kelly Dowe
Director, Houston Airport System	Mario C. Diaz
City Secretary	Anna Russell
Chief Financial Advisor, Mayor's Office	James Moncur

CONSULTANTS AND ADVISORS

Co-Financial Advisors	First Southwest Company TKG & Associates LLC
Co-Bond Counsel	Bracewell & Giuliani LLP Bates & Coleman, P.C.
Co-Special Disclosure Counsel	Haynes and Boone, LLP Bratton & Associates

FINANCING WORKING GROUP MEMBERS

Houston Airport System	Kirk Rummel Diane Ruscitti Kenneth Gregg Willa Lockhart Susan Taylor
Office of the City Attorney	Gary L. Wood Sameera Mahendru
Department of Finance	Jennifer Olenick Veronica Lizama
Office of the City Controller	Asha Patnaik Kendrack Lewis

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OFFICIAL STATEMENT

**CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM**

\$ _____*
**SUBORDINATE LIEN REVENUE
REFUNDING BONDS,
SERIES 2012A (AMT)**

\$ _____*
**SUBORDINATE LIEN REVENUE
REFUNDING BONDS,
SERIES 2012B (Non-AMT)**

\$ _____*
**SUBORDINATE LIEN REVENUE
REFUNDING BONDS,
SERIES 2012C (Taxable)**

This Official Statement, including the cover page and schedules hereto, is provided to furnish information in connection with the offer and sale by the City of Houston, Texas (the "City") of its Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012A (AMT) (the "Series 2012A Bonds") and Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012B (Non-AMT) (the "Series 2012B Bonds") and Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012C (Taxable) (the "Taxable Series 2012C Bonds" and, together with the Series 2012A Bonds and Series 2012B Bonds, the "Series 2012 Bonds"). The Series 2012 Bonds are being issued pursuant to Chapters 1201, 1207, 1371 and 1503, Texas Government Code, as amended, an ordinance adopted by the City Council of the City on February 8, 2012 (the "Ordinance"), and one or more Officers Pricing Certificate(s) authorized by the Ordinance.

The City manages and operates the Houston Airport System as an enterprise system of the City. The Houston Airport System is currently comprised of the following facilities, each of which the City owns and operates: George Bush Intercontinental Airport/Houston ("Intercontinental"), William P. Hobby Airport ("Hobby") and Ellington Airport ("Ellington"). Continental Airlines ("Continental")¹ is the largest air carrier operating at Intercontinental and Southwest Airlines, Inc. ("Southwest") is the largest air carrier operating at Hobby. For additional information about the Houston Airport System, see "THE HOUSTON AIRPORT SYSTEM."

The City is the fourth largest city in the nation and the largest city in Texas. Based on 2010 U.S. Census data, the population of the City is approximately 2.1 million and the population of the 10-county metropolitan statistical area ("Houston-Baytown-Sugar Land MSA" or the "MSA") is approximately 5.95 million, which is the sixth largest in the United States. For additional information about the City, see "THE CITY AND CITY FINANCIAL INFORMATION."

Brief descriptions and summaries of the Series 2012 Bonds, the Houston Airport System and the Ordinance are included in this Official Statement. References herein to the Series 2012 Bonds and the Ordinance are qualified in their entirety, by reference to the Ordinance and the forms of the respective Series 2012 Bonds contained in the Officers Pricing Certificate. Houston Airport System Fund financial statements for the Fiscal Year ended June 30, 2011 are included in APPENDIX A. A glossary of defined terms is included as APPENDIX B-1 and, unless otherwise specifically defined, capitalized terms used herein have the meanings set out in APPENDIX B-1.

PURPOSE AND PLAN OF FINANCING

Series 2012A Bonds

Proceeds of the sale of the Series 2012A Bonds will be used to (i) refund certain of the City's outstanding Airport System Subordinate Lien Bonds as more specifically described in SCHEDULE I and collectively referred to herein as the "2012A Refunded Bonds" and (ii) pay related costs of issuance of the Series 2012A Bonds.

* Preliminary, subject to change.

⁽¹⁾ United Airlines and Continental Airlines merged on October 1, 2010. The two airlines received a single operating certificate on November 30, 2011. The combined airline will operate under the name "United Airlines" upon full integration of the two airlines. See "HOUSTON AIRPORT SYSTEM – Effects of Recent Merger Activity on the Houston Airport System – Continental/United Airlines."

Series 2012B Bonds

Proceeds of the sale of the Series 2012B Bonds will be used to (i) refund certain of the City's outstanding Airport System Subordinate Lien Bonds as more specifically described in SCHEDULE I and collectively referred to herein as the "2012B Refunded Bonds" and (ii) pay related costs of issuance of the Series 2012B Bonds.

Taxable Series 2012C Bonds

Proceeds of the sale of the Taxable Series 2012C Bonds will be used to (i) refund certain of the City's Airport System Subordinate Lien Bonds as more specifically described in SCHEDULE I and collectively referred to herein as the "2012C Refunded Bonds" and (ii) pay related costs of issuance of the Taxable Series 2012C Bonds.

The 2012A Refunded Bonds, the 2012B Refunded Bonds and the 2012C Refunded Bonds are collectively referred to herein as the "Refunded Bonds."

The Refunded Bonds

A portion of the proceeds of the Series 2012 Bonds, together with other available funds, if any, will be used to purchase a portfolio of obligations authorized under Texas law (the "Escrowed Securities") to be deposited, along with certain uninvested proceeds of the Series 2012 Bonds, in one or more escrow funds or accounts (collectively the "Refunded Bonds Escrow Fund") with The Bank of New York Mellon Trust Company, National Association, the escrow agent for the Refunded Bonds (the "Refunded Bonds Escrow Agent"), the maturing principal of and interest on which will be sufficient, together with other funds, to pay, when due, the principal of and interest on the Refunded Bonds.

The accuracy of the mathematical computations of the adequacy of the maturing principal of and interest on the Escrowed Securities, together with other available funds held in the Refunded Bonds Escrow Fund, to provide for the payment of the Refunded Bonds will be verified by Grant Thornton LLP, a firm of independent certified public accountants. See "VERIFICATION OF MATHEMATICAL ACCURACY."

In the opinion of Co-Bond Counsel for the City, by making the escrow deposits required by the Ordinance and the escrow agreement relating to the Refunded Bonds to be entered into with the Refunded Bonds Escrow Agent (the "Refunded Bonds Escrow Agreement"), the City will have made firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds pursuant to the provisions of Chapter 1207, Texas Government Code, as amended, and other authorizing law. Thereafter, the Refunded Bonds will be deemed to be fully paid and no longer outstanding and the lien on and pledge of Net Revenues of the Houston Airport System securing the Refunded Bonds will be deemed to have been defeased pursuant to the terms of the ordinances authorizing the issuance of the Refunded Bonds except for the purpose of being paid from the funds provided therefor pursuant to the Refunded Bonds Escrow Agreement.

Simultaneously with the issuance of the Series 2012 Bonds, the City will give, or provide irrevocable instructions to the Refunded Bonds Escrow Agent to give, notice of redemption to the owners of the Refunded Bonds in accordance with the ordinance authorizing the Refunded Bonds. The Refunded Bonds will be redeemed on dates prior to their stated maturities on which dates money held in the Refunded Bonds Escrow Fund will be available to redeem the Refunded Bonds.

SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of proceeds of the Series 2012A Bonds:

	Series 2012A Bonds
Sources of Funds:	
Principal Amount of the Series 2012A Bonds.....	
Net Premium.....	
Total Sources of Funds	
Uses of Funds:	
Cash Deposit to Refunded Bonds Escrow Fund.....	
Underwriters' Discount	
Costs of Issuance ⁽¹⁾	
Total Uses of Funds	

⁽¹⁾ Includes legal fees, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar and Refunded Bonds Escrow Agent, and other costs of issuance.

The following table summarizes the estimated sources and uses of proceeds of the Series 2012B Bonds:

	Series 2012B Bonds
Sources of Funds:	
Principal Amount of the Series 2012B Bonds.....	
Net Premium.....	
Total Sources of Funds	
Uses of Funds:	
Cash Deposit to Refunded Bonds Escrow Fund.....	
Escrowed Securities Deposit to Refunded Bonds Escrow Fund	
Underwriters' Discount	
Costs of Issuance ⁽¹⁾	
Total Uses of Funds	

⁽¹⁾ Includes legal fees, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar and Refunded Bonds Escrow Agent, and other costs of issuance.

The following table summarizes the estimated sources and uses of proceeds of the Taxable Series 2012C Bonds:

	Taxable Series 2012C Bonds
Sources of Funds:	
Principal Amount of the Taxable Series 2012C Bonds.....	
Net Premium.....	
Total Sources of Funds	
Uses of Funds:	
Cash Deposit to Refunded Bonds Escrow Fund.....	
Escrowed Securities Deposit to Refunded Bonds Escrow Fund	
Underwriters' Discount	
Costs of Issuance ⁽¹⁾	
Total Uses of Funds	

⁽¹⁾ Includes legal fees, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar and Refunded Bonds Escrow Agent, and other costs of issuance.

THE SERIES 2012 BONDS

General

The Series 2012 Bonds are Subordinate Lien Bonds that, together with all other Subordinate Lien Bonds from time to time outstanding, are payable from and equally and ratably secured by a lien on the Net Revenues of the Houston Airport System. The lien on Net Revenues securing Subordinate Lien Bonds is subordinate and junior to the superior lien on the Net Revenues securing the Senior Lien Obligations and prior to the lien securing any Inferior Lien Bonds.

The Series 2012 Bonds will mature in the aggregate principal amounts and on the dates indicated on pages i, ii and iii of this Official Statement. The Series 2012 Bonds will accrue interest from the Date of Delivery, as set forth on the cover page hereof. Interest on the Series 2012 Bonds is payable each July 1 and January 1, commencing July 1, 2012, until maturity or earlier redemption. Interest on the Series 2012 Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months from the later of their issuance date or the most recent Interest Payment Date to which interest has been paid or provided for. The Bank of New York Mellon Trust Company, National Association, is the initial paying agent/registrant (the "Paying Agent/Registrar") for the Series 2012 Bonds. The Series 2012 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Principal of the Series 2012 Bonds is payable when due upon presentation and surrender thereof at the designated corporate trust office of the Paying Agent/Registrar, which is currently located in Houston, Texas. Interest on the Series 2012 Bonds will be payable to the Registered Owner whose name appears in the registration books for the Series 2012 Bonds (the "Register") maintained by the Paying Agent/Registrar at the close of business on the 15th day of the calendar month immediately preceding the applicable interest payment date (the "Record Date") and shall be payable by the Paying Agent/Registrar (i) by check or draft sent by United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Register or (ii) by such other method acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Accrued interest payable at maturity of the Series 2012 Bonds will be paid upon presentation and surrender of such Bonds at the principal payment office of the Paying Agent/Registrar.

Redemption

Optional Redemption

The Series 2012 Bonds maturing on or after _____, are subject to optional redemption by the City prior to maturity, in whole or in part, on _____, or any date thereafter, at a price equal to 100% of the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest to (but not including) the redemption date.

Mandatory Sinking Fund Redemption

The Series 2012 Bonds issued as term bonds maturing on July 1 in the year(s) ____ (the "Term Bonds") are subject to mandatory redemption prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates ("Mandatory Redemption Dates"), at a price equal to the principal amount of the Series 2012 Bonds to be redeemed plus accrued interest to (but not including) the applicable Mandatory Redemption Date, subject to the conditions set forth below:

\$ _____ TERM BONDS MATURING IN JULY __ 20 __	
Mandatory Redemption Dates (July 1)	Principal Amount to be Redeemed
_____	\$ _____
_____	_____
_____ (Maturity)	_____

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bonds or portions of Term Bonds of such maturity to be

mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided below. The principal amount of any Term Bonds to be mandatorily redeemed on a Mandatory Redemption Date shall be reduced by the principal amount of such Term Bonds which, by the 45th day prior to such Mandatory Redemption Date, either have been purchased in the open market and delivered or tendered for cancellation by or on behalf of the City to the Paying Agent/Registrar or optionally redeemed by the City and which, in either case, have not previously been made the basis for a reduction under this sentence.

Partial Redemption

The Series 2012 Bonds may be redeemed in part only in integral multiples of \$5,000. If a Series 2012 Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Series 2012 Bond may be redeemed, but only in integral multiples of \$5,000. Upon presentation and surrender of any Series 2012 Bond for redemption in part, the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, shall authenticate and deliver in exchange therefor Series 2012 Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Series 2012 Bonds so presented and surrendered.

Selection of Bonds to be Redeemed

In the case of any optional redemption in part of the Series 2012 Bonds, the Series 2012 Bonds to be redeemed shall be selected by the City, subject to any requirements provided in the Series 2012 Bonds. If less than all the Series 2012 Bonds of a stated maturity shall be called for redemption, the particular Series 2012 Bonds to be redeemed shall be selected by the Paying Agent/Registrar, in such manner as the Paying Agent/Registrar deems fair and appropriate and consistent with the requirements provided in the Series 2012 Bonds.

Notice of Redemption

In the event any of the Series 2012 Bonds are called for optional redemption, the Paying Agent/Registrar shall give notice, in the name of the City, of the redemption of such Series 2012 Bonds, which notice shall (i) specify the Series 2012 Bonds to be redeemed, the redemption date, the redemption price and the place or places where amounts due upon such redemption will be payable (which shall be the principal corporate trust office of the Paying Agent/Registrar) and, if less than all of the Series 2012 Bonds are to be redeemed, the portions of the Series 2012 Bonds to be redeemed, (ii) state any condition to such redemption and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Series 2012 Bonds to be redeemed shall cease to bear interest. CUSIP number identification shall accompany all redemption notices. Such notice may set forth any additional information relating to such redemption. Such notice shall be given by mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption to each Registered Owner of Series 2012 Bonds to be redeemed at its address shown on the registration books kept by the Paying Agent/Registrar; provided, however, that failure to give such notice to any Registered Owner or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Series 2012 Bonds.

Any notice given as provided herein shall be conclusively presumed to have been duly given, whether or not the Registered Owner or Beneficial Owner receives such notice. When the Series 2012 Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as provided in the Series 2012 Bonds and in the Ordinance, the Series 2012 Bonds or portions thereof to be so redeemed shall no longer be regarded as Outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest that would otherwise accrue after the redemption date on any Series 2012 Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Ownership

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name any Series 2012 Bond is registered as the absolute Owner of such Series 2012 Bond for the purpose of making and receiving payment of the principal thereof and premium, if any, thereon, and for the purpose of making and receiving payment of the interest thereon, and for all other purposes, whether or not such Series 2012 Bond is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be

the Owner of any Series 2012 Bond in accordance with the Ordinance shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Series 2012 Bond to the extent of the sums paid.

Transfers and Exchanges

Beneficial ownership of the Series 2012 Bonds registered in the name of The Depository Trust Company, New York, New York (“DTC”), will initially be transferred as described under APPENDIX E – DEPOSITORY TRUST COMPANY.

So long as any Series 2012 Bonds remain Outstanding, the Paying Agent/Registrar shall keep the Register at its designated corporate trust office in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Series 2012 Bonds in accordance with the terms of the Ordinance. A copy of the Register shall be maintained at an office of the Paying Agent/Registrar in Texas.

Each Series 2012 Bond shall be transferable only upon the presentation and surrender thereof at the designated corporate trust office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of any Series 2012 Bond for transfer, the Paying Agent/Registrar is required to authenticate and deliver in exchange therefor, within 72 hours after such presentation and surrender, a new Series 2012 Bond or Series 2012 Bonds, registered in the name of the transferee or transferees, in Authorized Denominations and of the same series, maturity and aggregate principal amount and bearing interest at the same rate as the Series 2012 Bond or Series 2012 Bonds so presented and surrendered.

In the event the Series 2012 Bonds are not in the DTC book-entry-only registration system, all Series 2012 Bonds shall be exchangeable upon the presentation and surrender thereof at the designated corporate trust office of the Paying Agent/Registrar for a Series 2012 Bond or Series 2012 Bonds of the same series, maturity and interest rate and in any authorized denomination, in an aggregate principal amount equal to the unpaid principal amount of the Series 2012 Bond or Bonds presented for exchange.

Each Series 2012 Bond delivered in accordance with the Ordinance shall be entitled to the benefits and security of the Ordinance to the same extent as the Series 2012 Bond or Bonds in lieu of which such Series 2012 Bond is delivered.

The City or the Paying Agent/Registrar may require DTC or any subsequent Registered Owner of any Series 2012 Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Series 2012 Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City.

The Paying Agent/Registrar shall not be required to transfer or exchange any Series 2012 Bond during the 45-day period prior to the date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of any Series 2012 Bond called for redemption in part.

HOUSTON AIRPORT SYSTEM ORDINANCE AMENDMENTS

Pursuant to various ordinances authorizing outstanding Houston Airport System Bonds, the City has amended certain provisions of the ordinances authorizing all of the Houston Airport System Bonds, including the definitions of “Debt Service Requirements” and “Gross Revenues” (such amendments being collectively herein referred to herein as the “2007 Amendments” and the “2009 Amendments”) and certain provisions relating to the Subordinate Lien Bond Reserve Fund (the “2010 Amendments,” and, along with the 2007 Amendments and the 2009 Amendments, the “Amendments”). For a complete description of the Amendments, please see APPENDIX B-2. The Amendments are being ratified as part of the Ordinance, and shall be binding upon all Owners of all Houston Airport System Bonds, including the Series 2012 Bonds. The City has obtained written consent as required in each such prior ordinance and satisfied all other conditions as may be required to amend each such ordinance.

In addition, the City has determined to amend the ordinances authorizing the issuance of all of the Houston Airport System Bonds to change the definition of “Airport System” (such amendment being referred to as the “Proposed

2011 Amendment”). The Proposed 2011 Amendment changes the definition of “Airport System” to exclude Ellington Airport. Ellington Airport has no scheduled commercial flights and does not represent a significant portion of Houston Airport System operations. For a complete description of the Proposed 2011 Amendment, see “COVENANTS AND TERMS OF THE ORDINANCE – Proposed Amendment to Houston Airport System Bond Ordinances.”

SECURITY FOR THE SERIES 2012 BONDS

The Series 2012 Bonds are special obligations of the City that, together with the Outstanding Subordinate Lien Bonds and any Additional Subordinate Lien Bonds hereafter issued, are payable from and are equally and ratably secured by a lien on the Net Revenues of the Houston Airport System, the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund, all as defined and provided in the Ordinance. See “APPENDIX B-1 – THE ORDINANCE – Summary of Selected Provisions.” The lien on Net Revenues securing the Series 2012 Bonds and other Subordinate Lien Bonds is junior and subordinate to the lien on Net Revenues securing the Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued.

The Series 2012 Bonds do not constitute a general obligation of the City. Owners of the Series 2012 Bonds shall never have the right to demand payment of principal of or interest on or purchase price of the Series 2012 Bonds from any funds raised or to be raised by taxation.

In addition to the definitions described below, see APPENDIX B-1 for a summary of the Ordinance, which further details the “SECURITY FOR THE 2012 BONDS.”

Net Revenues. Net Revenues means that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Houston Airport System.

Gross Revenues. Subject to the exclusions noted below, Gross Revenues means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Houston Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Houston Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Houston Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Houston Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund, except as set forth below, required to be maintained pursuant to the Ordinance or any other ordinance authorizing the issuance of Senior Lien Obligations or Subordinate Lien Bonds (collectively, the “Houston Airport System Bonds”).

Gross Revenues expressly exclude: (1) proceeds of any Houston Airport System Bonds and Inferior Lien Bonds; (2) interest or other investment income derived from Houston Airport System Bond proceeds deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Houston Airport System Bonds; (3) any moneys received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of the Houston Airport System facilities, except to the extent any such moneys shall be received as payments for the use of the Houston Airport System facilities; (4) any revenues derived from any Special Facilities that are pledged to the payment of Special Facilities Bonds; (5) insurance proceeds other than loss of use or business interruption insurance proceeds; (6) the proceeds of any passenger facility charge or other per-passenger charge as may be authorized under federal law including, but not limited to, those revenues defined as PFC Revenues; (7) sales and other taxes collected by the Houston Airport System on behalf of the State of Texas and any other taxing entities; (8) Federal Payments received by the Houston Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Houston Airport System Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes; (9) the net proceeds received by the City from the disposition of any Houston Airport System property; (10) Excluded Fee and Charge Revenues; and (11) any Taxable Bond Credit Revenues.

Operation and Maintenance Expenses. Subject to the exclusions noted below, Operation and Maintenance Expenses means all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and

repairing the Houston Airport System including, without limitation, reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Houston Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund not in excess of premiums that would otherwise be required for such insurance; any general and excise taxes or other governmental charges imposed by entities other than the City; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Houston Airport System as are requested from the City by the Houston Airport System and as are reasonably necessary for the operation of the Houston Airport System; costs of issuance of Houston Airport System Bonds (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses. Operation and Maintenance Expenses include only those current expenses due or payable within the next 30 days.

The following expenses are specifically excluded from the definition of Operation and Maintenance Expenses: (1) any allowance for depreciation; (2) costs of capital improvements; (3) reserves for major capital improvements, Houston Airport System operations, maintenance or repair; (4) any allowance for redemption of, or payment of interest or premium on, Houston Airport System Bonds; (5) any liabilities incurred in acquiring or improving properties of the Houston Airport System; (6) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases; (7) any charges or obligations incurred in connection with any lawful Houston Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Houston Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Airports Improvement Fund; (8) liabilities based upon the City's negligence or other ground not based on contract; and (9) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

Perfection of Security Interest in Revenues. The Ordinance provides that pursuant to Chapter 1208, Texas Government Code, the lien on Net Revenues created under the Ordinance is valid, effective, and perfected.

Bondholders' Remedies

The Ordinance provides that if the City defaults in the payment of principal of or interest on any Subordinate Lien Bonds, including the Series 2012 Bonds, or the performance of any duty or covenant provided by law or in the Ordinance, Owners of such Subordinate Lien Bonds, including the Series 2012 Bonds, may pursue all legal remedies afforded by the Constitution and the laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults.

The Ordinance neither appoints nor makes any provision for the appointment of a trustee to protect the rights of Owners of the Series 2012 Bonds. Furthermore, the Ordinance does not provide for acceleration of maturity of the Series 2012 Bonds or for foreclosure on Net Revenues or possession of Net Revenues by a trustee or agent for Owners of the Series 2012 Bonds or for operation of the Houston Airport System by an independent third party in the event of default.

No lien has been placed on any of the physical properties comprising the Houston Airport System to secure the payment of or interest on the Series 2012 Bonds. Moreover, in the event of default, the Owners of the Series 2012 Bonds have no right or claim under the laws of the State of Texas against the Houston Airport System or any property of the City other than their right to receive payment from Net Revenues and certain Funds maintained pursuant to the Ordinance. Owners of the Series 2012 Bonds have no right to demand payment of principal of or interest or premium, if any, on the Series 2012 Bonds from any funds raised or to be raised by taxation or from any funds on deposit in any of the special Funds described in the Ordinance, except the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund. Further, unless sovereign immunity is expressly waived by the Texas Legislature, local governmental immunity would be available as a defense against suits for money damages against the City or the Houston Airport System in connection with the Series 2012 Bonds. Sovereign immunity will not be waived in connection with the issuance of the Series 2012 Bonds. Accordingly, the only practical remedy in the event of a default may be a mandamus proceeding to compel the City to increase rates and charges reasonably required for the use and service of the Houston Airport System or perform its other obligations under the Ordinance, including the deposit of the Gross Revenues into the special Funds provided in the Ordinance and the application of such Gross Revenues and such special Funds in the manner required in the Ordinance. Such remedy may need to be enforced on a periodic basis because maturity of the Series 2012 Bonds is not

subject to acceleration. In addition, the City's ability to comply with the Rate Covenant will be limited by contractual and competitive supply and demand constraints. See "COVENANTS AND TERMS OF THE ORDINANCE – Rate Covenant."

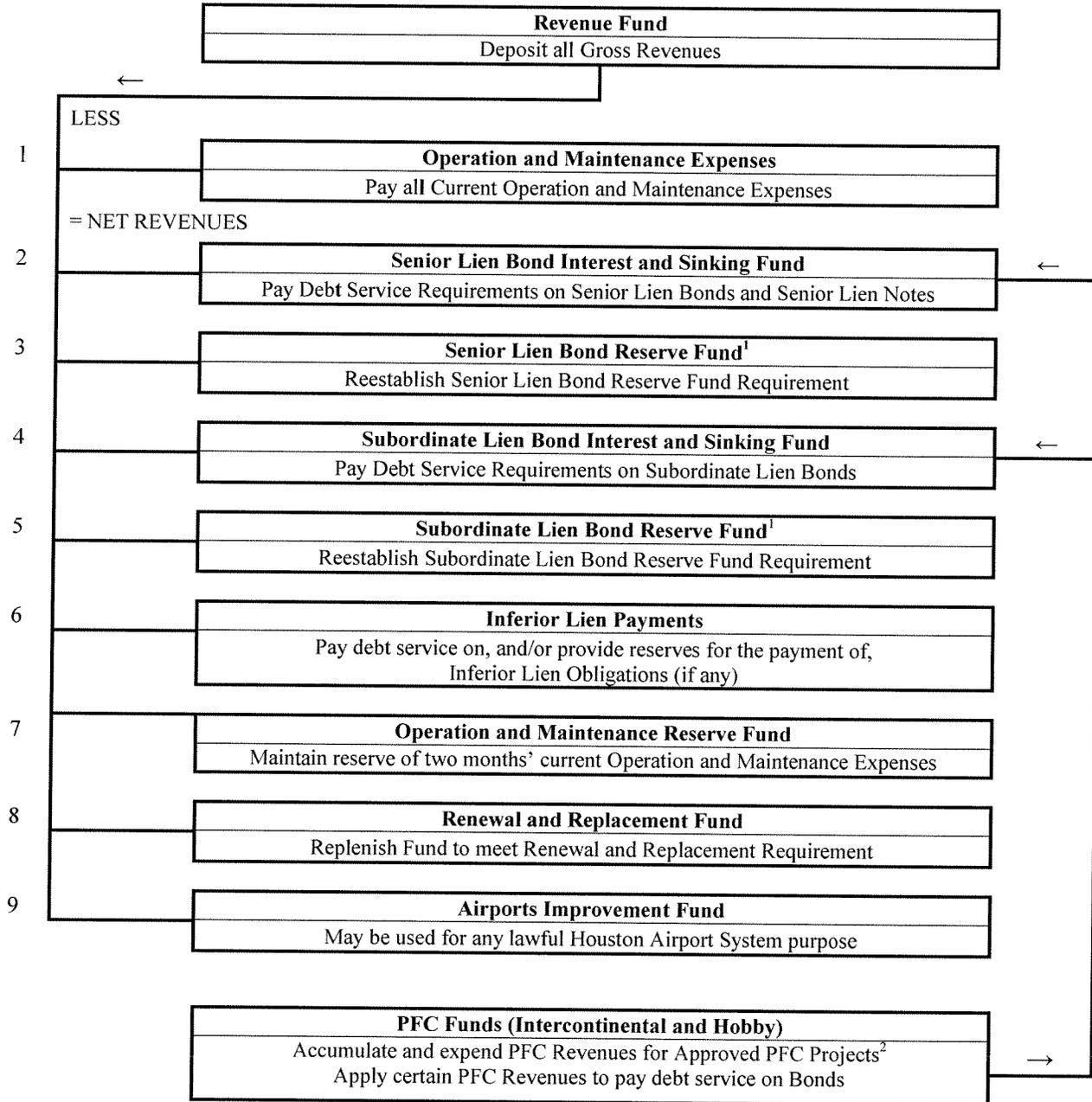
The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"); however, Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as that of the Net Revenues of the Houston Airport System. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity that has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any other remedies available to the registered owners, other than for the pledge of Net Revenues securing the Series 2012 Bonds, would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

The enforcement of a claim for payment of principal of or interest on the Series 2012 Bonds and the City's other obligations with respect to the Series 2012 Bonds are subject to the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally.

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Flow of Funds

Below is a presentation of the application of revenues under provisions of the ordinances of the Outstanding Houston Airport System Bonds. For more information about the Houston Airport System’s revenues, see “SECURITY FOR THE SERIES 2012 BONDS” and APPENDIX B-1.



¹ Interest income on funds on deposit in the Senior Lien Bond Reserve Fund and Subordinate Lien Bond Reserve Fund may be transferred to the related Interest and Sinking Fund, or such other funds as may be permitted by federal tax law.

² PFC Revenues are not pledged to pay debt service on any Houston Airport System Bonds, including the Series 2012 Bonds, but may be pledged or otherwise obligated, consistent with FAA regulations. Additionally, the Houston Airport System periodically transfers PFC Revenues to the Senior Lien and Subordinate Lien Bond Interest and Sinking Funds or such other account for the purpose of paying debt service attributable to approved PFC projects.

Debt Service Reserves

The Ordinance requires the maintenance of a Subordinate Lien Bond Reserve Fund for all Subordinate Lien Bonds and requires to be maintained therein a balance equal to the Reserve Fund Requirement (as defined in APPENDIX B-1). Within the Subordinate Lien Bond Reserve Fund, there is a Subordinate Lien Bond Reserve Fund Participant Account, which constitutes trust funds and shall be held in trust for Owners of the Subordinate Lien Bonds that are secured thereby (the "Reserve Fund Participants"). All Subordinate Lien Bonds Outstanding as of the date of adoption of the Ordinance have been declared and designated to be Reserve Fund Participants; the Series 2012 Bonds will be declared and designated to be Reserve Fund Participants in the applicable Officers Pricing Certificate. With respect to those Subordinate Lien Bonds that are Reserve Fund Participants, the Reserve Fund Requirement is equivalent to the maximum annual Debt Service Requirements on all Subordinate Lien Bonds that are Reserve Fund Participants, which amount shall be computed and recomputed upon the issuance of each series of Subordinate Lien Bonds that are Reserve Fund Participants and on each date on which Subordinate Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed. The Subordinate Lien Bond Reserve Fund Participant Account is required to be used to pay the principal of and interest on the Subordinate Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to such Subordinate Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policy. The Subordinate Lien Bond Reserve Participant Account may also be used to make the final payments for the retirement or defeasance of all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants.

Each increase in the Reserve Fund Requirement resulting from the issuance of Additional Subordinate Lien Bonds is required to be funded at the time of issuance and delivery of such series of Additional Subordinate Lien Bonds. The Reserve Fund Requirement may be satisfied by depositing to the credit of the Subordinate Lien Bond Reserve Fund Participant Account (in the case of Additional Subordinate Lien Bonds that are Reserve Fund Participants) or such other designated accounts (in the case of Additional Subordinate Lien Bonds that are not Reserve Fund Participants) either (1) proceeds of such Additional Subordinate Lien Bonds or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Subordinate Lien Bonds has been provided out of proceeds of such Additional Subordinate Lien Bonds or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues or (2) one or more surety bonds, insurance policies or letters of credit in a principal amount equal to the amount required to be funded, provided that, at the time of the deposit, the rating either for the long-term unsecured debt of the issuer of the surety bond, insurance policy or letter of credit or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the two highest letter categories by at least one major municipal securities evaluation service (or, if such entities are no longer in existence, by comparable services) and which shall be payable on demand of the City for the benefit of the Owners of the Subordinate Lien Bonds that are secured thereby (collectively, a "Subordinate Lien Bond Reserve Fund Surety Policy").

The Ordinance further provides that in any month in which any account of the Subordinate Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement, the City shall transfer from the Revenue Fund on a pro rata basis into the Subordinate Lien Bond Reserve Fund Participant Account and other designated accounts (i.e., non-Reserve Fund Participants) the City may create to secure Subordinate Lien Bonds that are not Reserve Fund Participants (of which there are currently none) of the Subordinate Lien Bond Reserve Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve-month period and such additional amounts as shall be sufficient to enable the City within a twelve-month period to reestablish in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Subordinate Lien Bonds secured thereby; provided that, in the event such monthly transfer requirements ever exceed 1/12th of the maximum Debt Service Requirements scheduled to occur in any future Fiscal Year on all Subordinate Lien Bonds then Outstanding, any remaining required transfers shall be set apart and transferred to such Subordinate Lien Bond Reserve Fund from the first available and unallocated moneys in the Reserve

Fund and such transfers shall be in addition to the amounts otherwise required to be transferred to such Fund during any succeeding month.

In order to satisfy its obligations with respect to the Reserve Fund Requirement for the Outstanding Subordinate Lien Bonds and Outstanding Senior Lien Obligations, the City previously acquired certain Subordinate Lien Bond Reserve Fund Surety Policies and Senior Lien Bond Reserve Fund Surety Policies, respectively. The Subordinate Lien Bond Reserve Fund Participant Account and the Senior Lien Bond Reserve Fund also contain cash and investments. For a discussion regarding such policies, see “RESERVE FUNDS AND RESERVE FUND SURETY POLICIES.”

Additional Reserves and Other Funds

The Ordinance also provides for maintenance of an Operation and Maintenance Reserve Fund and a Renewal and Replacement Fund. The Operation and Maintenance Reserve Fund is required to be funded in an amount at least equal to two months’ current Operation and Maintenance Expenses (which amount shall annually be redetermined by the Director of the Houston Airport System at the time such official submits the proposed annual Houston Airport System budget based upon either such official’s recommended budget for Operation and Maintenance Expenses or estimate of actual Operation and Maintenance Expenses for the then-current Fiscal Year). The amount required by the Ordinance to be maintained in the Renewal and Replacement Fund out of surplus funds of the Houston Airport System is \$10,000,000 (or any greater amount required by an ordinance authorizing any series of Additional Houston Airport System Bonds). Unappropriated funds in the Operations and Maintenance Reserve Fund and the Renewal and Replacement fund may be used to pay operations and maintenance expenses, if needed. See “Schedule 8A: Cash and Liquidity.”

RESERVE FUNDS AND RESERVE FUND SURETY POLICIES

Reserve Fund for the Subordinate Lien Bonds

As of date hereof, the Reserve Fund Requirement for the Subordinate Lien Bonds that are Reserve Fund Participants is approximately \$155,800,000, which currently includes all outstanding Subordinate Lien Bonds. The Subordinate Lien Bond Reserve Fund Participant Account is funded with cash (and allowable investments) totaling \$15,756,228.00 and certain surety policies, as described in the table below, totaling \$156,121,980.20, which exceeds the Reserve Fund Requirement. To the extent that such amounts are needed to fund Debt Service Requirements, the City has covenanted to use cash deposits before drawing on the surety policies, and any such draws would be on a pro rata basis among such surety policies.

The Houston Airport System has never utilized any amounts or drawn upon any surety policies in the Subordinate Lien Bond Reserve Fund to pay Debt Service Requirements. Based on a variety of factors, the City may supplement the current funding of the Subordinate Lien Bond Reserve Fund with available funds of the Houston Airport System or future proceeds of Subordinate Lien Bonds. All amounts credited to the Subordinate Lien Bond Reserve Fund Participant Account are pledged and available to pay debt service on all Subordinate Lien Bonds that are Reserve Fund Participants, including the Series 2012 Bonds.

Subordinate Lien Bond Reserve Fund Surety Policies. As described above, the Reserve Fund Requirement for Subordinate Lien Bonds that are Reserve Fund Participants is partially funded by the following Subordinate Lien Bond Reserve Fund Surety Policies: (1) Financial Guaranty Insurance Corporation (“FGIC”) policies in the aggregate maximum amount of \$108,444,368.70, (2) an Assured Guaranty Municipal Corp. (“AGM”), as successor to Financial Security Assurance (“FSA”), policy in the aggregate maximum amount of \$31,921,383.50, and (3) a Syncora Guarantee (“Syncora”), as successor to XL Capital Assurance, Inc., policy in the aggregate maximum amount of \$15,756,228.00.

The following table identifies outstanding Subordinate Reserve Fund Policies issued in prior City of Houston Airport System financings.

Outstanding Subordinate Lien Debt Service Reserve Fund Surety Policies

<u>Reserve Fund Policy Issuer</u>	<u>Termination Date</u>	<u>Maximum Amount</u>
FGIC (reinsured as described above) ¹	July 1, 2017	\$ 5,494,503.70
	July 1, 2022	24,477,885.00
	July 1, 2028	32,050,000.00
	July 1, 2030	43,269,100.00
	July 1, 2032	3,152,880.00
AGM (formerly FSA)	Earlier of July 1, 2032 or the date the Series 2002A and 2002B Bonds are no longer outstanding	31,921,383.50
Syncora (formerly XL Capital Assurance Inc.) ²	Earlier of July 1, 2032 or the date the Series 2002C, 2002D-1, and 2002D-2 Bonds are no longer outstanding	15,756,228.00
TOTAL COVERAGE OF ALL OUTSTANDING POLICIES:		\$156,121,980.20

¹ Pursuant to a Reinsurance Agreement between FGIC and MBIA Insurance Corporation (“MBIA”) dated September 30, 2008, MBIA agreed to reinsure the FGIC policies, including those relating to the Outstanding Subordinate Lien Bonds and the Senior Lien Notes described below. MBIA subsequently assigned its rights and obligations under such Reinsurance Agreement to National Public Finance Guarantee Corporation (f/k/a MBIA Insurance Corporation of Illinois).

² In 2010, the New York State Insurance Department approved Syncora’s remediation plan and authorized Syncora’s payment of new claims. Notwithstanding that the Syncora policy is available for claims, the Houston Airport System maintains a balance of cash (or allowable investments) approximately equal to the value of the Syncora policy in the Subordinate Lien Bond Reserve Fund Participant Account.

Reserve Fund Surety Policies for Senior Lien Obligations

The City also maintains separate reserve accounts within the Senior Lien Bond Reserve Fund for the Senior Lien Bonds and for the Senior Lien Notes. As of the date hereof, the Reserve Fund Requirement for the Outstanding Senior Lien Bonds is \$33,095,993.76, which is funded by cash (or allowable investments), and the Reserve Fund Requirement for the Senior Lien Notes is \$24,749,000, which is funded by three surety policies issued by FGIC (and reinsured as described above) in an aggregate maximum amount of approximately \$12,374,996. The surety policies securing the Senior Lien Notes terminate on October 25, 2023 and July 1, 2030.

COVENANTS AND TERMS OF THE ORDINANCE

The following section describes certain covenants and other terms of the Ordinance. Capitalized terms used in this section but not otherwise defined have the meanings given to such terms in APPENDIX B-1.

Rate Covenant

The City has covenanted in the Ordinance that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for use of the Houston Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will at all times be at least sufficient to equal the larger of either: (1) all amounts required to be deposited in such Fiscal Year to the credit of the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund or (2) an amount not less than 125% of the Debt Service Requirements for the Senior Lien Obligations for such Fiscal Year plus 110% of the Debt Service Requirements for the Subordinate Lien Bonds for such Fiscal Year. (Such covenant is referred to herein as the “Rate Covenant.”)

Debt Service Requirements do not include any interest on Houston Airport System Bonds to the extent that the provision for the payment of such interest has been made by (1) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from the proceeds of Houston Airport System Bonds, from interest earned or to be earned thereon, from other Houston Airport System funds other than Net Revenues, or from any combination of such sources, (2) depositing such amounts (except interest to be earned, which will be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund, or (3) by

irrevocably committing funds other than Net Revenues including, but not limited to, PFC Revenues or Excluded Fee and Charge Revenues to be paid by the Houston Airport System. See APPENDIX B-1 and “COVENANTS AND TERMS OF THE ORDINANCE – Amendments to Bond Ordinances.”

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Management Consultant to make its recommendations, if any, as to a revision of the City’s rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Houston Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Management Consultant, if any, shall be filed with the City Secretary. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Management Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues are not sufficient to be in compliance with the Rate Covenant, so long as there is no other default under the Ordinance.

Other Factors Impacting Rate Covenant. The City’s ability to comply with the Rate Covenant may be limited in that, among other things, (1) a significant portion of the Gross Revenues of the Houston Airport System are derived pursuant to contracts that cannot be adjusted unilaterally by the City, (2) the most important contracts, Use and Lease Agreements with the airlines, provide for recovery of certain operating and capital costs attributable to facilities covered by such contracts and do not include a debt service coverage factor, (3) parking and other sources of Gross Revenues, which are not derived under contracts, are subject to competitive supply and demand constraints and (4) certain city charter tax and revenue limitations, voter-approved propositions and ongoing litigation involving such limitations and propositions could have an impact on the operations of the Houston Airport System. See “THE CITY AND CITY FINANCIAL INFORMATION – City Charter Tax and Revenue Limitations.”

Additional Houston Airport System Bonds

The Ordinance permits the City to issue, for any lawful Houston Airport System purpose, Additional Subordinate Lien Bonds and Additional Senior Lien Obligations and Inferior Lien Bonds, if certain conditions are satisfied. For detailed information relating to the issuance of Additional Houston Airport System Bonds, see APPENDIX B-1.

Amendments to Bond Ordinances

The Ordinance provides that it may be amended either with or without the consent of Owners under certain circumstances.

Amendments of Ordinance without Consent. The City may, without the consent of or notice to the Owners of the Subordinate Lien Bonds, amend the Ordinance for any one or more of the following purposes: (1) to cure any ambiguity, defect, omission or inconsistent provision in the Ordinance or in the Subordinate Lien Bonds; or to comply with any applicable provision of state or federal law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Subordinate Lien Bonds; (2) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Houston Airport System Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes; (3) to grant to or confer upon the Owners of the Subordinate Lien Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Subordinate Lien Bonds; (4) to add to the covenants and agreements of the City contained in the Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Ordinance; (5) to subject to the lien and pledge of the Ordinance additional Net Revenues that may include revenues, properties or other collateral, (6) to add requirements or incorporate modifications the compliance with which is required by a rating agency in connection with issuing or confirming a rating with respect to any series of Houston Airport System Bonds; (7) to authorize any series of Additional Senior Lien Bonds, Additional Senior Lien Notes, Additional Subordinate Lien Bonds or Inferior Lien Bonds, and, in connection therewith: (i) to specify and determine the terms, forms and details thereof and (ii) to create such additional funds and accounts and to effect such amendments of the Ordinance that may be necessary for such issuance, provided in each case that no such amendment or supplement shall be contrary to or inconsistent with the limitations set forth in the Ordinance; (8) to evidence any sale, transfer or encumbrance of the Houston Airport System in accordance with the Ordinance; and (9) to make any other modification, amendment or supplement that shall not materially adversely affect the interests of the Owners of the Subordinate Lien Bonds.

Amendments of Ordinance with Consent. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any provisions of the Ordinance, but, if such amendment is not of the character described in the preceding paragraph, only with the consent given in accordance with the Ordinance of the Owner or Owners of not less than a majority in aggregate unpaid principal amount of the Subordinate Lien Bonds then Outstanding and affected by such amendment, modification, addition or elimination; provided, however, no such amendment, modification, addition or elimination shall permit (1) an extension of the maturity of the principal of or interest on any Subordinate Lien Bond issued under the Ordinance, (2) a reduction in the principal amount of any Subordinate Lien Bond or the rate of interest on any Subordinate Lien Bond, (3) a privilege or priority of any Subordinate Lien Bond or Subordinate Lien Bonds over any other Subordinate Lien Bond or Subordinate Lien Bonds or (4) a reduction in the aggregate principal amount of the Subordinate Lien Bonds required for consent to such amendment, unless the Owner or Owners of 100% in aggregate principal amount of the Subordinate Lien Bonds shall consent to any of such changes.

Proposed Amendment to Houston Airport System Bond Ordinances

Under the Ordinance, the City has determined to amend the ordinances authorizing the issuance of all of the Houston Airport System Bonds, to change the definition of "Airport System" (such amendment being referred to as the "Proposed 2011 Amendment"). The definition of "Airport System" is being amended to exclude Ellington Airport.

The Proposed 2011 Amendment is being adopted as part of the Ordinance, and shall be binding upon all Owners of the Series 2012 Bonds. Additionally, the City expects to include the Proposed 2011 Amendment in each ordinance authorizing Additional Houston Airport System Bonds. The City has authorized the amendment of each of its previously adopted ordinances pursuant to which Houston Airport System Bonds are outstanding to include the Proposed 2011 Amendment, subject, however, in each case to obtaining written consent from the appropriate party or parties required or authorized to grant such consent to the inclusion of the Proposed 2011 Amendment pursuant to the terms of such prior ordinances and satisfying any other conditions as may be required to amend such ordinances. The Proposed 2011 Amendment shall become effective on the date on which it has become incorporated into every ordinance pursuant to which Houston Airport System Bonds are then Outstanding.

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THE HOUSTON AIRPORT SYSTEM

The Houston Airport System

The Houston Airport System is a department of the City of Houston. It currently operates three airports: George Bush Intercontinental Airport/Houston (“Intercontinental”), William P. Hobby Airport (“Hobby”) and Ellington Airport (“Ellington”). Intercontinental is the nation’s seventh largest airport (as measured by passenger traffic in calendar year 2010) and is classified as a “large hub airport” by the FAA. It serves as a primary connecting point in the national air transportation system and is the largest operating hub for Continental. Hobby is the nation’s 37th largest airport (as measured by passenger traffic in calendar year 2010) and is currently used by many lower cost airlines. Southwest Airlines (“Southwest”) is Hobby’s largest scheduled passenger airline. Ellington ceased commercial passenger service in September 2004 and is currently used for general aviation, military, Coast Guard and NASA activities.

Effects of Recent Merger Activity on the Houston Airport System

Continental/United Airlines

Historically, Continental has been Intercontinental’s largest provider of passenger airline services. On October 1, 2010, Continental became a wholly-owned subsidiary of United Continental Holdings, Inc. (“UCH”) as a result of the merger of a subsidiary of UCH with and into Continental (United is also a wholly-owned subsidiary of UCH.). Pursuant to the acquisition documents, UCH assumed all obligations of Continental. The combined airlines received a single operating certificate on November 30, 2011, which is expected to become effective in the first quarter of 2012. The combined airline will operate under the name “United Airlines” upon full integration of the two airlines. On June 10, 2011, as a result of its ongoing integration efforts, UCH announced the reduction of 1,500 jobs in Houston, primarily in management and clerical positions. Published reports from Continental and United have stated, however, that Houston will remain the combined airlines’ largest hub.

Southwest Airlines

On May 2, 2011, Southwest announced that it had closed on its purchase of all of the outstanding common stock of AirTran Holdings, Inc., the parent company of AirTran Airways (“AirTran”). Southwest currently expects that the FAA will grant the airline a single operating certificate in the first quarter of 2012, at which time Southwest will work toward full integration of AirTran. Pursuant to the acquisition documents, Southwest assumed all obligations of AirTran.

Houston Airport System Facilities

George Bush Intercontinental Airport/Houston

Intercontinental is situated on 10,000 acres of land approximately 22 miles north of downtown Houston. The airport opened in 1969 and is the Houston area’s largest commercial airport. Intercontinental’s facilities consist of five terminal buildings (i.e., Terminals A, B, C, D and E) with a total of 116 aircraft gates, 21 hardstand aircraft parking positions, and space for additional aircraft operations. Intercontinental has public parking for more than 21,500 automobiles in multi-story garages and surface lots, an automated underground train system connecting the existing five terminals and the Marriott Hotel located at Intercontinental, an above-ground level automated people mover system (“APM”) connecting all five terminals and a central federal customs and immigration inspection services building (the “Central FIS Facility”).

Terminal A contains 19 aircraft gates and seven hardstand aircraft parking positions. It is used by various airlines (including, to some extent, Continental) primarily for domestic aircraft operations. Terminal B, which contained 33 aircraft gates and 14 hardstand aircraft parking positions before its renovation (described below), is used principally by Continental as the base of its regional jet operations at Intercontinental. Terminal C, containing 29 aircraft gates, primarily serves Continental’s domestic mainline operations. Various airlines (including, to some extent, Continental) operate primarily international operations out of Terminal D, which contains 12 aircraft gates. Terminal E, containing 23 gates, is used primarily by Continental and accommodates most of Continental’s international flight operations, as well as many of Continental’s domestic flight operations. The Central FIS Facility is located adjacent to Terminal D and Terminal E and has the capacity to process 4,500 arriving international passengers per hour.

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

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

Hobby Airport

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

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

Ellington Airport

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

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

Management

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

Administrative Officers

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

Mario C. Diaz was appointed Director of the City of Houston Department of Aviation on May 28, 2010. He is responsible for the overall management of the Houston Airport System's three aviation facilities. Prior to his appointment as Director, beginning in 1999, Mr. Diaz served as the deputy general manager for Hartsfield-Jackson Atlanta International Airport where he was responsible for the daily operational activities of the world's busiest airport, including operations, business, finance and capital development. He has been one of the industry's leading authorities in aviation technology as well as the study of future developments in commercial aviation. Prior to 1999, Diaz was the manager of business,

properties and commercial development for New Jersey Airports, a post he held for four years. In this role, he managed the division responsible for all business and lease negotiations at Newark International Airport as well as the day-to-day oversight management of Teterboro Airport, one of the nation's premier general aviation airports and a major reliever airport for Newark International. Before that, Mr. Diaz served for 17 years with the Port Authority of New York and New Jersey. Beginning in 1981, Mr. Diaz held key management positions in leasing, finance, marketing, operations and properties. During this period, Diaz also served 18 months as the assistant director of the redevelopment program at John F. Kennedy Airport. A native of Barranquitas, Puerto Rico, and a licensed private pilot with instrument certification, Diaz earned his Bachelor of Arts degree from Rutgers University in Newark, New Jersey. He also earned a Master of Business Administration in finance from Rutgers Graduate School of Business Administration in New Jersey.

Lance Lyttle is the Chief Operating Officer and Deputy Director for the Houston Airport System. Previously, he was Chief Development Officer responsible for administration of all design and construction contracts, managing long-term and short-term capital projects and developing the airports' capital improvement plan. Mr. Lyttle joined the Houston Airport System in January 2011 as Chief Strategy and Performance Officer. Prior to his appointment in 2011, Mr. Lyttle served from 2005-2011 as the Assistant General Manager of the Atlanta Hartsfield-Jackson International Airport and from 1999-2005 as Chief Information Officer. Mr. Lyttle has a Bachelor of Science degree in physics and computer science and a Masters degree in Management Information Systems from the University of the West Indies. He has served as Chairperson for the American Association of Airport Executives (AAAE).

Eric R. Potts, Chief Strategy and Performance Officer and Deputy Director for the Houston Airport System, was appointed Interim Director of Aviation by then Mayor Bill White and served for one year. In his current role, he is responsible for strategic and business plan development, performance technology development, information technology projects and business process. Prior to his current role, Mr. Potts served as Chief Development Officer and Deputy Director of Planning Development and Construction of the Houston Airport System. Mr. Potts also previously served as the Executive Director of the Civil Works directorate, U.S. Army Corps of Engineers, with responsibility for the coordination of staff who supervised the nationwide Civil Works activities of eight major commands. A 27-year career Army officer, Mr. Potts held a number of command and staff positions in the U.S. and Germany. His military decorations include two Legion of Merit medals, five Meritorious Service medals, two Army Commendation medals, the National Defense Service medal, and the German Silver Cross of Honor. Mr. Potts has a BS degree in civil engineering from the University of Missouri-Rolla and a Master of Arts in National Security and Strategic Studies from the Naval War College.

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

Kirk G. Rummel, Jr., is the Chief Financial Officer and Deputy Director. Mr. Rummel is responsible for capital investment funding, debt management, budgeting, accounting, and financial analysis. Mr. Rummel previously worked at Continental Airlines for 17 years in numerous finance positions, most recently as managing director of finance-operations. From 1987 to 1994, Mr. Rummel worked as a senior auditor for the Audit Bureau of Circulations. Mr. Rummel is a Certified Public Accountant and Certified Fraud Examiner, with a BS in Finance from Texas Christian University and an MBA from the University of Texas at Austin. Mr. Rummel is actively involved in and has served on various FAA-related work groups and committees relating to NextGen avionics business case analysis.

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

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

Dolores B. Rodgers is Senior Executive Officer Human Resources and Acting Deputy Director HPT. She oversees programs and tools that assist employees with accelerate organizational change, implementing employee engagement initiatives and interventions, leading right-sizing efforts and assessing staffing needs, managing relationships, services and activities related to service level agreements with the City of Houston human resources and payroll services departments. Before assuming this role, Ms. Rodgers for over 20 years was the Human Resources Director for the Houston Airports where she lead a team that provided human resources services involving talent management, employee/labor relations, payroll administration, and organizational development. She has also worked as a human resources consultant in oil and gas exploration, manufacturing, and non-profit industries. She has a Bachelor's degree in Economics and Journalism from the University of New Mexico.

Mary Case, A.A.E., General Manager for Intercontinental, is responsible for directing the day-to-day management of Intercontinental, as well as for establishing policies, procedures, guidelines and project schedules for the airport. In addition, she also coordinates the preparation, implementation and monitoring of the budget and expenditures for Intercontinental, among other duties. Ms. Case joined the Houston Airport System in January of 1987 and served as General Manager of Hobby Airport until July 2005. She also held the top post for seven years at Ellington. She has also worked as an Airport Superintendent for Operation Services, an Assistant Superintendent of Airfield and Grounds and as an Operations Specialist for Intercontinental. In 2010, Ms. Case became the first person to have been head of all three airports owned and operated by the City. A licensed private pilot, Ms. Case obtained her Bachelor of Science degree in Aeronautical Studies from Embry-Riddle Aeronautical University in 1982. She is an accredited executive member of the American Association of Airport Executives, and a current member of the Aircraft Owners and Pilots Association.

Perry J. Miller, A.A.E., General Manager for Hobby, is responsible for the day-to-day operations of Hobby and the development and implementation of policies and procedures. In addition, Mr. Miller coordinates the preparation, implementation and monitoring of the budget and expenditures for Hobby. Prior to his current position, Mr. Miller was briefly the Acting General Manager for Intercontinental. He has held a wide range of positions, including Assistant Director of maintenance, Airport Manager for Ellington, senior superintendent, airport properties representative, airport supervisor and management analyst. During his 20-year aviation career he has become an accredited executive of the American Association of Airport Executives. Mr. Miller obtained his Bachelor of Science degree in Airway Science-Management from Texas Southern University in 1990. He also holds a Master of Science degree in Transportation Planning and Management. Mr. Miller is a graduate of Airport Management Professional Accreditation Program and is designated as an International Airport Professional.

Brian Rinehart, General Manager for Ellington, is responsible for the day-to-day operations of the facility and the development and implementation of policies and procedures. Mr. Rinehart joined the Houston Airport System in 1995 and has been assigned to Parking, Building Services, Physical Plant Maintenance and Intercontinental Management. He has attended numerous management and leadership-related courses throughout his civilian and military career, resulting in the award of several certifications. Mr. Rinehart attended Embry-Riddle Aeronautical University, receiving a Bachelor of Aviation Management and a Bachelor of Aviation Science with magna cum laude recognition. In aerial combat, Mr. Rinehart was awarded the Silver Star, Bronze Star with Oak Leaf Cluster, Distinguished Flying Cross, Purple Heart, four Air Medals for Valor and 38 Air Medals for aerial operations in combat zones.

Airport Staff

Michael A. Lee serves as the Deputy Assistant Director of Financial Planning and Analysis and oversees financial planning, rates and charges and long-term planning. In August of 2007, he joined the Houston Airport System's finance department as Rates and Charges Manager and is responsible for developing the annual airline rates and charges and reconciliations. From 2002 to June 2007, Mr. Lee served on the commercial development team as an Airport Properties Representative, where he negotiated leases and managed the relationships with more than a dozen domestic and international airlines at both Intercontinental and Hobby. Mr. Lee began his career in airport management when he joined the properties department at Lambert-St. Louis International Airport (STL) in June 1998. During his time with STL, Michael assisted with the management of concessions, ground transportation and airline leases. In December of 2000, Michael was promoted to Ground Transportation Manager and managed the parking and ground transportation programs. Mr. Lee was in the first graduating class of the joint ACI/ICAO Airport Management Professional Accreditation Program, earning the International Airport Professional (I.A.P.) designation in 2008. Mr. Lee earned a Bachelor of Science in Aviation Management at the University of Central Missouri. Michael earned his aircraft dispatch certificate and was an aircraft dispatcher for Skyway Airlines in Milwaukee, Wisconsin. Mr. Lee is also an instrument-rated private pilot.

Diane Ruscitti, Deputy Assistant Director of Debt-Treasury Management, is responsible for overseeing the issuance and management of debt, financial risk management, capital funding and investor relations. Ms. Ruscitti joined the Houston Airport System in October 2010. Previously, Ms. Ruscitti worked at Alaska Air Group in Seattle, Washington where she oversaw a large fuel hedging program. She also worked at San Jose International Airport where she was responsible for the funding of a \$1.3 billion capital improvement program. From 1993 through 2006, Ms. Ruscitti worked at United Airlines in Chicago principally as Director, Corporate Finance. Ms. Ruscitti received a Bachelor of Science in economics, summa cum laude from the University of Illinois at Chicago and an MBA degree in Finance from Indiana University, also summa cum laude.

Airport Service Region

The Houston Airport System is located in the nation's fourth most populous city and the sixth largest Metropolitan Statistical Area ("MSA") in the United States. The City is located on the coastal plain in Southeast Texas, approximately 50 miles from the Gulf of Mexico. The City's location makes it an ideal gateway to Latin America. Intercontinental is currently the third busiest U.S. International gateway to Latin America, behind only Miami and New York Kennedy airports.

The development and diversity of the economic base of an airport's service region is important to airline traffic growth at the airports. This is particularly true for an economy in which the industries in the region may rely on the airports for passenger and cargo airline service.

HOUSTON AIRPORT SYSTEM



■	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



The City is a center for the energy, financial, medical, transportation, retail and manufacturing industries. Its George R. Brown Convention Center has 1.2 million square feet of meeting space and hosted 480,283 convention delegates in 2010.

Houston has 23 Fortune 500 companies located in its metropolitan area, behind only New York and Chicago in its number of Fortune 500 companies.

The primary service region for the Houston Airport System, the 10-county MSA, has a robust economic base, as does the 12-county Combined Statistical Area (“CSA”) of Houston-Baytown-Huntsville. According to the 2010 U.S. Census, the population estimate was approximately 5.95 million for the MSA. Harris County (the county in which Houston is located) accounted for 68.8% of the MSA’s population. Houston’s air service region also encompasses smaller and essential markets such as Beaumont/Port Arthur, Victoria, Brownsville and Del Rio in Texas, Lake Charles, Louisiana and many more.

As illustrated by the following chart, the Houston MSA has been growing over the past five years:

**Historical Houston-Sugar Land-Baytown MSA
Population Estimates***

Year	Population	Annual Percentage Change
2010	5,947,000	1.4%
2009	5,867,000	2.5
2008	5,727,000	2.3
2007	5,598,000	2.1
2006	5,485,000	3.5

* Source: City of Houston

Houston Airport System Strategic Plan

The mission of the Houston Airport System is to connect people, businesses, cultures and economies of the world to Houston. To support this mission, the Houston Airport System recently implemented a Strategic Plan consisting of four key strategic priorities designed to influence the Airport System’s business in upcoming years as they will help assess business unit plans, set priorities and allocate resources in support of various programs and initiatives.

As an enterprise fund of the City of Houston, the Houston Airport System establishes an annual budget and a five-year capital improvement appropriation plan, each of which is approved by City Council. The City Council must approve each individual element within the Capital Improvement Plan as well.

The four key strategic priorities are as follows:

- Strategic Priority #1: Build a high performance organization in which employees take ownership of the Airport System’s mission, vision and core values
- Strategic Priority #2: Increase international service
- Strategic Priority #3: Develop a solid infrastructure, maintenance, restoration and replacement program that is properly planned and sequenced
- Strategic Priority #4: Maintain a fiscally strong Airport System

Non-Airline Airport Initiatives

The Houston Airport City has undertaken a number of initiatives in recent years to increase non-airline revenues. In 2003, the City implemented the phased development of 165 acres of land at the northeast end of Intercontinental as a new cargo area. This development is in addition to the ground and facilities in place at the central cargo area. The first phase of the new development involved approximately 104 acres and provides more than half a million square feet of cargo terminal space, with parking spaces for 20 wide-body freighter aircraft. The City has leased a portion of this land to three private developers for cargo development purposes. Trammel Crow has constructed a building to be used for perishables or other cargo.

Houston Airport System Capital Improvement Program

General Discussion. The Capital Improvement Program (“CIP”) is the City’s five-year comprehensive plan that determines and prioritizes the capital and infrastructure needs of the Houston Airport System. The City updates the CIP annually. The Airport System undertook a major renovation, modernization and expansion project of all three airports starting in the late 1990s. Since that time, Airport System projects have totaled approximately \$3.3 billion. For example, at Intercontinental, the City built a fifth runway, numerous other runway and taxiway expansions and improvements and a new international arrivals facility, renovated Terminals A and C, constructed a new automated people mover system and parking facilities and expanded the central plant. At Hobby, the City substantially rebuilt the concourse and terminal and made runway and taxiway improvements. At Ellington, the City made airfield improvements. The Houston Airport System continuously monitors and adjusts the CIP based upon financial and air travel demands. See also “INVESTMENT CONSIDERATIONS.”

Master Plans. The Houston Airport System is in the process of updating the Master Plans at all three airports. Generally, new Master Plans are demand-driven, time-driven and tied to levels and strategic goals. Projects are implemented when a pre-defined need is reached and re-validated in the then current operating environment. The City will modify the Airport System’s CIP, as appropriate, upon completion of the Master Plans for all three airport properties.

CIP Projects. The current five-year CIP, which covers Fiscal Year 2012 through Fiscal Year 2016 (“Fiscal Year 2012-2016 CIP”) calls for approximately \$874 million in projects. The City is in the process of updating the Fiscal Year 2012-2016 CIP for Fiscal Years 2013-2017. The major projects in the Fiscal Year 2012-2016 CIP include the following:

Major Projects as Shown in FY2012-2016 CIP

<u>Airport</u>	<u>Description</u>	<u>Amount</u>
Intercontinental	Terminal B Improvement Projects	\$ 287,850,000
	Terminal D Renovation and Expansion	174,929,000
	Runway, Taxiway and Airfield Projects	117,700,000
	Central Plant and Utility Renovations	56,620,000
	Parking Improvements	18,060,000
	Aircraft Operations Center	12,110,000
Hobby	Parking Improvements	50,850,000
	Federal Inspections Services Facility	4,501,000

Terminal B Improvement Projects. The City has undertaken a Terminal B Improvement Project at Intercontinental. The total Terminal B Improvement Projects are expected to total approximately \$962 million. The total cost of the Houston Airport System’s share of the Terminal B Improvement Project to the Airport System is expected to equal approximately \$287.85 million. The Airport System’s capital costs are expected to be financed largely by grants, leveraged PFCs and other resources. The total cost to Continental is expected to equal \$675 million, which is expected to be financed with the proceeds of special facility bonds.

Phase One will replace the two existing South circular flight stations of Terminal B used by Continental with a new South Concourse building at Terminal B for Continental's regional jet operations at Intercontinental. Phase One is expected to be completed by November 2013 and is estimated to cost the Airport System approximately \$62 million.

In connection with the Terminal B Improvement Projects, the City issued its \$113,305,000 Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Project), Series 2011 (AMT) in November 2011 and entered into a Second Amended and Restated Special Facilities Lease Agreement (the "Amended and Restated Special Facilities Lease") with Continental. Pursuant to the Amended and Restated Special Facilities Lease, Continental is responsible for paying all debt service relating to the Series 2011 Special Facilities Bonds. The Amended and Restated Special Facilities Lease has a term of thirty years, subject to certain early termination provisions and extension provisions. Pursuant to the Amended and Restated Special Facilities Lease, the City leases to Continental all of Terminal B as well as certain special facilities located in Terminal C that were financed with proceeds of previously issued special facilities bonds. Continental may undertake future projects under the Amended and Restated Special Facilities Lease financed with future special facilities bonds issued by the City. See "HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Second Amended and Restated Special Facilities Lease Agreement – Intercontinental Terminal B Improvement Projects and Special Facilities Lease."

Terminal D Renovation and Expansion. Intercontinental's Terminal D opened in 1991 and is under evaluation for upgrading and replacement of building utility systems and other systems. Planned renovations include cosmetic improvements, installation of a new A380-capable passenger loading bridge, and installation of new power converter air/ground power units to allow planes parked at the gates to avoid running their auxiliary power units (APUs). Terminal D improvements include a pier to be added to the building to increase overall wide-body aircraft capacity. Pursuant to a comprehensive study of the condition of the existing Terminal D currently underway, the Airport System may make additional improvements to Terminal D to accommodate international travel at Intercontinental. The final project scope will heavily influence choice of funding.

Runway, Taxiway and Airfield Projects. These projects relate primarily to taxiway rehabilitation or construction at Intercontinental. Rehabilitation work is undertaken based on a calculated "PCI," or pavement condition index factor, which defines the minimum threshold level of pavement strength. Rehabilitation is undertaken to avoid falling below certain pre-defined thresholds. A large portion of the cost of these projects is eligible for grant or PFC funding.

Central Plant and Utility Renovations. The first part of this project upgrades the central plant at Intercontinental by increasing chilled and hot water generating capacity and reducing air emissions. The project also upgrades existing electric chillers, adds solar panels and hot water heaters, and installs ultra-low nitrogen-oxide burners. This project has received Voluntary Airport Low Emissions (VALE) grant funding and PFC funding. The second part of the project upgrades sanitary sewers and public lines and is expected to be funded out of the Airports Improvement Fund.

Aircraft Operations Center (AOC). This project includes the construction of a new aircraft operations center at Intercontinental to handle day-to-day operations for the airports and provide a centralized and coordinated emergency center in the event of an emergency or crisis at the airport. The project also funds a backup information technology data center. The AOC may be eligible for either grant or PFC funding.

Hobby Federal Inspections Service Facility. Southwest has asked the Airport System to evaluate the feasibility of flying internationally out of Hobby. To accommodate international service at Hobby, the Airport System is evaluating the need for an arrivals hall along with several departure gates. Initial indications are that the cost of such an international facility would exceed the amount included in the current CIP. As a result, the Airport System is looking at a variety of different funding mechanisms.

Parking Improvements. Structured and economy airport parking is at maximum capacity at various times of the week at Hobby. Accordingly, a second parking garage and second economy parking lot at Hobby are included in the CIP. Additionally, the Airport System is reviewing other opportunities to add to its parking capacity at Intercontinental in an effort to provide additional customer service and increase market share. These projects are likely to be funded out of the Airports Improvement Fund.

CIP Project Funding. The Houston Airport System anticipates funding the Fiscal Year 2012-2016 CIP from multiple sources, including available cash in the Airport Improvement Fund (AIF) and Renewal and Replacement Fund,

entitlement and discretionary grants and awards from the FAA and the Transportation Security Administration, passenger facility charges (PFCs), commercial paper draws and bond proceeds. While the current CIP anticipates the issuance of additional bonds to finance certain capital expenditures, the timing and structure of any new bond issue is uncertain and depends upon, among other things, market considerations, the amount of cash generated internally by the Houston Airport System, the timing and scope of capital improvements relating to the Terminal B Improvement Projects and the timing and scope of capital improvements relating to facilities that accommodate international flying. The Airport System currently has available cash and unspent bond proceeds which may be used to pay for a significant portion of currently planned spending. The Airport System also has a \$300 million commercial paper program comprised of \$150 million in Senior Lien Notes and \$150 million of Inferior Lien Notes. The Senior Lien Notes are supported by a letter of credit issued by Bank of America, which expires in December 2013, but may be terminated at the City's option at any time. The Inferior Lien Notes are not supported by a credit or liquidity facility.

Passenger Facility Charges (PFCs). The City is authorized to impose PFCs for certain Houston Airport System improvements, subject to approval by the U.S. Department of Transportation. **The PFCs are not pledged or committed to pay debt service on any Senior Lien Bonds or Subordinate Lien Bonds, including the Series 2012 Bonds.** Further, PFCs are not considered Gross Revenue under the Ordinance.

On November 1, 2006, the City implemented a PFC of \$3.00 per enplaned passenger at Hobby. The City has authority to impose and use \$163,517,150 of PFCs collected at Hobby through November 1, 2017. On December 1, 2008, the City implemented a PFC of \$3.00 per enplaned passenger at Intercontinental. The City has authority to impose and use \$1,372,445,143 of PFCs collected at Intercontinental through November 1, 2027. The City is authorized to use PFCs to (a) pay debt service on outstanding bonds issued for certain completed Intercontinental projects, (b) reimburse the Houston Airport System for the unamortized cost of certain other Intercontinental projects that were originally funded from the Houston Airport System's resources, such as the AIF, (c) provide pay-as-you-go funding of the local share of the costs of certain planned future projects and (d) pay debt service on commercial paper and future bonds to finance certain projects.

As of December 31, 2011, the aggregate account balances for PFC collections were \$55,743,194 at Intercontinental and \$11,837,522 at Hobby. These funds are scheduled to be used to either pay future debt service for projects already approved by the FAA or pay the local share of capital projects approved by the FAA on a pay-as-you go basis. Historical PFC collections for the Houston Airport System are shown below.

**Houston Airport System PFC Collections
(dollars in thousands)**

	FY2012 July-Dec (unaudited)	FY2011	FY2010	FY2009 ⁽¹⁾	FY2008	FY2007 ⁽²⁾
Intercontinental	\$24,152	\$ 50,982	\$ 54,284	\$ 23,046		
Hobby	<u>6,610</u>	12,156	12,099	9,352	11,608	6,530
Total	<u>\$30,762</u>	\$ 63,138	\$ 66,383	\$ 32,398	\$ 11,608	\$ 6,530
Year-over-Year Change	-2.2%	-4.9%	104.9%	179.1%	77.8%	--

⁽¹⁾ Partial year; the City began collecting PFCs at Intercontinental on December 1, 2008.

⁽²⁾ Partial year; the City began collecting PFCs at Hobby on November 1, 2006.

Source: Houston Airport System

The City's authority to impose and use PFCs at both Hobby and Intercontinental is subject to certain terms and conditions in the federal PFC authorizing legislation, the PFC regulations adopted by the FAA and specific FAA approvals applicable to the Intercontinental PFC program. If the City fails to comply with any of these requirements, the failure could reduce or terminate the City's authority to impose PFCs at one or both airports and use such PFCs to finance a portion of the CIP.

For a discussion of the treatment of PFC Revenues under the Ordinance, see APPENDIX B-1 – THE ORDINANCE – CERTAIN DEFINED TERMS. See “Schedule 5: Selected Financial Information” for the total amount of PFC Revenues available to pay debt service and debt service coverage ratios.

Grants under the FAA Airport Improvement Program and Other Programs. The City has been awarded, on behalf of the Houston Airport System, numerous grants under the FAA Airport Improvement Program (AIP), including Voluntary Airport Low Emissions (VALE) grant funding, or awards from the Transportation Security Administration (TSA). Eligible projects include runway and taxiway rehabilitation, noise mitigation, environmental impact studies and security projects. The Airport System recognized capital contributions from these programs ranging from \$41.1 million to \$85.7 million over the prior five years.

HOUSTON AIRPORT SYSTEM OPERATING STATISTICS

According to the Airports Council International, an airport industry group, Intercontinental and Hobby ranked 7th and 37th among U.S. airports, respectively, based on total U.S. passenger traffic for calendar year 2010.

Total passengers for the Houston Airport System increased by 1.7% to 49.8 million during Fiscal Year 2011. During this same period, total passengers at Hobby increased 7.8% to 9.4 million. Total passengers increased by 0.4% at Intercontinental, with international passenger growth up 7.3%.

Each airport has a large primary air carrier: Continental¹ at Intercontinental and Southwest at Hobby. Continental, United and its regional partners, collectively, accounted for approximately 87.4% of total passengers at Intercontinental in 2011, a slight decline from 88.0% in 2010. Southwest and AirTran, together, accounted for 91.3% of all passengers at Hobby in calendar year 2011, a slight decline from their 91.6% share in 2010. See “Schedule 1: Passenger Statistics” and “Schedule 2: Airline Market Shares.”

Airlines Utilizing the Houston Airport System

The table below shows the passenger airlines that provide scheduled service as of January 2012 from either Intercontinental or Hobby. As of October 2011, the scheduled passenger airlines that serve Houston averaged 5,646 weekly aircraft departures, serving more than 120 domestic destination airports, including all major U.S. cities. The airlines also provide service to 67 international destinations, and currently serve or expect to serve cities in Mexico, Latin America, Central America, Canada, Europe, Asia, Middle East, Australia and Africa. Except for Alaska Airlines at Intercontinental and JetBlue and Frontier at Hobby, all of the carriers shown below have signatory airline status under various use and lease agreements.

Intercontinental			Hobby
Mainline Carriers	Regional Carriers	Cargo Carriers	Passenger Carriers
AeroMexico	American Eagle	Air France	AirTran
Air France	Atlantic Southeast	Atlas Air	American Eagle
Alaska Airlines	Chautauqua	BAX Global	Atlantic Southeast
American Airlines	Colgan	CargoLux	Comair
British Airways	Comair	Cathay Pacific	Compass
Delta	Compass	China Airlines Cargo	Delta
Emirates	ExpressJet	DHL	Frontier
Jazz Air	Mesa	Eva	JetBlue
KLM	Mesaba	Federal Express	Pinnacle
Lufthansa	Pinnacle	Global Supply	Shuttle America
Qatar	Republic	Martinaire	Skywest

¹ Continental merged with United on October 1, 2010. Continental and United received a single operating certificate from the FAA on November 30, 2011, which certificate is scheduled to take effect during the first quarter of 2012. The combined airlines will operate under the name “United Airlines” upon full integration of the two airlines. See “HOUSTON AIRPORT SYSTEM – Effects of Recent Merger Activity on the Houston Airport System – Continental/United Airlines.”

Intercontinental			Hobby
Mainline Carriers	Regional Carriers	Cargo Carriers	Passenger Carriers
Singapore	Shuttle America	Lufthansa Cargo	Southwest
TACA	SkyWest	Saudi Arabian Airlines	
United (Continental)		UPS	
US Airways			
Viva Aerobus			
Atlas Air (for Angola, formerly World)			

Source: Houston Airport System

United Airlines/Continental Airlines. United and Continental, together, is the largest airline operator at Intercontinental, with combined daily departures of an average of 606 for calendar year 2011, including both carriers' regional jet or Express partners. Continental and its regional partners carried 88.0% of total passengers in Fiscal Year 2010 and 88.5% of total passengers in Fiscal Year 2009. See "HOUSTON AIRPORT SYSTEM – Effects of Recent Merger Activity on the Houston Airport System – Continental/United Airlines" and "Schedule 2: Airline Market Shares." For a discussion of the sources of operating revenues for the Houston Airport System, and the term of Continental's use and lease agreement at Intercontinental, respectively, see "HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION – Sources of Revenues," and "HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Second Amended and Restated Special Facilities Lease Agreement" and "Terminal E Lease and Specialties Lease Agreement."

Southwest Airlines. Southwest is the largest operator at Hobby with 122 average daily departures for calendar year 2011. Southwest acquired AirTran in May 2011, but the two airlines continue to operate under two operating certificates. On a combined basis, Southwest and AirTran carried 91.6% of traffic in Fiscal Year 2010 and 92.0% of traffic in Fiscal Year 2009. See "HOUSTON AIRPORT SYSTEM – Effects of Recent Merger Activity on the Houston Airport System – Continental/United Airlines."

The following schedules set forth certain statistical information regarding the Houston Airport System as provided by the City.

Schedule 1: Passenger Statistics

Schedule 1 shows total passengers at each airport over the last five years. Intercontinental has seen significant growth in international passengers but a decline in domestic traffic. Hobby has seen growth over the five-year period in total.

Houston Airport System Total Passengers (in thousands)

Intercontinental Domestic Passengers	Jul-Dec FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Enplanements and Deplanements	16,196	31,666	32,093	31,995	35,200	35,260
Year-over-Year Change	-0.9%	-1.3%	0.3%	-9.1%	-0.2%	3.4%
Intercontinental International Passengers						
Enplanements and Deplanements	4,272	8,732	8,138	7,642	7,976	7,555
Year-over-Year Change	-2.1%	7.3%	6.5%	-4.2%	5.6%	6.0%
Total International Passengers						
Enplanements and Deplanements	20,468	40,399	40,231	39,637	43,176	42,815
Year-over-Year Change	-1.2%	0.4%	1.5%	-8.2%	0.8%	3.8%
Hobby Passengers						
Enplanements and Deplanements	5,092	9,434	8,755	8,286	9,097	8,642
Year-over-Year Change	8.7%	7.8%	5.7%	-8.9%	5.3%	2.6%
Total Airport System Passengers						
Enplanements and Deplanements	25,560	49,833	48,986	47,923	52,274	51,457
Year-over-Year Change	0.7%	1.7%	2.2%	-8.3%	1.6%	3.6%

Source: Houston Airport System

Schedule 1A: Total Enplaned Passengers for the Houston Airport System

Schedule 1A shows the originating and connecting enplanements for each airport with passenger service. The percentage of originating enplanements has generally stayed within a relatively narrow range for both airports.

**Houston Airport System
Total Originating and Connecting Enplaned Passengers
(in thousands)**

	Jul-Dec FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Intercontinental						
Originating Enplanements	4,999	9,697	9,279	9,191	10,450	10,478
Connecting Enplanements	5,167	10,509	10,855	10,681	11,191	11,009
Total Enplanements	10,166	20,206	20,134	19,872	21,640	21,487
Originating Enplanement Percentage	49.2%	48.0%	46.1%	46.3%	48.3%	48.8%
Hobby						
Originating Enplanements	1,965	3,618	3,343	3,323	3,606	3,396
Connecting Enplanements	588	1,122	1,054	836	957	948
Total Enplanements	2,553	4,739	4,397	4,159	4,562	4,344
Originating Enplanement Percentage	77.0%	76.3%	76.0%	79.9%	79.0%	78.2%
Houston Airport System						
Originating Enplanements	6,964	13,315	12,622	12,513	14,055	13,874
Connecting Enplanements	5,755	11,630	11,909	11,517	12,147	11,956
Total Enplanements	12,718	24,945	24,531	24,031	26,202	25,830
Originating Enplanement Percentage	54.8%	53.4%	51.5%	52.1%	53.6%	53.7%

Source: Houston Airport System

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Schedule 2: Airline Market Shares

Schedule 2 shows the airline market shares over the past five years. Continental and Southwest continue to comprise most of the traffic at Intercontinental and Hobby, respectively.

**Houston Airport System
Market Share Data**

	Jul-Dec FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Total Passengers-Intercontinental						
Domestic						
United/Continental and affiliates	14,435,461	28,365,496	28,793,183	28,832,672	31,880,484	32,087,918
Delta Airlines and affiliates	596,684	1,177,495	1,228,103	1,234,368	1,271,291	1,220,814
US Airways and affiliates	571,079	1,045,569	938,912	857,852	789,522	437,226
American and affiliates	513,562	890,747	836,042	857,373	994,819	1,008,544
All Other Airlines	79,867	186,911	297,090	213,096	263,690	505,588
Subtotal Domestic Passengers	16,196,653	31,666,218	32,093,330	31,995,361	35,199,806	35,260,090
International						
United/Continental and affiliates	3,325,144	6,944,678	6,594,511	6,254,541	6,523,522	6,152,115
Air Canada/Jazz	117,837	233,147	189,385	172,349	195,737	177,908
British Airways	127,220	245,119	220,658	208,497	208,026	212,185
Emirates	130,386	220,534	163,269	147,654	79,888	-
Lufthansa	104,840	212,202	196,349	178,574	199,064	176,507
AeroMexico	89,302	191,603	138,063	114,883	159,364	186,838
Air France	76,811	147,048	163,358	202,616	244,877	250,585
Qatar	75,427	146,162	135,802	32,653	-	-
KLM	97,821	179,274	177,245	183,641	202,222	202,127
Singapore	63,266	117,375	80,784	59,181	15,126	-
All Others	63,885	95,151	79,058	87,749	148,037	196,861
Subtotal Int'l Passengers	4,271,939	8,732,293	8,138,482	7,642,338	7,975,863	7,555,126
Total (Domestic and International)	20,468,592	40,398,511	40,231,812	39,637,699	43,175,669	42,815,216
Market Share-Intercontinental						
Domestic						
United/Continental and affiliates	70.5%	70.2%	71.6%	72.7%	73.8%	74.9%
Delta Airlines and affiliates	2.9	2.9	3.1	3.1	2.9	2.9
US Airways and affiliates	2.8	2.6	2.3	2.2	1.8	1.0
American and affiliates	2.5	2.2	2.1	2.2	2.3	2.4
All Other Airlines	0.4	0.5	0.7	0.5	0.6	1.2
Subtotal Domestic	79.1%	78.4%	79.8%	80.7%	81.5%	82.4%
International						
United/Continental and affiliates	16.2%	17.2%	16.4%	15.8%	15.1%	14.4%
Air Canada/Jazz	0.6	0.6	0.5	0.4	0.5	0.4
British Airways	0.6	0.6	0.5	0.5	0.5	0.5
Emirates	0.6	0.5	0.4	0.4	0.2	0.0
Lufthansa	0.5	0.5	0.5	0.5	0.5	0.4
AeroMexico	0.4	0.5	0.3	0.3	0.4	0.4
Air France	0.4	0.4	0.4	0.5	0.6	0.6
Qatar	0.4	0.4	0.3	0.1	0.0	0.0
KLM	0.5	0.4	0.4	0.5	0.5	0.5
Singapore	0.3	0.3	0.2	0.1	0.0	0.0
All Others	0.3	0.2	0.2	0.2	0.3	0.5
Subtotal International	20.9%	21.6%	20.2%	19.3%	18.5%	17.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**Houston Airport System
Market Share Data
(cont'd)**

	Jul-Dec FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Total Passengers-Hobby						
Southwest/AirTran	4,578,575	8,610,325	8,022,158	7,621,565	8,437,177	7,841,084
Delta Airlines and Affiliates	196,265	335,033	307,715	285,420	297,160	276,161
American Eagle	105,991	206,761	265,372	233,868	191,167	222,903
JetBlue	80,110	141,149	150,044	140,014	167,605	157,289
Frontier	120,889	122,692	0	0	0	0
All Others	9,985	18,429	9,432	4,728	4,288	144,148
Total	<u>5,091,815</u>	<u>9,434,389</u>	<u>8,754,721</u>	<u>8,285,595</u>	<u>9,097,397</u>	<u>8,641,585</u>
Market Share-Hobby						
Southwest/AirTran	89.9%	91.3%	91.6%	92.0%	92.7%	90.7%
Delta Airlines and Affiliates	3.9	3.6	3.5	3.4	3.3	3.2
American Eagle	2.1	2.2	3.0	2.8	2.1	2.6
JetBlue	1.6	1.5	1.7	1.7	1.8	1.8
Frontier	2.4	1.3	0.0	0.0	0.0	0.0
All Others	0.2	0.2	0.1	0.1	0.0	1.7
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Schedule 3: Total Aircraft Operations and Aircraft Landed Weight

Schedule 3 shows the Aircraft Operations and Aircraft Landed weight for the Houston Airport System for the last five years.

**Aircraft Operations
(in thousands)**

	Jul-Dec FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Aircraft Operations	423	861	858	892	974	983
Year-over-Year Change	-1.4%	0.3%	-3.8%	-8.4%	-0.9%	5.4%

**Aircraft Landed Weight
(in million pounds)**

	Jul-Dec FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Aircraft Landed Weight	16,590	32,564	31,662	31,907	34,096	33,930
Year-over-Year Change	1.9%	2.8%	-0.8%	-6.4%	0.5%	3.4%

Source: Houston Airport System

Schedule 4: Total System Cargo Activity

The table shows five-year system cargo activity for the Houston Airport System. Lufthansa Cargo and Qatar Cargo recently began service at Intercontinental.

**Total System Cargo Activity
(in metric tons)**

	Jul-Dec FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Domestic Freight	104,471.37	205,173.70	195,616.74	186,085.49	210,531.93	207,762.85
International Freight	109,464.17	208,747.52	181,453.21	164,789.79	181,091.05	170,972.12
Mail	17,041.48	33,897.12	37,011.00	36,082.32	34,957.31	43,469.76
Total Cargo	230,977.02	447,818.34	414,080.95	386,957.60	426,580.29	422,204.73
Year-over-Year Change	4.1%	8.1%	-7.5%	-6.6%	10.2%	-1.0%

Source: Houston Airport System

HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION

Sources of Revenues

The Airport System generates Operating and Non-Operating Revenues from various sources:

Landing Fees. Landing fees for airlines that provide scheduled service at Intercontinental and Hobby are computed under formulas derived from various use and lease agreements and license agreements (see “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Second Amended and Restated Special Facilities Lease Agreement”). Landing fees are also applied by ordinance to nonscheduled, commercial aircraft and nonsignatory scheduled aircraft landings at both airports based upon maximum FAA-approved gross landed weights. In addition, the City receives revenues from aviation fuel flowage fees (currently six cents per gallon) assessed on the delivery of fuel to certain aircraft in lieu of landing fees.

Building and Ground Area Revenues. Terminal space rentals paid by signatory airlines under use and lease agreements are subject to annual compensatory adjustment depending upon additional capital improvements, maintenance, operating and overhead expenses allocable to the facilities. Ground rentals are charged by the City under long-term ground leases of land at Intercontinental, Hobby, and Ellington. The City leases various parcels of land to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings, auto rental companies for their service facilities and storage lots, and to a variety of other entities for buildings and other permanent improvements.

Parking, Concessions, and Other Revenues. City-owned parking facilities are the largest single source of revenues of the Houston Airport System other than payments by the airlines. Parking operations are managed and operated by New South Parking pursuant to a concession agreement with the Houston Airport System. See “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Other Significant Airport Agreements.” Parking rates are approved by the City Council of the City.

PFCs. The Houston Airport System derives a significant source of non-operating revenues from PFC collections which are authorized for both Intercontinental and Hobby. While the Ordinance does not define Gross Revenues (as defined under the Ordinance) to include PFCs, they are recognized as non-operating revenues in the Houston Airport System’s comprehensive annual financial statements. Beginning in Fiscal Year 2010, the Houston Airport System switched to accrual accounting from the cash basis for PFCs.

Funds must be generated primarily from parking, concessions and other airport revenues in order to (1) cover the Houston Airport System’s operating expenses and depreciation expense (or that portion not paid for by airlines); (2) produce a surplus to meet current or anticipated needs of the Houston Airport System, and (3) comply with the Rate Covenant.

Schedule 5: Selected Financial Information

Schedule 5 sets forth, for the Fiscal Years indicated, (1) the Gross Revenues, Operation and Maintenance Expenses and Net Revenues (each computed as defined in the Ordinance) of the Houston Airport System, (2) the total Debt Service Requirement (computed as defined in the Ordinance) on then outstanding Houston Airport System Bonds, which include all obligations payable from revenues of the Houston Airport System and (3) the coverage of Debt Service Requirement by Net Revenues. All amounts in “Schedule 5: Selected Financial Information” for Fiscal Years 2007 through 2011 are derived from the audited financial statements of the Houston Airport System Fund, or from the supplementary information and the statistical section included in the City Controller’s Comprehensive Annual Financial Report of the City of Houston, Texas, for each respective Fiscal Year. The schedule should be read in conjunction with the complete audited financial statements of the City of Houston, Texas, Airport System Fund Comprehensive Annual Financial Report and the notes thereto included as APPENDIX A.

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	2011 as of 12/31/2011 (6 months)	2012 as of 12/31/2011 (6 months)
Operating Revenues							
Landing fees:							
Landing fees	\$ 88,933	\$ 95,730	\$ 80,420	\$ 91,032	\$ 87,163	\$ 43,236	\$ 42,924
Aviation fuel	1,540	1,522	1,313	1,329	1,378	654	663
Aircraft parking	1,667	1,765	1,090	1,804	1,843	931	1,266
Subtotal	92,140	99,017	82,823	94,165	90,384	44,821	44,853
Building and ground area revenues:							
Terminal space	182,113	193,375	155,396	161,960	160,563	79,884	84,291
Cargo building	2,011	2,469	2,374	2,490	2,511	1,258	1,241
Other rentals	5,037	5,054	5,017	5,158	5,067	2,542	3,353
Hangar rental	3,394	3,473	4,051	4,920	5,446	2,620	2,794
Ground rental	7,165	7,415	7,595	7,577	7,595	3,846	4,030
Subtotal	199,720	211,786	174,433	182,105	181,182	90,150	95,709
Parking, concession and other revenues:							
Retail concessions	26,953	29,435	27,004	27,975	34,403	15,996	17,903
Auto parking	65,454	72,958	66,565	70,127	70,681	36,098	37,198
Auto rental	22,950	24,529	24,389	22,889	23,932	11,192	12,471
Ground transportation	4,617	4,806	4,724	4,987	5,946	2,787	3,046
Other operating revenue	4,304	4,645	5,819	4,331	3,874	2,086	1,995
Subtotal	124,278	136,373	128,501	130,309	138,836	68,159	72,613
Total operating revenue	\$ 416,138	\$ 447,176	\$ 385,757	\$ 406,579	\$ 410,402	\$ 203,130	\$ 213,175
Nonoperating Revenues ⁽¹⁾							
Interest on investments ⁽¹⁾	26,847	30,064	23,664	15,988	12,889	6,816	5,248
Other revenues - revenue fund	310	90	300	2,504	341	11	7
Subtotal	27,157	30,154	23,964	18,492	13,230	6,827	5,255
Total gross revenues	\$ 443,295	\$ 477,330	\$ 409,721	\$ 425,071	\$ 423,632	\$ 209,957	\$ 218,430
Operation and maintenance expenses ⁽²⁾							
Personnel and other current expenses	\$ 214,611	\$ 229,551	\$ 240,685	\$ 245,041	\$ 262,561	\$ 115,872	\$ 118,995
Retiree health and life insurance liability ⁽²⁾	-	(11,356)	-	-	-	-	-
Interest on pension bonds and note ⁽³⁾	3,064	3,064	1,711	106	106	53	53
Other interest	45	50	53	-	1	-	-
Total Operation and maintenance expenses	\$ 217,720	\$ 221,309	\$ 242,449	\$ 245,147	\$ 262,668	\$ 115,925	\$ 119,048
Net revenue	\$ 225,575	\$ 256,021	\$ 167,272	\$ 179,924	\$ 160,964	\$ 94,032	\$ 99,382
Total debt service requirements	\$ 144,211	\$ 157,302	\$ 150,514	\$ 145,467	\$ 158,841		
PFC revenue available for debt service	(1,261)	(2,690)	(16,128)	(27,087)	(38,828)		
Grant revenue available for debt service	(19,418)	(25,332)	(38,835)	(29,084)	(17,999)		
Net debt service requirement ⁽⁴⁾⁽⁵⁾	\$ 123,532	\$ 129,280	\$ 95,551	\$ 89,296	\$ 102,014		
Coverage of debt service	1.83	1.98	1.75	2.01	1.58		

⁽¹⁾ The figures shown have been adjusted for miscellaneous revenues not defined as Gross Revenues or Net Revenues in the Ordinance. Excludes interest revenue earned in restricted bond and passenger facility charge funds.

⁽²⁾ Does not include depreciation expenses. The liability for other post-employment benefits was not included in debt coverage before FY2009.

⁽³⁾ Portion of debt of the City of Houston allocated to the Houston Airport System.

⁽⁴⁾ Does not include debt service for which interest was capitalized from bond proceeds. Interest earned in reserve funds and used for debt service reduces the debt service requirement. See definitions of "Debt Service Requirements" in APPENDIX B-1.

⁽⁵⁾ Results do not comply with the reporting requirements of the Governmental Accounting Standards Board (GASB), which establishes generally accepted accounting principles for governmental entities. Compensated absences, net pension obligations and other post-employment benefits are provided only at the end of each Fiscal Year. As a result, they are not included in the operation and maintenance expenses shown above.

Source: Houston Airport System

July-December FY 2012 versus July-December FY 2011. For the first six months of FY 2012, Gross Revenues increased \$8.5 million (4.0%) due to higher terminal rentals and other revenues. Other revenues are higher principally due to higher volumes and new advertising revenues. Auto rental and ground transportation revenues are up due to rate increases as well. Operation and maintenance expenses increased \$3.1 million (2.7%) due to higher service contract expenses.

FY 2011 versus FY 2010. In FY 2011, operating revenues of \$410.4 million increased \$3.8 million or 0.9% compared to FY 2010. The increase was largely due to \$8.5 million higher advertising revenues (in concessions) and volume-driven increases in other areas. Landing fees and rentals declined by \$4.7 million due primarily to prior period adjustments in FY 2010. Interest revenues fell \$3.1 million (19.3%) due to lower interest revenues earned on cash balances. Other revenues declined \$2.5 million primarily due to the impact of prior period adjustments in FY 2010. In total, gross revenues decreased \$1.8 million.

Year-over-year operation and maintenance expenses increased \$17.5 million (7.1%). Wages and benefits were \$2.2 million higher mostly due to salary increases. Building maintenance, police and fire expenses were \$7.4 million higher primarily due to new service contracts or the effect of salary increases (police and fire are City employees). The remaining amount of the increase was caused by misclassification of prior period operation and maintenance expenses, which were originally recorded as work-in-process construction-related assets to be capitalized when assets were placed into service. Net revenues fell \$19.0 million (10.5%) year-over-year.

Total debt service requirements increased by \$13.4 million due to lower capitalized interest. Total PFCs and grants available to pay debt service increased slightly (\$0.7 million) as higher PFCs available to pay debt service more than offset lower FAA grants (end of LOI program). Net debt service of \$102.0 million increased by \$12.7 million.

FY 2010 versus FY 2009. In FY 2010 operating revenues increased by \$20.8 million (5.4%). The increase was due in significant part to an increase in parking rates and to a prior period adjustment that decreased Fiscal Year 2009 revenues relating to landing fees and terminal rental fees. Non-operating revenues fell by \$5.5 million due to lower interest revenues earned on cash balances.

Year-over-year operation and maintenance expenses increased by \$2.7 million (1.1%) in part due to increased salary expenses. As a result of gross revenues increasing more than operation and maintenance expenses, net revenues increased by \$12.7 million (7.6%).

Total debt service requirements fell by \$5.0 million (3.4%) as lower interest expense on variable rate debt was significantly offset by increased interest expense associated with new projects financed and placed into service in 2009. Grants and PFC Revenues available to pay debt service increased by \$1.2 million as more PFCs were applied to debt service. The net debt service requirement fell \$6.3 million (6.5%) to \$89.3 million.

FY 2009 versus FY 2008. In FY 2009, operating revenues decreased by \$61.4 million caused by the impact of a large negative rates and charges adjustment of \$27.6 million relating back to FY 2007 and 2008. The decrease was also due to the implementation of the PFC program at Intercontinental, which removed certain revenues from the airline rate base. Parking, concession and other revenues in FY 2009 decreased by \$7.9 million, due to the decreased passenger volume caused by the economic downturn. Interest on investments in FY 2009 decreased by \$6.4 million, due to lower cash balances. In total, gross revenues fell by \$67.6 million.

Operation and maintenance expenses in FY 2009 increased by \$21.1 million, primarily due to higher salary increases and a change to accrual accounting from cash basis for certain post-employment benefits, and higher costs for electricity and natural gas. In total, net revenues fell by \$88.7 million.

Total debt service requirements increased in FY 2009 by \$6.8 million. Grants and PFCs available to pay debt service increased by \$26.9 million due to higher grant revenues and the implementation of a \$3.00 PFC at Intercontinental on January 1, 2009. In total, the net debt service requirement fell by \$33.7 million.

Schedule 6: Summary of Certain Fees and Charges

Schedule 6 contains the rates and charges established for Fiscal Year 2011 and Fiscal Year 2012 for both Intercontinental and Hobby. These rates and charges are established according to the terms of the use and lease agreements for each airport and are subject to annual fiscal year-end adjustments once actual airport-related expenses are finalized.

	Intercontinental		Hobby	
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2012</u>
Landing Fee Rates ⁽¹⁾	\$2.790	\$2.769	\$2.094	\$2.018
Terminal Space Rentals ⁽²⁾	\$22.13 – \$80.64	\$23.30 - \$81.45	\$96.79 – \$99.29	\$94.72 - \$97.22
Apron ⁽²⁾	\$2.006 – \$2.775	\$1.875 - \$2.548	\$1.867	\$1.900
Aircraft Parking (per day) ⁽³⁾	\$70.00– \$300.00	\$100.00-\$400.00	\$70.00– \$300.00	\$100.00-\$400.00
Cargo (per day) ⁽⁴⁾	\$125.00-\$450.00	\$200.00-\$600.00	\$125.00 - \$450.00	\$200.00-\$600.00
Parking Rates (maximum per day)				
Economy (Ecopark)				
Covered	\$7.00	\$7.00		
Uncovered	\$5.00	\$5.00		
Ecopark 1			\$8.00	\$8.00
Ecopark 2			\$6.00	\$6.00
Structured	\$17.00	\$17.00	\$17.00	\$17.00
Short-Term	--	--	--	--
Sure Park	\$20.00	\$20.00	--	--

⁽¹⁾ Per 1,000 pounds for landing weight

⁽²⁾ Range per square foot

⁽³⁾ Daily aircraft parking rates increased on August 1, 2011 at Intercontinental and Hobby to a range of \$100 - \$400.

⁽⁴⁾ Daily cargo rates increased on August 1, 2011 at Intercontinental and Hobby to a range of \$200 - \$600.

Source: Houston Airport System

Shown below are costs per enplanement for each of Intercontinental and Hobby. The airline charges for FY2011 are estimates which will be recalculated during the rates and charges reconciliation process.

**Houston Airport System
Total Airline Cost Per Enplanement**

	<u>FY 2011*</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Intercontinental	\$ 10.42	\$ 10.52	\$ 11.53	\$ 11.03	\$ 10.56
Hobby	7.99	8.75	8.64	7.79	7.83

*FY 2011 Budget Estimate

Source: Houston Airport System

DEBT SERVICE REQUIREMENTS OF HOUSTON AIRPORT SYSTEM BONDS

Schedule 7: Houston Airport System Debt Service Requirements Schedule

Schedule 7 sets forth the Debt Service Requirements, computed as defined in APPENDIX B-1, on all Outstanding Houston Airport System Obligations (including Inferior Lien Obligations), assuming scheduled mandatory redemption of any term bonds. This schedule excludes the Refunded Bonds and includes the Series 2012 Bonds and Commercial Paper.

Period Ending	Senior Lien Debt Service	Subordinate Lien Debt Service ⁽¹⁾	Total Bonds Debt Service	Inferior Lien Obligations ⁽²⁾	Bonds plus Inferior Lien Obligations
7/1/2012	\$ 17,454,880	\$ 151,189,320	\$ 168,644,200	\$ 6,583,250	\$ 175,227,450
7/1/2013	21,786,126	150,749,186	172,535,312	6,586,325	179,121,637
7/1/2014	23,818,994	150,739,961	174,558,955	6,584,125	181,143,080
7/1/2015	33,093,994	150,740,208	183,834,202	6,581,800	190,416,002
7/1/2016	33,095,244	150,740,619	183,835,863	6,583,525	190,419,388
7/1/2017	33,093,244	150,676,511	183,769,755	6,583,200	190,352,955
7/1/2018	33,091,994	150,941,477	184,033,471		184,033,471
7/1/2019	33,095,244	151,130,606	184,225,850		184,225,850
7/1/2020	33,091,494	151,127,927	184,219,421		184,219,421
7/1/2021	33,094,744	151,918,817	185,013,561		185,013,561
7/1/2022	33,093,244	151,645,162	184,738,406		184,738,406
7/1/2023	33,095,744	153,570,945	186,666,689		186,666,689
7/1/2024	33,095,494	153,581,134	186,676,628		186,676,628
7/1/2025	33,095,994	152,171,120	185,267,114		185,267,114
7/1/2026	33,095,494	152,424,219	185,519,713		185,519,713
7/1/2027	33,092,244	153,933,193	187,025,437		187,025,437
7/1/2028	33,093,675	153,632,686	186,726,361		186,726,361
7/1/2029	33,091,288	151,229,596	184,320,884		184,320,884
7/1/2030	33,095,025	151,159,909	184,254,934		184,254,934
7/1/2031	33,094,400	155,792,342	188,886,742		188,886,742
7/1/2032	33,095,200	155,768,896	188,864,096		188,864,096
7/1/2033	33,094,125	--	33,094,125		33,094,125
7/1/2034	33,092,875	--	33,092,875		33,092,875
7/1/2035	33,092,875	--	33,092,875		33,092,875
7/1/2036	33,095,275	--	33,095,275		33,095,275
7/1/2037	33,095,950	--	33,095,950		33,095,950
7/1/2038	33,095,775	--	33,095,775		33,095,775
7/1/2039	33,095,350	--	33,095,350		33,095,350
	<u>\$ 890,415,985</u>	<u>\$ 3,194,863,834</u>	<u>\$ 4,085,279,819</u>	<u>\$ 39,502,225</u>	<u>\$ 4,124,782,044</u>

⁽¹⁾ Variable and auction rate bonds reflected at original certified rate. Actual rates will vary. See footnote (2) to "Schedule 8: Houston Airport System Outstanding Debt."

⁽²⁾ Represents Houston Airport System's assumption of debt service payments for Series 1997A Special Facility Bonds under sublease with United. See footnote (4) to "Schedule 8: Houston Airport System Outstanding Debt."

Source: Houston Airport System

Schedule 8: Houston Airport System Outstanding Debt

Schedule 8 summarizes Houston Airport System debt outstanding as of December 31, 2011, including the Refunded Bonds, and excludes the Series 2012 Bonds and Commercial Paper.

Senior Lien Revenue Bonds, fixed rate	\$ 449,660,000
Senior Lien Notes ⁽¹⁾	-0-
Subordinate Lien Revenue Bonds, fixed rate	1,517,575,000
Subordinate Lien Revenue Bonds, periodic auction rate ⁽²⁾	314,325,000
Subordinate Lien Revenue Bonds, variable rate	93,630,000
Inferior Lien Obligations ⁽³⁾⁽⁴⁾	32,895,000
Pension Obligations Bonds ⁽⁵⁾	<u>2,006,000</u>
Total Outstanding Principal	<u>\$ 2,410,091,000</u>
Special Facilities Revenue Bonds ⁽⁴⁾⁽⁶⁾	<u>\$680,740,000,000</u>

- ⁽¹⁾ The City has authorized issuance of up to \$150 million of Airport System Senior Lien Notes, Series A and B, none of which are outstanding but which may be issued from time to time.
- ⁽²⁾ Reflects the principal amounts of the Series 2000P-1, 2000P-2, 2002C, 2002D-1, and 2002D-2 auction rate bonds. The auction rate bonds are not short term/demand obligations as defined in the bond ordinances authorizing the issuance of the Houston Airport System Bonds. The City has no current plans to refund the periodic auction rate bonds.
- ⁽³⁾ The City has authorized issuance of up to \$150 million of Airport System Inferior Lien Commercial Paper Notes, Series C, none of which are outstanding but which may be issued from time to time.
- ⁽⁴⁾ Under a sublease from United to the City of the Automated People Mover originally financed with the Series 1997A Special Facilities Bonds, the City has agreed to make sublease payments that include amounts equal to the debt service on such bonds. Such payments are payable from Houston Airport System Net Revenues on the same priority as Inferior Lien Obligations. Accordingly, for purposes of this schedule, the Series 1997A Special Facilities Bonds are listed as Inferior Lien Obligations rather than as Special Facilities Bonds, even though they currently remain outstanding as Special Facilities Bonds.
- ⁽⁵⁾ Represents the Houston Airport System's allocation of the City's pension obligation bonds.
- ⁽⁶⁾ Represents the dollar amount of special facility revenue bonds that the City issued on behalf of third parties, the repayment of which is solely the obligation of such third party. THESE BONDS ARE SECURED SOLELY BY LEASE PAYMENTS OF THIRD PARTIES, AND NO REVENUES OF THE HOUSTON AIRPORT SYSTEM ARE PLEDGED TO PAY SPECIAL FACILITY BONDS. Approximately \$115 million of the bonds outstanding were issued to support a consolidated rental car facility and the remaining bonds were issued to support certain Continental (now United) airport terminal projects. The amount of this conduit debt obligation has been reduced by \$32.9 million to take into account the sublease that effectively transferred the debt obligation referenced in footnote 4 to the Houston Airport System.

Source: Houston Airport System

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Schedule 8A: Cash and Liquidity

Schedule 8A contains information on the cash position of the Houston Airport System and resulting days of cash on hand. A portion of the Airport System cash is restricted to certain uses and some of the cash is unrestricted. The Ordinance requires the Airport System to set aside two months of operation and maintenance reserves. The Airport System's policy has been to reserve greater than the minimum two month requirement to accommodate fluctuations in revenues and enplanements.

**Houston Airport System Cash and Investments
(dollars in thousands)**

	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Total Airport System Cash and Investments	<u>\$1,034,956</u>	<u>\$1,025,649</u>	<u>\$774,025</u>	<u>\$836,259</u>	<u>\$729,102</u>
Days of Cash on Hand	644	693	300	707	680

Source: Houston Airport System

HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS

Airport Use and Lease Agreements and Second Amended and Restated Special Facilities Lease Agreement

General. At both Intercontinental and Hobby, most landing fees and terminal rentals are paid by the airlines pursuant to use and lease agreements and/or special facilities leases. Those agreements generally require the airlines to pay landing fees, terminal building rentals and certain other charges to enable the City to recover costs allocable to facilities occupied by the airlines. These costs include, among others, operation and maintenance expenses, amortization charges associated with the City's investment in airport capital improvements and interest on the City's investment in land. Airlines that do not operate under use and lease agreements generally operate under agreements or arrangements on a month-to-month basis or under City ordinance.

The following section summarizes the major provisions of the Houston Airport System's use and lease agreements, special facilities leases and license agreements.

Intercontinental Terminal A Airlines Use and Lease Agreement. The Terminal A Use and Lease Agreement expired on June 30, 2005. The expired agreement was similar to the Terminal C Use and Lease Agreement (see below) with respect to rates and charges methodology, but differs with respect to term, facility management and certain cost provisions. The Terminal A Use and Lease Agreement is currently being held over on a month-to-month basis while a new agreement is finalized. The landing fee methodology in the expired Terminal A Use and Lease agreement, which is identical to that of the Terminal C Use and Lease Agreement (see below), is expected to remain the same in the new agreement.

Intercontinental Terminal B Improvement Projects and Special Facilities Lease. In connection with the redevelopment of Terminal B, the City and Continental entered into an Amended and Restated Special Facilities Lease with a term of thirty years, subject to certain early termination provisions and extension provisions on or about November 17, 2011. Pursuant to the Amended and Restated Special Facilities Lease, the City leases to Continental all of Terminal B, as well as certain special facilities located in Terminal C that were financed with proceeds of previously issued special facilities bonds. Continental may elect to proceed with future phases of the Terminal B project and finance and construct future facilities with additional special facilities bonds under the terms set forth in such lease.

The Terminal B Improvement Projects are expected to be accomplished in phases. It calls for Continental to build a new Terminal B South Concourse for regional jet aircraft and a new international-capable Terminal B North Concourse for both mainline and regional jet aircraft, add a Terminal B Federal Inspections Services (FIS) facility and rebuild the Terminal B central lobby and baggage claim areas. The first phase will replace Terminal B's two existing south circular flight stations used by Continental with a new South Concourse building at Terminal B for Continental's regional jet

operations at Intercontinental. Total capital costs of the entire Terminal B Improvement Projects to Continental are expected to equal approximately \$675 million and are expected to be financed in part with special facilities revenue bonds issued by the City on behalf of the airline.

To support the Terminal B Improvement Projects, the Airport System has agreed to undertake certain capital projects to be completed concurrently with Continental's capital projects at Terminal B. The Airport System's capital projects include ramp and apron replacement and roadway, signage, inter-terminal train, utility, environmental and fuel system relocation or improvements. The first phase of the City's capital program is expected to cost approximately \$62 million. The total cost to the City of the Terminal B Improvement Projects is estimated to equal \$287.85 million. The City's capital program will be financed largely with grants and PFCs and other revenue sources.

As security for the Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal B Project), Series 2011, the Amended and Restated Special Facilities Lease obligates Continental to pay rent, directly to the trustee, equal to the debt service on the special facility bonds. In addition, following substantial completion of each phase or segment of the Terminal B Improvement Projects, Continental will pay the City a Terminal B Rental Rate that is comprised of the following: (1) operation and maintenance expenses; (2) an allocation of certain costs relating to amortization of capital project improvements; (3) interest on the cost of land; (4) replenishment of the renewal and replacement fund; and (5) certain costs relating to administrative space, the automated people mover system, Terminal B apron charges and ground lease rentals.

Intercontinental Terminal C Use and Lease Agreement. Continental's Airport Use and Lease Agreement, as it relates to Terminal C, also extends the term of the Terminal C Special Facilities Lease to December 31, 2027. This agreement gives Continental the preferential right to use all of the apron area and exclusive right to use of all of the holdrooms and other airline space in Terminal C for the duration of the lease term. The Amended and Restated Special Facilities Lease also covers certain improvements made by Continental in Terminal B, Terminal C and Terminal D at Intercontinental. These improvements were financed by the Airport System Special Facility Revenue Bonds, Series 1997B and Series 1998B, originally issued in the principal amounts of \$71,200,000 and \$20,630,000, respectively. Continental continues to have an obligation to pay debt service, if any, which becomes due and payable after expiration of the Lease.

The Airport Use and Lease Agreement provides for Terminal C building rental rates to be calculated according to a "compensatory" rate-making methodology that has been in effect since Intercontinental opened in 1969 and which includes: (1) the City treating each terminal or major capital component at Intercontinental (Terminals A, B, C, D, E, the Central FIS Facility and the APM) as a separate cost center for rates and charges purposes and (2) computing capital costs in the airline rate base (terminals and airfield) to reflect level annual amortization of investments. Costs associated with public and concession areas of the terminals are the responsibility of the City and are recovered through concession revenues (including parking, rental car and ground transportation revenues) and other eligible non-airline revenues.

In calculating airline fees, rentals and any other charges at Intercontinental, the total costs of all support facilities such as the inter-terminal train system and the chilled and hot water plant are allocated among the various areas that benefit from such facilities, including airline areas of the terminal buildings. In addition, the City charges apron fees that are calculated to recover costs allocable to the aprons. Finally, landing fees are calculated according to a formula through which the airlines are required to pay their pro-rata share of all costs allocable to the airfield cost center after first deducting airfield revenues derived from general aviation (principally fuel flowage fees, if any).

International Facilities Agreement. Continental and carriers providing international service at Terminal D, which utilizes the Central FIS Facility, operate under the terms of the International Facilities Agreement on a month-to-month basis, which does not extend beyond June 30, 2015. The agreement sets forth the methodology for calculating rates and charges for the use of the facility. The methodology is generally based on the compensatory rate-making concepts in effect in the other leases and agreements, but charges are separately calculated for services relating to arrival, departure, ticketing, Central FIS Facility, APM and club activity, among others.

Terminal E Lease and Special Facilities Lease Agreement. The term of the Terminal E Lease and Special Facilities Lease Agreement relating to the central ticketing facility, Terminal E baggage system improvements, Terminal C-East garage, ATO facility, Terminal E apron area and fuel systems and ancillary facilities, commenced August 29, 2001 and is scheduled to terminate on January 25, 2030. Continental has the option to extend the term for an additional 5-year

period, subject to certain conditions. Continental net leased the facilities on an exclusive basis, with the exception of the Terminal E Apron area and fuel systems, which are leased on a preferential basis.

As security for the Airport System Special Facilities Revenues Bonds (Continental Airlines, Inc. Terminal E Project), Series 2001, the Terminal E Special Facilities Lease obligates Continental to pay rent, directly to the trustee, equal to debt service on the bonds. In addition, Continental is obligated to pay the City ground rentals for the special facility areas and "city charges" for the portions of the facilities financed by the City as well as certain allocated costs relating to capital project amortization, maintenance, and operations costs, replenishment of the renewal and extension fund for systems costs, and airport and departmental administrative costs. In consideration of Continental's net leasing of the entire Terminal E and central ticketing facility (including the public areas), Continental is entitled to the revenues from all "inside concessions" at Terminal E, such as revenues from concession agreements for food and beverage, gift/news, telephone and advertising.

Other Continental Lease Agreements

Continental entered into a Special Facilities Lease Agreement in March 1997 with respect to the automated people mover (APM) project connecting Terminals B and C at Intercontinental. The project was financed with the City's Special Facilities Revenue Bonds, Series 1997A, issued in the principal amount of \$74,200,000. The Special Facilities Lease Agreement (Automated People Mover) obligates Continental to pay rent to the City equal to debt service on the bonds. The City subleased the link between Terminals B and C from Continental effective January 25, 2005, when the link between Terminals C and D was placed into service and assumed the debt obligations.

Continental also operates two hangars, a mail sort facility, a cargo facility, a pilot simulator training center and other similar capital items at Intercontinental under a special facilities lease. The term of the lease expires in 2027.

The construction and improvement of the Continental facilities (such as a hangar at Intercontinental, a mail sort facility and simulator building) were partially financed by the Airport System Special Facilities Revenue Bonds, Series 1997C and Series 1998C, which were originally issued in the amount of \$44,600,00 and \$25,675,000, respectively. These Special Facilities Revenue Bonds are not obligations of the Houston Airport System. Continental has a continuing obligation to pay debt service, if any, which may become due and payable after expiration of the special facilities lease.

Continental leases approximately 4,400 parking spaces principally near economy parking at Intercontinental. The spaces are primarily for employee use. This lease agreement is scheduled to expire on May 13, 2013.

Hobby Use and Lease Agreements. The airport use and lease agreement for the airlines operating at Hobby are similar in form and substance to the agreements at Intercontinental, but with certain differences in rate-making methodology that resulted in the division of Hobby into two sub-cost centers: the Terminal Building and the Central Concourse. The City does not expect there to be any further division of cost centers into "airline" and "public/concession space" as is the practice at Intercontinental. Under the Hobby use and lease agreements, landing fees are calculated using the same formula as is used at Intercontinental.

In September 2008 the City entered into new agreements with Southwest, Delta, and American Eagle that will expire on June 30, 2015. The City is finalizing agreements with JetBlue and Frontier to become signatories to the same use and lease agreement. Southwest has asked the Airport System to evaluate the feasibility of flying internationally out of Hobby. As a result of those discussions the Houston Airport System has discussed the possibility of changing its rate-making methodology or changing the terms of its PFC collections at Hobby.

Other Significant Airport Agreements

Rental Car Facilities

The consolidated rental car facility was financed in March 2001 with proceeds of the Airport System Special Facilities Taxable Revenue Bonds Series 2001 (Consolidated Rental Car Facility Project) issued in the principal amount of \$130,250,000. These special facility bonds are secured by and payable from a separate customer facility charge ("CFC") assessed on rental car customers at Intercontinental. Under the terms of the Master Special Facilities Lease, the rental car

companies are responsible for all operation and maintenance costs associated with the facility and the associated busing operation. The lease is scheduled to expire on December 31, 2027.

The City has rental car agreements with nine rental car operators at Hobby. The agreements are scheduled to expire on May 31, 2012.

Concessions, Cargo and Service Agreements

Shown below is a summary of major non-airline agreements for the Houston Airport System.

**Houston Airport System
Certain Non-Airline Agreements**

<u>Vendor</u>	<u>Expiration Date</u>	<u>Extension or Termination Options</u>	<u>Service Provided</u>	<u>Airport</u>
JC Decaux	December 29, 2012		Advertising	IAH, HOU
The Nuance Group	October 18, 2014		Duty Free	IAH
Hudson News Company	May 22, 2015		News	HOU
Concessions of Houston (DNC)	June 30, 2015		Food	IAH
HMS Host	June 30, 2015		News, gift and specialty	IAH
The Paradies Shops	June 30, 2015		News, gift and specialty	IAH
JDDA SSP	December 31, 2016		Food	IAH
Host of Houston Ltd.	October 30, 2019		Marriott	IAH
4 Families of Houston	May 22, 2020		Food	HOU
Federal Express	July 31, 2012		Freight, Mail	IAH
UPS	December 31, 2022	2 ten-year options	Freight, Mail	IAH
Aero Houston Central	December 31, 2024		Central Cargo	IAH
Aero Houston East, L.L.C.	February 25, 2040	Option to terminate after 30 years	East Cargo	IAH
Aero Houston East II, L.P.	February 28, 2043	Option to terminate after 30 years	East Cargo	IAH
Trammel Crow Company IAH International Air Cargo II, L.P.	August 31, 2049	Option to terminate after 30 years	Perishables Cargo	IAH
Industrial Properties Corp.	February 28, 2043	Option to terminate after 30 years	East Cargo, Warehouse	IAH
New South Parking –Texas	January 28, 2015	2 one-year options	Parking management	IAH, HOU
Bombardier Transportation (Holdings) USA Inc.	January 24, 2016	Up to 5 years possible	APM operation and maintenance	IAH

Source: Houston Airport System

THE AIRLINE INDUSTRY FINANCIAL INFORMATION

Certain of the certificated major domestic airlines (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and thus must file reports and other information with the Securities and Exchange Commission (the “Commission”). Certain information, including financial information, as of particular dates, concerning the certificated major domestic airlines (or their respective parent corporations) is disclosed in such reports and statements filed with the Commission. Such reports and statements can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W.,

Washington, D.C. 20549, and at the Commission's regional offices, including the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511 and 5670 Wilshire Boulevard, 11th Floor, Los Angeles, California 90036. Copies of such reports and statements can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Commission also maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. The Commission undertakes no responsibility for and makes no representations (and the City, the City's Co-Financial Advisors and the Underwriters disclaim any responsibility) as to the accuracy or completeness of the content of such material contained on the world wide web as described in the preceding sentence, including but not limited to, updates of such information or links to other world wide web sites accessed through the aforementioned web site. In addition, all major and certain other airlines are required to file periodic reports of financial and operating statistics with the United States Department of Transportation. Such reports can be inspected in the Office of Airline Statistics, Research and Special Programs Administration, United States Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. Department of Transportation at prescribed rates.

Airlines owned by foreign governments or foreign corporations operating airlines (other than foreign airlines that have American Depository Receipts registered on a national exchange) are not required to file information with the Commission. Airlines owned by foreign governments, or foreign corporations operating airlines, file limited information only with the U.S. Department of Transportation.

INVESTMENT CONSIDERATIONS

Airline Concentration; Effect of Airline Industry Consolidation

On October 1, 2010, Continental became a wholly-owned subsidiary of United Continental Holdings, Inc. ("UCH") as a result of the merger of a subsidiary of UCH with and into Continental. (United is also a wholly-owned subsidiary of UCH.) UCH has assumed all of Continental's obligations. The combined airline received a single operating certificate from the FAA on November 30, 2011. The combined airline will operate under the name "United Airlines" upon full integration of the two airlines. The integration of Continental and United is expected to be complete in the first quarter of 2012.

In addition, Southwest announced on May 2, 2011, that it had closed its purchase of all of the outstanding common stock of AirTran Holdings, Inc., the former parent company of AirTran Airways (AirTran). Southwest is the largest passenger airline at Hobby.

Further airline consolidation remains possible. While the Houston Airport System believes that recent merger activity has had little impact on the respective combined airlines' market shares at Hobby or Intercontinental, future mergers or alliances among airlines operating at the Houston Airport System's facilities may result in fewer flights or decreases in gate utilization. Such decreases could result in reduced Net Revenues, reduced PFC collections and increased costs for the other airlines using the Houston Airport System.

Historically, when airlines have reduced or ceased operations at the Houston Airport System, other airlines have absorbed the traffic with no significant adverse impact on the Houston Airport System revenues. However, it is possible that if UCH ceased or significantly reduced operations at Intercontinental, revenues, PFC collections and costs for other airlines using the Houston Airport System could be adversely affected.

Two carriers – Southwest/AirTran and United/Continental - account for the vast majority of Houston Airport System traffic at Hobby and Intercontinental, respectively. If either airline were to significantly reduce service it may have a material impact on revenues, including concession revenues and PFC collections, and on the resulting cost per enplanement charged at each airport.

FAA Reauthorization

Congressional authorization for the FAA's operating authority, including various aviation programs and excise taxes, expired in 2007 and has been subsequently extended by Congress for only short time periods. The House and Senate

are currently finalizing an FAA reauthorization bill that would apply to the next four fiscal years. Although the City cannot predict the term and conditions relating to any final Congressional reauthorization, the City expects that the new agreement will be put in place. Failure of Congress to reauthorize the FAA's operating authority, or adverse changes in the conditions placed on such authority, may have an adverse impact on Houston Airport System operations over the long-run because grants awarded under the FAA's Airport Improvement Program have been a significant source of financing for the Houston Airport System.

Availability of PFCs

The Houston Airport System currently uses PFC collections to pay a portion of its debt service and to fund the local portion of certain pay-as-you-go projects. For its fiscal year 2012 budget, the Airport System has committed \$32.2 million of PFCs to pay senior lien and subordinate lien debt service. The collection of PFCs is subject to several risks. First, the amount of PFCs received by the Houston Airport System depends on the actual number of PFC-eligible passenger enplanements at Intercontinental and Hobby. If enplanements decline, PFC collections will also decline. Further, the PFC authorizations for Intercontinental and Hobby expire in November 2027 and November 2017, respectively, and may not be extended beyond these dates by the FAA. Finally, the Airport System's authority to impose PFCs could be terminated if it violates Department of Transportation regulations regarding their use. A shortfall in PFC collections would require the Airport System to pay these debt service costs from existing cash balances or from net revenues unless it successfully increases the rate at which PFCs are collected. The PFC rate is currently \$3.00 per enplaned passenger at each of Intercontinental and Hobby, although the maximum authorized rate is currently \$4.50 per enplanement.

Airport Security

The terrorist attacks on September 11, 2001 led to increased safety and security measures at Intercontinental and Hobby as mandated by the FAA and the Aviation and Transportation Security Act passed by Congress in November 2001. At that time, the Transportation Security Administration assumed certain safety and security procedures and operations from the Houston Airport System. Despite these new safety measures, additional acts of terrorism, which could reduce passenger traffic or airport revenues, are possible. The Airport System maintains property insurance to cover terrorism jointly and severally with the City of Houston and the City's other enterprise departments. However, this policy covers only part of the total property value of the Airport System. Deductibles or any costs in excess of insured amounts would be borne by the City or airlines.

Hurricane Activity

The southernmost portion of the City of Houston is located approximately 50 miles north of the Gulf of Mexico. The Gulf region is prone to seasonal hurricane activity; major hurricanes or related storms may develop. A hurricane of great severity, as measured categorically by the Saffir-Simpson index, could significantly damage Airport System properties. The Airport System maintains hurricane insurance jointly and severally with the City of Houston and its other enterprise departments, but the policy covers only part of the total property value of the Airport System. Deductibles or any costs in excess of insured amounts would be borne by the City or airlines.

Changes in Federal Legislation Relating to the Wright Amendment

In February 1980, Congress passed what is commonly referred to as the "Wright Amendment" as a part of the International Air Transportation Competition Act of 1979. The Wright Amendment limited interstate commercial airline passenger services out of Love Field in the City of Dallas, Texas, a hub for Southwest Airlines, (i) to any interstate destinations in aircraft having a passenger capacity of 56 seats or less (the "Commuter Aircraft Exception"), or on charter flights not exceeding 10 per month, and (ii) to the four states adjacent to Texas in aircraft of any size, subject to certain restrictions on through-service or ticketing, and operational restrictions on the flight or aircraft serving any point outside such adjacent states. In 1997, Congress passed the so-called "Shelby Amendment." That legislation (i) expanded the adjacent-state rule of the Wright Amendment to add three states to the four states adjacent to Texas and (ii) provided that an aircraft weighing not more than 300,000 pounds that is reconfigured to accommodate 56 or fewer passengers would be in compliance with the Commuter Aircraft Exception of the Wright Amendment, regardless of its destination. In 2005, Congress expanded the adjacent-state rule to include Missouri thus allowing non-stop flights from Love Field to a total of eight states. On October 13, 2006, President Bush signed into law legislation that (i) allows one-stop and through-service ticketing outside of the Wright Amendment's former restrictions, (ii) reduces Love Field's maximum gate capacity from 32

to 20 gates and (iii) completely repeals the Wright Amendment in 2014. The impact on the Houston Airport System of the repeal of the Wright Amendment in 2014 cannot be predicted at this time.

General Factors Affecting Air Traffic at the Houston Airport System

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

Financial Condition of the Airlines

The ability of the Houston Airport System to generate revenues depends, in part, upon the financial health of the aviation industry in general. The economic condition of the aviation industry is volatile, and the industry has undergone significant changes, including mergers, acquisitions, bankruptcies and closures in recent years. Further, the aviation industry is sensitive to a variety of factors, including (i) the cost and availability of financing, labor, fuel, aircraft and insurance, (ii) national and international economic conditions, (iii) international trade, (iv) currency values, (v) competitive considerations, including the effects of airline ticket pricing, (vi) traffic and airport capacity constraints of the Houston Airport System and competing airports, (vii) governmental regulation, including security regulations and taxes imposed on airlines and passengers, and maintenance and environmental requirements, (viii) passenger demand for air travel and (ix) disruption caused by airline accidents, criminal incidents and acts of war or terrorism, such as the events of September 11, 2001. The aviation industry is also vulnerable to strikes and other union activities.

The revenues of the airlines using the Houston Airport System and, as a consequence, the Houston Airport System may be materially affected by many factors including, without limitation, the following:

Cost of Fuel. Airline earnings are significantly affected by the price of aviation fuel. According to the Air Transport Association (the "ATA"), fuel is the largest cost component of airline operations and, therefore, an important and uncertain determinant of an air carrier's operating economics. There has been no shortage of aviation fuel since the "fuel crisis" of 1974, but there have been significant price increases for fuel.

Any unhedged increase in fuel prices causes an increase in airline operating costs. According to the ATA, a one-dollar per barrel increase in the price of crude oil equates to approximately \$445 million in annual additional expense for U.S. airlines. Fuel prices continue to be susceptible to, among other factors, political unrest, Organization of Petroleum Exporting Countries policy, increased demand for fuel caused by rapid growth of economies such as China and India, fuel inventory maintained by certain industries, reserves maintained by governments, currency fluctuations, disruptions to production and refining facilities and weather. In recent years, the cost of aviation fuel has risen sharply in response both to political instability abroad as well as increased demand for petroleum products around the world. Oil prices have become volatile in recent years: they reached an all-time high of \$145.18 per barrel in July 2008, declined to an average of \$62.09 per barrel in 2009, rebounded to \$79.61 per barrel in 2010, jumped to \$95.11 per barrel in 2011 and have averaged \$100.70 per barrel through January 24, 2012. Significant fluctuations and prolonged increases in the cost of aviation fuel have adversely affected air transportation industry profitability, causing airlines to reduce capacity, fleet and personnel and to increase airfares and institute fuel, checked baggage and other extra surcharges, all of which may decrease demand for air travel.

National Economic Conditions. Historically, the financial performance of the air transportation industry has correlated with the state of the national economy. Future increases in passenger traffic will depend largely on the ability of the United States to sustain growth in economic output and income. On August 5, 2011 the rating agency Standard and Poor's downgraded the credit of the United States to AA+ from AAA. The short term and long term financial implications of the downgrade are unclear. However, a continued lack of sustainable economic growth combined with high federal and state and local deficits could pressure the nation's financial markets, manufacturing activity and customer spending. There can be no assurances that such developments will not adversely affect the air transportation industry.

Global Economic and Political Conditions. Worldwide economic and political conditions have become more volatile and unpredictable. In the Middle East several governments including those in Libya and in Egypt have been overthrown. In Europe, the countries of Greece, Spain, Ireland Portugal and Italy have all experienced significant reductions in economic activities. Greece has rescheduled debt payments. Several countries including France, Italy, Spain and Greece have had their sovereign credit ratings decreased. The short term and long term implications of all these conditions are unclear. However, these developments could adversely impact the air transportation industry.

Structural Changes in the Travel Market. Many factors have combined to alter consumer travel patterns. The threat of terrorism against the United States remains high. As a result, the federal government has mandated various security measures that have resulted in new security taxes and fees and longer passenger processing and wait times at airports. Both add to the costs of air travel and make air travel less attractive to consumers relative to ground transportation, especially to short-haul destinations. Additionally, consumers have become more price-sensitive. Efforts of airlines to stimulate traffic by heavily discounting fares have changed consumer expectations regarding airfares. Consumers have come to expect extraordinarily low fares. In addition, the availability of fully transparent price information on the Internet now allows quick and easy comparison shopping, which has changed consumer purchasing habits. Consumers have shifted from purchasing paper tickets from travel agencies or airline ticketing offices to purchasing electronic tickets over the Internet. This has made pricing and marketing even more competitive in the U.S. airline industry. Finally, smaller corporate travel budgets, combined with the higher time costs of travel, have made business customers more amenable to communications substitutes such as tele- and video-conferencing.

Threat of Terrorism. The 2001 terrorist attacks against the United States and similar attacks in other parts of the world, the conflicts in Iraq and Afghanistan and the increased threat of further terrorist attacks decreased passenger traffic levels at the Houston Airport System and nationwide. Should new attacks occur against the air transportation industry, the travel industry, cities, utilities, infrastructure, office buildings or manufacturing plants, there could be a materially adverse effect on travel demand.

Capacity of National Air Traffic Control and Airport Systems. Demands on the national air traffic control system continue to cause aircraft delays and restrictions, both on the number of aircraft movements in certain air traffic routes and on the number of landings and takeoffs at certain airports. These restrictions affect airline schedules and passenger traffic nationwide. The Federal Aviation Administration is gradually automating and enhancing the computer, radar, and communications equipment of the air traffic control system and assisting in the development of additional airfield capacity through the construction of new runways and the more effective use of existing runways. However, increasing demands on the national air traffic control and airport systems could cause increased delays and restrictions in the future.

Airline Capital Markets Access. Airlines have historically required access to third-party capital to finance a significant portion of their aircraft and non-aircraft capital needs. Should the capital markets be inaccessible by either the U.S. airlines or international airlines, it could significantly impact their ability to provide scheduled service to and from the Airport System or undertake contractual capital commitments.

Airport Capital Markets Access. Airports have also historically required access to third-party capital to finance a significant portion of their capital needs or to effectively manage their cost per enplanement or debt coverage ratios. Should the capital markets be inaccessible to the Airport System, it may significantly impact the Airport System's ability to meet its prospective coverage ratio or to meet its future spending needs or to provide a competitive cost per enplanement.

Cost and Completion Schedule of Houston Airport System Capital Improvement Program

The costs and completion timeframe of capital projects included in the Airport System's CIP are subject to a number of uncertainties. The ability of the Houston Airport System to complete the Fiscal Year 2012-2016 CIP may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material, and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation, (xi) environmental issues, including environmental approvals that the Houston Airport System has not obtained at this time, (xii) additional security improvements and associated costs mandated by the federal government, and (xiii) lack of adequate funding, including inability to access the capital markets or loss of grants or PFCs.

A delay in the completion of certain projects under the FY2012-2016 CIP could delay the collection of revenues for such projects, increase project costs, and cause the rescheduling of other projects. There can be no assurance that the cost of construction of the 2012-2016 CIP projects will not exceed the currently estimated dollar amount or that the completion of the projects will not be delayed beyond the currently projected completion dates. Any schedule delays or cost increases could result in the need to issue Additional Airport System General Airport Revenue Bonds and may result in increased costs per enplaned passenger to the airlines, which may place the Houston Airport System at a competitive disadvantage to other airports. Further, changes in the mix of the projects which comprise the Airport System's CIP could negatively impact the long-term revenue base of the Airport System. This could occur if there were a substantial shift to those capital projects that the Airport System is required to fund out of non-airline revenues versus those that become part of the airline rate base and for which the Airport System receives airline revenues through landing fees and terminal rentals. In such case, the Airport System would seek to alter its rate-making methodology or find additional revenue sources. See "THE HOUSTON AIRPORT SYSTEM – Houston Airport System Capital Improvement Program."

Parking and Concession Revenues

City-owned parking facilities are the largest single source of non-airline revenues. City's parking facilities compete with several off-site private parking operators that provide free shuttle service to the airport to their customers at both Intercontinental and Hobby. Accordingly, competitive supply and demand constraints have affected the City's ability to significantly increase parking revenues, and may continue to effect revenues, at its on-site economy parking facilities. Additionally, the range of approved parking rates must be established by City Council, which may limit the Airport System's ability to increase rates for either its structured parking or economy parking facilities.

Concessions are the second largest source of non-airline revenues for the Houston Airport System. Under the Amended and Restated Special Facilities Lease executed in connection with the Terminal B redevelopment, concession revenues earned from operations in the new Terminal B facility will accrue largely for the benefit of Continental. In the past, the City earned a percentage of revenues from the concession operators in Terminal B. While the Airport System expects to reduce operations and maintenance costs to fully offset the loss of these concession revenues there can be no assurance that it will be able to do so.

Effect of Airline Bankruptcies

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

Airline Lease Agreements. In the event of bankruptcy proceedings involving one or more of the airlines operating at the Houston Airport System, the debtor or its bankruptcy trustee must determine within a time period determined by the court whether to assume or reject the applicable airline's use and lease agreement or other lease agreements. If assumed, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant agreements. Rejection of a lease or executory contract by an airline would give the City an unsecured claim for damages, the amount of which in the case of a lease is limited by the Bankruptcy Code.

Passenger Facility Charges. Pursuant to 49 U.S.C. §40117 and the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (the "PFC Act"), the FAA has approved the City's application to require the airlines to collect and remit to the City a \$3.00 PFC on each enplaning revenue passenger at Hobby and Intercontinental as further discussed in "THE HOUSTON AIRPORT SYSTEM – Houston Airport System Capital Improvement Program – Passenger Facility Charges (PFCs)."

The PFC Act provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the City) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. However, the airlines are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC

collections until such PFC collections are remitted. In the event of a bankruptcy, the PFC Act, as amended in December 2003, provides that (1) PFCs are and remain trust funds, (2) the airline in bankruptcy may not grant to any third party any security or other interest in PFC Revenues, and (3) the airline in bankruptcy must segregate in a separate account PFC Revenues equal to its average monthly PFC liability as well as postpetition actual PFCs. Despite these enhanced statutory protections, it is unclear whether the City would be able to recover the full amount of PFC trust funds collected or accrued by an airline in the event of a liquidation or cessation of business. The City also cannot predict whether an airline operating at Hobby or Intercontinental that files for bankruptcy would have properly accounted for PFCs owed to the City or whether the bankruptcy estate would have sufficient moneys to pay the City in full for PFCs owed by such airline. The PFCs are not pledged to the payment of the Series 2012 Bonds. For a discussion of the treatment of PFC Revenues under the Ordinance, see APPENDIX B-1.

There may be other possible effects of a bankruptcy of an airline that could result in delays or reductions in revenues received by the Houston Airport System and potentially in delays or reductions in payments on the Series 2012 Bonds. Regardless of any specific adverse determinations in an airline bankruptcy proceeding, the fact of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2012 Bonds.

Recent Bankruptcies and Non-Judicial Restructurings

On November 29, 2011, AMR and certain of its subsidiaries (including American Airlines and American Eagle) filed voluntary petitions for Chapter 11 reorganization in the U.S. Bankruptcy Court for the Southern District of New York. The company stated that the bankruptcy filing was undertaken to achieve a cost and capital structure that is industry competitive. American Airlines and American Eagle fly out of Intercontinental and Hobby, respectively. Houston acts as a spoke and not a hub city for American and American Eagle's scheduled passenger service. As a result, the Airport System does not have significant pre-petition financial exposure due to the filing, and the Airport System does not expect that the carriers will significantly change their scheduled service out of Houston due to their reorganization. The Houston Airport System has been collecting PFCs from American and American Eagle as provided under the PFC Act.

Pinnacle Airlines and Colgan Air serve Houston as regional partners for Delta Airlines and United Airlines, respectively. Pinnacle provides scheduled CRJ-900 regional jet service for Delta out of Hobby, and Colgan provides Q400 turbo-prop service for United out of Intercontinental. On January 20, 2012 the company publicly warned of a possible Chapter 11 filing citing uncompetitive labor costs. While it is impossible to ascertain the exact impact of a Chapter 11 filing, if any, the Houston Airport System does not believe that the financial exposure is material.

THE CITY AND CITY FINANCIAL INFORMATION

Governmental Structure

The City has a mayor-council form of government in which the Mayor and the 16-member City Council serve as the legislative body. Eleven council members are elected by district and five council members are elected at-large. The Mayor, all members of the City Council and the City Controller are elected for two-year terms. The present term of office for all elected officials expires in January 2014. The City Charter limits the terms of office for all elected City officials to three two-year terms.

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

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

Home-Rule Charter

Although the City is a home-rule city under the Texas Constitution, it may not adopt ordinances or charter provisions inconsistent with Texas law. Under the Texas Constitution, the City Charter may be amended not more than once every two years at an election held for that purpose, which may be called by the City Council or upon petition of 20,000 of the City's registered voters. The last City Charter amendments were adopted on November 2, 2010. See "– City Charter Tax and Revenue Limitations." In addition, the City Charter allows the City's voters to exercise the powers of initiative and referendum. To enact an initiative ordinance, a petition signed by voters equal in number to at least 15% of the greater total vote cast for Mayor in any general election in the preceding three years must be submitted to the City. Thereafter, the City Council may enact the ordinance or call an election on the question of its adoption. In order to exercise the referendum power, a petition signed by voters equal in number to at least 10% of the greater total vote cast for Mayor in any general election in the preceding three years must be submitted to the City. City Council may repeal the ordinance that is the subject of the referendum petition or submit the issue to the electorate. See "– City Charter Tax and Revenue Limitations."

City Interest Rate Swap Policy

To date, the City has not entered into any Qualified Hedge Agreements (i.e., swaps) in connection with any Houston Airport System Bonds.

On November 25, 2003, the City adopted a master swap policy (the "Swap Policy") to provide guidance for the City in its use of swaps, caps, floors, collars, options and other derivative financial products (collectively, "Swaps") in conjunction with the City's management of its assets and liabilities. The Swap Policy describes the circumstances and methods by which Swaps will be used, the guidelines to be employed when Swaps are used, and who is responsible for carrying out these policies. The City may enter into Swaps as authorized by the City Council and approved by the Attorney General of the State of Texas in connection with the issuance or payment of certain debt obligations, before, concurrently with, or after the actual issuance of the debt.

As a general rule, the City will enter into transactions only with counterparties whose obligations are rated in the double-A category or better from at least one nationally recognized rating agency. In addition, if a counterparty's credit rating is downgraded below the double-A rating category, the City may require that its exposure to the counterparty be collateralized or may exercise its right to terminate the transaction prior to its scheduled termination date. In order to limit the City's counterparty risk, the City will seek to avoid excessive concentration of exposure to a single counterparty or guarantor.

The Swap Policy provides that the City may choose counterparties for entering into Swap contracts on either a negotiated or competitive basis. To provide safeguards on negotiated transactions, the Swap Policy provides that the City may secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to verify that a fair price was obtained. In any negotiated transactions, the counterparty will be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who had any involvement in assisting the counterparty in doing business with the City.

The City will track and regularly report on the financial implications of the Swaps it enters into. A quarterly report will be prepared for the City Council including: (i) a summary of key terms of the agreements, including notional amounts, interest rates, maturity and method of procurement, including any changes to Swap agreements since the last reporting period; (ii) the mark-to-market value (termination value) of its Swaps, as measured by the economic cost or benefit of terminating outstanding contracts at specified intervals; (iii) the amount of exposure that the City has to each specific counterparty, as measured by aggregate mark-to-market value, netted for offsetting transactions; (iv) the credit ratings of each counterparty (or guarantor, if applicable) and any changes in the credit rating since the last reporting period; and (v) any collateral posting as a result of Swap agreement requirements. In addition, the City will perform such monitoring and reporting as is required by the rating agencies or for compliance with GASB requirements.

Investment of Moneys

The City maintains an investment strategy that emphasizes, in order of priority, safety, liquidity and return on investment, as embodied in its investment policy (the "Policy"). The City does not invest in inverse floaters, or interest-

only or principal-only mortgage-backed securities. The Policy provides, among other things, that (1) the Investment Manager (as defined in the Policy) shall submit quarterly investment reports to City Council and (2) the Policy shall be reviewed annually by City Council. For a further discussion of the Houston Airport System Fund investments as of June 30, 2011, see Note 1.E.1 and Note 3.B of the Notes to the Financial Statements as set forth in APPENDIX A. On December 14, 2011, the City Council amended the Investment Policy to incorporate amendments to the Public Funds Investment Act (PFIA).

Fitch Ratings has assigned a “AAA” credit quality rating to the City’s General Investment Portfolio. The ratings reflect the view of Fitch Ratings, from whom an explanation of the significance of such ratings may be obtained.

The Ordinance provides that all interest and income derived from the deposit and investment of amounts held in all Funds will be transferred or credited monthly to the Revenue Fund and shall constitute Gross Revenues of the Houston Airport System (unless specifically excluded from the definition of Gross Revenues), except as follows: (1) all interest and income derived from deposits and investments credited to the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund and the Operation and Maintenance Reserve Fund will remain in such funds to the extent necessary to accumulate the Reserve Fund Requirements or other required balance therein; and (2) all interest and income derived from deposits and investments held in any construction fund, including amounts held therein as capitalized interest, created by any ordinance authorizing the issuance of Houston Airport System Bonds will remain in such construction fund for disposition in the manner provided in the applicable ordinance. Notwithstanding anything to the contrary contained in the Ordinance, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required in order to prevent interest on any Houston Airport System Bonds from being includable within the gross income of the owners thereof for federal income tax purposes.

Health Care Benefits for Retired Employees

The City provides certain health care benefits for its retired employees, their spouses and survivors. Employees on long-term disability and their spouses can also qualify for retiree health care benefits. Currently, substantially all of the City’s employees who qualify for pension benefits while working for the City will become eligible for such benefits. As of the Fiscal Year that commenced on July 1, 2007, the City is required by the Government Accounting Standards Board Statement No. 45 (“GASB 45”), Accounting by Employers for Other Postemployment Benefits (“OPEB”), to report an actuarially determined cost of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Under GASB 45 the City must recognize such costs over the working lifetime of employees, and to the extent such costs are not prefunded, report such costs as a financial statement liability.

The City’s most recent actuarial study indicates that as of July 1, 2010, (i) the City’s actuarial accrued liability (“AAL”) for the portion of the total liability for projected benefits expected to be paid to the City’s municipal employees and classified police officers and firefighters not funded by normal cost payments was approximately \$2.0 billion and (ii) the annually required contribution that would be required to pay the normal costs of the benefits and to effect a level amortization of the AAL over a 30-year period would have been approximately \$237.5 million. The AAL measured as of June 30, 2009, was approximately \$3.1 billion. The reduction in AAL from \$3.1 billion to \$2.0 billion results from changes in treatment of those eligible for Medicare, certain actuarial gain, assumption changes and the impact of certain plan changes made as of May 1, 2011.

Similar to many issuers, the City’s current practice has been to fund the cost of OPEB on an annual pay-as-you-go basis and to account for OPEB costs as a current operating expense in the Fiscal Year in which the OPEB cost is paid. In Fiscal Year 2009 the Houston Airport System switched to an accrual basis to record these liabilities, in accordance with Generally Accepted Accounting Principles. As a result, the Fund’s payment increased starting in Fiscal Year 2009. The total expense recognized for Fiscal Year 2009, Fiscal Year 2010, and Fiscal Year 2011 was \$11.1 million, \$11.2 million and \$9.8 million, respectively. The Houston Airport System Fund’s payment for Fiscal Year 2012 is estimated to be \$1.3 million. To date, the City has not accumulated assets to offset future benefit costs.

Options available to any issuer such as the City to offset or reduce the future costs of the OPEB liability that will be reported under GASB 45 include the following:

- Reduction of benefits for active employees and/or retirees;

- Increase of required contributions from active employees and/or retirees; and
- Contributing assets or pre-funding with real property, a dedicated revenue stream or other taxes or City assets not yet identified.

See also APPENDIX A, particularly Note 8 of the Houston Airport System Fund's audited financial statements for Fiscal Year 2010, which includes information relating to retiree health care premiums paid by the City in Fiscal Year 2008, as well as information relating to health and long-term disability benefits.

Bargaining with Other Municipal Employees. The Texas Legislature recently enacted Chapter 146 of the Local Government Code ("Chapter 146"), which extended to municipal employees of the City, other than department heads, firefighters and police officers, the right to appoint bargaining agents to "meet and confer" with representatives of the City or any agency, board, commission or political subdivision that is required to establish wages, salaries, rates of pay, hours, working conditions or other terms and conditions of employment regarding such issues. Chapter 146 prohibits municipal employees from engaging in strikes and specifically prohibits the bargaining agent and the City from entering into agreements regarding pension-related matters governed by Article 6243g, Vernon's Texas Civil Statutes, or a successor statute (now Article 6243h, Vernon's Texas Civil Statutes). See "– Employee Pension Funds." However, any agreement affecting the salaries of municipal employees will likely have an effect on the City's pension liabilities.

In order to invoke the provisions of Chapter 146, a majority of the municipal employees must submit a petition requesting the recognition of a particular employee association as the sole and exclusive bargaining agent for all covered employees before the City may begin negotiations with the employee association. After receiving such a petition, the City may (i) grant recognition of the association as requested in the petition and meet and confer under Chapter 146 without an election by the voters of the City, (ii) order an election to determine whether the City may meet and confer under Chapter 146 or (iii) order a certification election to determine whether the employee association represents a majority of the covered employees.

The City has recognized the Houston Organization of Public Employees ("HOPE") as the exclusive bargaining agent for all covered employees. The City and HOPE entered into a meet and confer agreement that expired on June 30, 2011, which provided for, among other things, annual across the board wage increases of 3% of base pay and annual performance pay pools of 1.25% of each City department's aggregate base pay. A new agreement has been negotiated pending ratification by the parties. If ratified, the agreement will expire on June 30, 2015 and will provide for a pay increase of 2% in 2013 (with the potential for an additional 1% in 2013 conditioned upon the City's achievement of certain revenue benchmarks identified by the parties) and 3% in 2014. Following the expiration of such agreement, there no longer will be a contractual obligation for pay increases by the City. While pension benefits and contributions are not part of the meet and confer agreement, the increase in wages previously agreed to will affect the City's pension contributions. The City has recently reached an agreement with the Houston Municipal Employees Pension Board ("HMEPS") specifically related to pension benefits and contributions. Only a minority of Houston Airport System employees are covered by the union. See also the section captioned "– Employee Pension Funds" for a discussion of the "meet and confer" process for HMEPS.

Employee Pension Funds

General Overview

Pension Systems. The City has three pension programs that cover all full time City employees: the Houston Municipal Employees Pension System ("HMEPS" or the "Municipal System") for municipal employees, including virtually all Houston Airport System employees; the Houston Police Officers' Pension System ("HPOPS" or the "Police System") for classified police officers; and the Houston Firefighters' Relief and Retirement Fund ("HFRRF" or the "Firefighter Fund") for classified firefighters (collectively, the "Pension Systems"). The Pension Systems were established under State law, with the Municipal System established pursuant to Article 6243h of the Vernon's Texas Civil Statutes, as amended (the "HMEPS Statute"), the Police System established pursuant to Article 6243g-4, as amended (the "HPOPS Statute"), and the Firefighter Fund established by Article 6243e.2(1), as amended (the "HFRRF Statute," collectively with the HMEPS Statute and the HPOPS Statute, the "Pension Statutes").

The Pension Statutes establish the governance structures of the Pension Funds, City and employee contribution levels, and the determination of benefits payable to retirees under the Pension Systems; provided, however, that the HMEPS and HPOPS Statutes establish a local “meet and confer” process through which the City and the boards of trustees of the Municipal System and the Police System may reach binding agreements regarding City and employee contribution levels and the determination of benefits payable to retirees. Such agreements may provide for contribution levels and determinations of benefits that differ from those provided in the Pension Statutes.

Virtually all of the Houston Airport System’s employees are members of the Municipal System, and the Houston Airport System is directly responsible only for the costs of funding the portion of the City’s Municipal System contributions associated with employees of the Houston Airport System. See “– Houston Airport System’s Contributions to the Municipal System,” below. Due to the small number of classified police and firefighters employed by the Houston Airport System, the anticipated increases in City contributions to the Police System and Firefighter Fund in future fiscal years should not have a substantial financial impact on the Houston Airport System.

Funding Status. In 2001, benefit increases in the Municipal System were adopted by the Texas legislature that increased the future actuarially determined contributions and corresponding unfunded AAL (“UAAL”) components. See “Schedule 9: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability.” These benefit changes were supported jointly by the City and representatives of the Municipal System based on an actuarial cost analysis performed by the Municipal System’s actuary. The 2001 benefit changes, in combination with lower than expected investment performance, resulted in an actuarially determined City contribution rate of 52.9% of payroll and a UAAL of approximately \$1.8 billion as of July 1, 2003.

As a result of the increase in future actuarially determined contributions and their component UAALs, the City has taken a number of actions to improve the financial condition of the Municipal System. Pursuant to an election held on May 15, 2004, the voters authorized the City to opt-out of an amendment to the Texas Constitution that prohibits (unless the jurisdiction “opts out”) a reduction in or other impairment of the retirement or death benefits provided by the public retirement systems of political subdivisions that a member of such a system has “accrued.” In addition, the City and the Municipal System entered into a “meet and confer” agreement in 2004 (the “2004 HMEPS Agreement”). The 2004 HMEPS Agreement was considered by the City to be an intermediate step toward addressing the unexpected financial challenges arising from the 2001 benefit increases. To provide a more permanent, long term solution to those financial challenges, the City and the Municipal System subsequently entered into an amendment to the 2004 HMEPS Agreement (the “2007 HMEPS Agreement,” together with the 2004 HMEPS Agreement, the “HMEPS Agreements”) regarding benefit levels for current and future employees and employee and certain City contributions through Fiscal Year 2011. A further amendment was adopted in 2011 (the “2011 Agreement”), which established a long-term future contribution policy beginning in Fiscal Year 2012. See “– HMEPS Agreements” for a more complete description of the HMEPS Agreements.

As a result of the HMEPS Agreements, the actuarially determined contribution for the municipal system has been reduced to approximately 22.4% of payroll and the UAAL has been reduced to approximately \$1.36 billion as of July 1, 2010. See “Schedule 9: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability.”

The current City contribution for Fiscal Year 2012 is \$98.5 million, which is less than the actuarially determined amount; however, beginning with Fiscal Year 2013, the HMEPS agreement requires the future City contributions to be equal to the actuarially determined amounts, provided that the year-over-year increase in City contribution cannot exceed 2% of payroll. As of the most recent July 1, 2010 actuarial valuation report, the City contribution is projected to be equal to the actuarially determined amount of 26% of payroll in Fiscal Year 2016.

Schedule 9: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability

	As of July 1 (in millions)				
	2006	2007	2008	2009	2010 ^(c)
Actuarial Accrued Liability	\$ 2,894	\$ 3,129	\$ 3,296	\$ 3,451	\$ 3,632
Actuarial Value of Plan Assets ^(a)	<u>(1,867)</u>	<u>(2,194)</u>	<u>(2,310)</u>	<u>(2,284)</u>	<u>(2,273)</u>
Unfunded Actuarial Accrued Liability	<u>\$ 1,027</u>	<u>\$ 935</u>	<u>\$ 986</u>	<u>\$ 1,167</u>	<u>\$ 1,359</u>
Funded Ratio ^(b)	65%	70%	70%	66%	63%

^(a)The actuarial value of plan assets is determined by the actuary for the Municipal System. The value represents a generally accepted method of recognizing market gains and losses (relative to the assumed rate of return) over a five year period.

^(b)Funded ratio means actuarial value of plan assets divided by accrued liability.

^(c)Information is derived from HMEPS Actuarial Valuation dated July 1, 2010.

Source: Houston Airport System

Houston Airport System's Contributions to the Municipal System

The City budgets for its contributions to the Municipal System by allocating the cost among its General Fund and various Enterprise Funds, like the Houston Airport System, based upon the percentage of total payroll paid by the funds. For Fiscal Year 2012, municipal employees of the Houston Airport System comprise approximately 11.8% of the total civilian workforce payroll of the City, and, accordingly, the Houston Airport System is responsible for approximately 11.8% (\$10 million) of the City's \$98.5 million contribution to the Municipal System. The General Fund is responsible for approximately 46% (\$40 million) of the City's contribution to the Municipal System, with the remainder being split by the City's remaining Enterprise Funds. To the extent the share of budgeted payroll for municipal employees of the Houston Airport System changes in the future, the allocable percentage of the budgeted contributions by the Houston Airport System to the Municipal System will also change.

In addition to the cash contributions made by the City, the City has issued \$448 million in Pension Obligations for the benefit of HMEPS. Although these bonds are secured by a pledge of ad valorem tax revenues, the Houston Airport System is responsible for repaying its pro-rata share of debt service on \$2.0 million of pension obligation bonds issued by the City. This debt service payment is in addition to the Houston Airport System's annual contribution to HMEPS based on the current payroll of active employees. The total cost to the Houston Airport System for its pension related payroll based contributions and debt service contributions was \$9.2 million for Fiscal Year 2009, \$9.6 million for Fiscal Year 2010, \$9.9 million for Fiscal Year 2011. The estimated contribution for Fiscal Year 2012 is \$11.8 million. In January 2009, the City refunded its \$300 million 2004 Collateralized Pension Note, including the Airport's portion. The City's Fiscal Year 2012 contribution to the Municipal System will be \$98.5 million through "meet and confer" negotiations, which is approximately 21.9% of payroll.

HMEPS Agreements

The 2004 HMEPS Agreement was effective as of September 15, 2004, and will remain in effect until June 30, 2012. The 2004 HMEPS Agreement has three elements: (1) a funding commitment by the City for Fiscal Years 2005, 2006 and 2007, including a commitment to contribute cash, issue Pension Obligations, and contribute certain City assets; (2) a required increase in the employees' contribution; and (3) benefit level reductions for employees hired prior to January 1, 2008. The 2007 HMEPS Agreement has three elements: (1) a funding commitment by the City for Fiscal Years 2008, 2009, 2010 and 2011; (2) a new noncontributory defined benefit plan with further reduced benefit levels for employees hired after January 1, 2008; and (3) an agreement to reset the actuarial value of the Municipal System Assets to the market value of such assets as of July 1, 2006.

Under the terms of the 2007 HMEPS Agreement, the City made contributions to the Municipal System of \$75 million in Fiscal Year 2008, \$78.5 million in Fiscal Year 2009, \$83.5 million in Fiscal Year 2010 and \$88.5 million in Fiscal Year 2011.

Under the terms of the 2011 Agreement, the City will make a contribution of \$98.5 million in Fiscal Year 2012. Subsequent City contributions are expected to increase by 2% of payroll each year until Fiscal Year 2016 when the City will begin contributing the actuarially determined contribution amount of approximately 26% of payroll. The Houston Airport System will be responsible for approximately 12% of the City's scheduled contributions based upon the current percentage of the City's total municipal employee payroll paid by the Houston Airport System.

City Charter Tax and Revenue Limitations

In 2004, voters approved two initiatives, Proposition 1 (2004) and Proposition 2 (2004) (both described below), proposing to reduce, cap or otherwise limit ad valorem tax revenues or other revenues of the City. A majority of the voters voted for both Proposition 1 (2004) and Proposition 2 (2004), but Proposition 1 (2004) received more favorable votes than Proposition 2 (2004). Because of language contained in Proposition 1 (2004) and the City Charter, the City has determined that Proposition 1 (2004) is effective and Proposition 2 (2004) is not. Notwithstanding, certain supporters of Proposition 2 (2004) filed a lawsuit in state district court seeking a declaratory judgment that Proposition 2 (2004) is valid and enforceable.

Description of the Propositions

Proposition 1 (2004). Proposition 1 limits increases in (i) the City's ad valorem tax revenues by requiring voter approval for increases in ad valorem taxes in future years above a limit equal to the lesser of the actual revenues in the preceding Fiscal Year, plus 4.5%, or a formula that is based upon the actual revenues received in Fiscal Year 2005 adjusted for the cumulative combined rates of inflation and the City's population growth; and (ii) water and sewer rates (i.e., the City's Combined Utility System) by limiting rate increases to the combined increases in the rates of inflation and population growth, excluding rate increases required by certain bond covenants and rates established by contract, unless approved by the voters.

Proposition 2 (2004). Proposition 2 (2004) would limit increases in the City's "combined revenues," which would include revenues of the general fund, special revenue funds and enterprise funds, excluding only grant monies and revenues from other governmental entities. Proposition 2 (2004) would require 60% voter approval at a regular election to increase combined revenues over the combined revenues for the immediately preceding Fiscal Year, adjusted for the rates of change in the Consumer Price Index ("CPI") for the Houston area and the City's population. If the actual increase in the amounts of combined revenues for any given Fiscal Year is less than the allowable increase, then such reduced amount of combined revenues received by the City would be the baseline for the next Fiscal Year. If in any year the City's "combined revenues" exceed the amount allowed by Proposition 2 (2004), then the City would be required to deposit such excess in a taxpayer relief fund. If the balance in the taxpayer relief fund reaches \$10 million, such amount would be required to be refunded to taxpayers. Proposition 2 (2004) includes a provision that states that the City shall honor its covenants with bondholders such that shortfalls in debt coverage, among other covenants, shall be made up from reductions in other expenditures.

In response to these tax and revenue limitations, the City held an election on November 7, 2006 at which the voters approved Proposition G and Proposition H, which are currently effective. The City has incorporated Propositions G and H into its financial policies, and it anticipates collecting revenues and making expenditures for public safety purposes in compliance with Proposition H. The City Controller has verified that the current Fiscal Year 2012 Budget complies with Proposition 1 (2004). Based on the current status of the litigation described below, the City has determined that there is no legal requirement that it determine compliance with Proposition 2 (2004).

Proposition G (2006). Proposition G amended the City Charter to exclude revenues of the City's enterprise systems (i.e., Combined Utility System, Houston Airport System and the Convention and Entertainment Facilities Department) from the types of revenues limited under the City Charter. Voter approval of Proposition G removed the enterprise systems from the revenue limitations of Proposition 2 (2004), although the limitation on water and sewer rate increases included in Proposition 1 remains in effect.

Status of Litigation. After the Fourteenth Court of Appeals ruled in favor of the City in a lawsuit brought by Proposition 2 (2004) supporters, an appeal to the Texas Supreme Court was made and oral arguments were heard on November 18, 2009. On August 26, 2011, the Texas Supreme Court ruled that the plaintiffs' claims were not ripe for adjudication, vacated the judgments of the Court of Appeals and trial court and dismissed the case for lack of jurisdiction. In a separate lawsuit, a voter sought to invalidate Propositions G and H. That action was dismissed by a state district court; however, the plaintiff appealed the ruling to the First Court of Appeals, which on April 15, 2010 overturned the district court's dismissal of the case and gave the plaintiff an opportunity to amend his pleading to prove standing for the suit. The City appealed such ruling to the Texas Supreme Court, but was denied review on December 16, 2011. The City will continue to aggressively defend such suit.

LITIGATION AND REGULATION

Houston Airport System Claims and Litigation

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

Other Claims and Litigation Affecting the City

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

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

Environmental Regulation

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

Air Emissions Controls

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may curtail new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight county Houston-Galveston-Brazoria Area ("HGB Area") has been designated by the EPA as a non-attainment area under the EPA's ozone standards. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with EPA's standards is achieved. To provide for annual reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limitations on emissions of volatile organic compounds and nitrogen oxides ("NOx") from existing stationary sources of air emissions. In addition, any new source of significant air emissions, such as a new

industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Even though existing air emissions controls are quite stringent, studies have indicated that even more stringent air emissions controls will be necessary in order for the HGB Area to achieve compliance with EPA's existing ozone standard. In January 2010, EPA proposed to lower its existing ozone standard from 0.075 parts per million (ppm) to 0.060 – 0.070 ppm. If EPA ultimately lowers its ozone standard to 0.060 – 0.070 ppm, it will be very difficult for the HGB Area to achieve compliance with the new lower standard. Due to the magnitude of air emissions reductions required as well as shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community. Extremely stringent controls on sources of air emissions in the HGB Area could make the Houston area a less attractive location to businesses in comparison to other areas of the country that do not impose similarly stringent air emissions controls. If the HGB Area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA's ozone standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of hydrocarbon emissions for which construction has not already commenced.

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

State Legislation

Although the City is a home-rule city under the Texas Constitution, it may not adopt ordinances or charter provisions inconsistent with Texas law. The Texas Legislature may enact legislation that (i) materially increases the costs and expenditures of the City or (ii) reduces the ability of the City to collect ad valorem taxes or other revenues described herein. Under the Texas and United States Constitutions, the Texas Legislature may not, however, enact legislation that impairs the City's ability to pay principal of and interest on its indebtedness.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P") and Fitch Ratings, Inc. ("Fitch"), have assigned credit ratings to the Series 2012 Bonds of "____" and "____," respectively. The credit ratings of S&P and Fitch are based on the strength of the underlying credit of the Houston Airport System.

Such ratings reflect only the view of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041; Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2012 Bonds. The City and its Co-Financial Advisors will undertake no responsibility either to bring to the attention of the registered owners of the Series 2012 Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

VERIFICATION OF MATHEMATICAL ACCURACY

The accuracy of the mathematical computations of (i) the adequacy of the maturing principal of and interest earned on the Escrowed Securities for the Refunded Bonds, together with other available funds held in the Refunded Bonds Escrow Fund for the Refunded Bonds, to provide for the payment of the Refunded Bonds and (ii) the "yield" on the

Escrowed Securities and on the Series 2012 Bonds, prepared by the Underwriters, will be verified by Grant Thornton LLP, a firm of independent certified public accountants.

These computations will be based upon information and assumptions supplied by the Underwriters on behalf of the City. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the Underwriters and has not evaluated or examined the assumptions or information used in the computations.

TAX MATTERS

The Tax-Exempt Bonds

Tax Exemption

In the opinion of Bracewell & Giuliani LLP and Bates & Coleman, P.C., Co-Bond Counsel, under existing law (i) (A) interest on the Series 2012A Bonds is excludable from gross income for federal income tax purposes except for any period a Series 2012A Bond is held by a person who, within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), is a "substantial user" or a "related person" to a "substantial user" of the facilities financed or refinanced with the proceeds of the Series 2012A Bonds, and (B) the Series 2012A Bonds are "private activity bonds" under the Code and, as such, interest on the Series 2012A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Series 2012B Bonds is excludable from gross income for federal income tax purposes and (ii) the Series 2012B Bonds are not "private activity bonds" under the Code, and, as such, interest on the Series 2012B Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Tax-Exempt Bonds, to be excludable from gross income for federal income tax purposes. These requirements include, among other things, limitations on the use of the bond financed project, limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The City has covenanted in the Ordinance that it will comply with these requirements.

Co-Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes and, in addition, will rely on representations by the City, the City's Co-Financial Advisors and the Underwriters with respect to matters solely within the knowledge of the City, the City's Co-Financial Advisors and the Underwriters, respectively, which Co-Bond Counsel have not independently verified. Co-Bond Counsel will further rely on the report (the "Report") of Grant Thornton LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations or the Report are determined to be inaccurate or incomplete, interest on the Tax-Exempt Bonds could become includable in gross income from the date of original delivery of each issue of the Tax-Exempt Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum tax rate for individuals is 26% of so much of such taxable excess as does not exceed \$175,000 plus 28% of so much of such taxable excess as exceeds \$175,000. The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of an individual or corporation will include items of tax preference under the Code, such as the amount of interest received on "private activity bonds" issued after August 7, 1986. Accordingly, Co-Bond Counsel's opinion will state that interest on the Series 2012A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations.

In addition, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC), includes 75% of the amount by which its “adjusted current earnings” exceeds its other “alternative minimum taxable income.” Because interest on tax-exempt obligations that are not “private activity bonds,” such as the Series 2012B Bonds, is included in a corporation’s “adjusted current earnings,” ownership of the Series 2012B Bonds could subject a corporation to alternative minimum tax consequences.

Except as stated above, Co-Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, acquisition, ownership or disposition of, the Tax-Exempt Bonds.

Co-Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Co-Bond Counsel’s knowledge of facts as of the date thereof. Co-Bond Counsel assumes no duty to update or supplement their opinions to reflect any facts or circumstances that may thereafter come to Co-Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Co-Bond Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Co-Bond Counsel’s legal judgment based upon their review of existing law and in reliance upon the representations and covenants referenced above that they deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Tax-Exempt Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of any issue of the Tax-Exempt Bonds could adversely affect the value and liquidity of such issue of the Tax-Exempt Bonds regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

Collateral Tax Consequences

Prospective purchasers of the Tax-Exempt Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Tax-Exempt Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Tax-Exempt Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Tax-Exempt Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

The issue price of all or a portion of each issue of the Tax-Exempt Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Tax-Exempt Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the

redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of all or a portion of each issue of the Tax-Exempt Bonds may be less than the stated redemption price payable at maturity of such Tax-Exempt Bonds (the “Original Issue Discount Bonds”). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “TAX MATTERS – The Tax-Exempt Bonds – Tax Exemption” and “TAX MATTERS – Additional Federal Income Tax Considerations – Collateral Tax Consequences” generally applies and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Tax-Exempt Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the City nor Co-Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Tax-Exempt Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner’s basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less, (ii) the amounts payable as current interest during such accrual period on such Tax-Exempt Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

The Taxable Series 2012C Bonds

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PRELIMINARY OFFICIAL STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS OF THE TAXABLE SERIES 2012 BONDS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH HOLDERS UNDER THE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE HOLDERS OF THE TAXABLE SERIES 2012 BONDS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

General

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of the Taxable Series 2012 Bonds by a U.S. holder (as defined below). This discussion is based upon the provisions of the Code, applicable U.S. Treasury Regulations promulgated thereunder, judicial authority and administrative interpretations, as of the date of this document, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. We cannot assure you that the Service will not challenge one or more of the tax consequences described in this discussion, and we have not obtained, nor do we intend to obtain, a ruling from the Service or an opinion of counsel with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the Taxable Series 2012 Bonds.

This discussion is limited to U.S. holders who purchase the Taxable Series 2012 Bonds in this offering for a price equal to the issue price of the Taxable Series 2012 Bonds (i.e., the first price at which a substantial amount of the Taxable Series 2012 Bonds is sold for cash other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Taxable Series 2012 Bonds as capital assets (generally, property held for investment). This discussion does not address the tax considerations arising under the laws of any foreign, state, local or other jurisdiction or income tax treaties or any U.S. federal estate or gift tax considerations. In addition, this discussion does not address all tax considerations that may be important to a particular holder in light of the holder's circumstances, or to certain categories of investors that may be subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that have elected the mark-to-market method of accounting for their securities;
- U.S. holders (as defined below) whose functional currency is not the U.S. dollar;
- persons holding the Taxable Series 2012 Bonds as part of a hedge, straddle, conversion or other “synthetic security” or integrated transaction;
- certain U.S. expatriates;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- persons subject to the alternative minimum tax;
- entities that are tax-exempt for U.S. federal income tax purposes; and

- partnerships and other pass-through entities and holders of interests therein.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds the Taxable Series 2012 Bonds, the tax treatment of a partner of the partnership generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership acquiring the Taxable Series 2012 Bonds should consult his/her own tax advisor about the U.S. federal income tax consequences of acquiring, holding and disposing of the Taxable Series 2012 Bonds.

INVESTORS CONSIDERING THE PURCHASE OF THE TAXABLE SERIES 2012 BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE TAXABLE SERIES 2012 BONDS UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

As used herein "U.S. holder" means a beneficial owner of a Taxable Series 2012 Bond and who or that is, for U.S. federal income tax purposes:

- an individual who is a U.S. citizen or U.S. resident alien;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

Interest on the Taxable Series 2012 Bonds

Interest on the Taxable Series 2012 Bonds generally will be taxable to a bondholder as ordinary income at the time it is received or accrued in accordance with the Taxable Series 2012 Bondholder's regular method of accounting for U.S. federal income tax purposes.

Disposition of the Taxable Series 2012 Bonds

A bondholder will generally recognize capital gain or loss on the sale, redemption, exchange, retirement or other taxable disposition of a Bond. This gain or loss will equal the difference between the Taxable Series 2012 Bondholder's adjusted tax basis in the Taxable Series 2012 Bond and the proceeds received (excluding any proceeds attributable to accrued but unpaid stated interest which will be recognized as ordinary interest income to the extent you have not previously included such amounts in income) by the Taxable Series 2012 Bondholder. The proceeds the Taxable Series 2012 Bondholder receives will include the amount of any cash and the fair market value of any other property received for the Taxable Series 2012 Bond. The adjusted tax basis in the Taxable Series 2012 Bond will generally equal the amount the Taxable Series 2012 Bondholder paid for the Taxable Series 2012 Bond. The gain or loss will be long-term capital gain or loss if the Taxable Series 2012 Bondholder held the Taxable Series 2012 Bond for more than one year at the time of the sale, redemption, exchange, retirement or other disposition. Long-term capital gains of individuals, estates and trusts currently are subject to a reduced rate of U.S. federal income tax. The deductibility of capital losses is subject to certain limitations.

Information Reporting and Backup Withholding

Information reporting will apply to payments of interest on, and the proceeds of the sale, redemption, exchange, retirement or other disposition of, the Taxable Series 2012 Bonds held by a bondholder, and backup withholding may apply to such payments unless that bondholder provides the appropriate intermediary with a taxpayer identification number,

certified under penalties of perjury, as well as certain other information. Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against a bondholder's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the Taxable Series 2012 Bondholder's actual U.S. federal income tax liability and the Taxable Series 2012 Bondholder timely provides the required information or appropriate claim form to the Service.

New Legislation Relating to Net Investment Income

For taxable years beginning after December 31, 2012, newly-enacted legislation is scheduled to impose a 3.8% tax on the "net investment income" of certain United States citizens and resident aliens and on the undistributed "net investment income" of certain estates and trusts. Among other items, "net investment income" generally would include interest and certain net gain from the sale, redemption, exchange, retirement or other taxable disposition of a Bond, less certain deductions.

Prospective holders should consult their tax advisors with respect to the tax consequences of the new legislation described above.

THE PRECEDING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. WE URGE EACH PROSPECTIVE INVESTOR TO CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR THE TAXABLE SERIES 2012 BONDS, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Pursuant to Section 1201.041 of the Public Security Procedures Act (Chapter 1201, as amended, Texas Government Code), the Series 2012 Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries and trustees and for the sinking funds of municipalities and other political subdivisions or public agencies of the State of Texas. The Series 2012 Bonds also are generally eligible to secure deposits of any public funds of Texas municipalities, counties, school districts and Texas State agencies.

The City has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Series 2012 Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Series 2012 Bonds.

CONTINUING DISCLOSURE

In the Ordinance, the City has made certain agreements regarding the continuing disclosure of information for the benefit of the holders and Beneficial Owners of the Series 2012 Bonds. The City is required to observe such agreements for so long as it remains obligated to advance funds to pay the Series 2012 Bonds. Under the agreements, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, whether or not material, to the information repository described below.

Annual Reports

The City will provide certain updated financial information and operating data to the Municipal Securities Rulemaking Board (the "MSRB") annually. The information to be updated includes quantitative financial information and operating data with respect to the City's Airport System in APPENDIX A and under the schedules listed in APPENDIX D. The City will update and provide this information within six months after the end of each fiscal year. See APPENDIX D relating to the City's limited obligations to update Schedule 9, which contains actuarial information related to the Municipal System Pension Plan.

The City may provide updated information in full text or in such other form consistent with the Ordinance, or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide audited financial statements when and if they become available, but if such audited financial statements are unavailable, the City will provide such financial statements on an unaudited basis within the required time. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX A or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is June 30. Accordingly, it must provide updated information by December 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Certain Event Notices

The City will also provide notice to the MSRB of any of the following events with respect to the Series 2012 Bonds in a timely manner and not more than 10 Business Days after occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2012 Bonds, or other material events affecting the tax status of the Series 2012 Bonds; (7) modifications to rights of holders of the Series 2012 Bonds, if material; (8) Series 2012 Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2012 Bonds, if material; (11) rating changes, (12) bankruptcy, insolvency, receivership, or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of the trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide information, data or financial statements in accordance with its agreement described above under "Annual Reports." Neither the Ordinance nor the Series 2012 Bonds provide for property securing repayment of the Series 2012 Bonds (other than the subordinate lien on Net Revenues) or appointment of a trustee.

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

Availability of Information

The City has agreed to provide the foregoing information only to the MSRB. The information is expected to be available to holders of the Series 2012 Bonds from the MSRB through the EMMA website at www.emma.msrb.org; however, the City makes no representation regarding the availability of such information from the MSRB.

Limitations and Amendments

The City has agreed to update information and to provide notices of the events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Series 2012 Bonds at any future date. The City disclaims any contractual or tort liability for

damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Series 2012 Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Series 2012 Bonds in the offering made hereby in compliance with the Rule and either the holders of a majority in aggregate principal amount of the Outstanding Series 2012 Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Series 2012 Bonds. The City may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, and the City may amend the agreement in its discretion in any other circumstance or manner, but in either case only to the extent that its right to do so would not prevent the Underwriters from purchasing the Series 2012 Bonds in the offering described herein in compliance with the Rule. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. See APPENDIX D relating to the City’s limited obligation to update Schedule 9, which contains actuarial information related to the Municipal System Pension Plan.

Compliance with Prior Undertakings

The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

No Continuing Disclosure Undertakings by Airlines

No airline has made any agreement regarding the continuing disclosure of information for the benefit of the holders and Beneficial Owners of the Series 2012 Bonds. However, certain of the certificated major domestic airlines (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and thus must file reports and other information with the Commission. See “THE AIRLINE INDUSTRY FINANCIAL INFORMATION.” In addition, pursuant to the Rule, certain airlines may have agreed to continuing disclosure undertakings in connection with the issuance and sale of obligations other than the Series 2012 Bonds. (United entered into a continuing disclosure agreement in connection with the Series 1997 Special Facilities Bonds, Series 1998 Special Facilities Bonds and the Series 2001 Special Facilities Bonds (Terminal E Project).) In those instances the airlines would have undertaken, in a written agreement or contract for the benefit of the holders of such obligations, to provide to various information repositories certain annual financial information and operating data, including audited financial statements, and to provide notice to such repositories and the MSRB of certain specified material events. Such information is available to securities brokers and others who subscribe to receive the information from such repositories.

LEGAL PROCEEDINGS

The delivery of the Series 2012 Bonds is subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bracewell & Giuliani LLP and Bates & Coleman, P.C., Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2012 Bonds under the Constitution and laws of the State of Texas. The opinion of Co-Bond Counsel will be based upon an examination of a transcript of certain certified proceedings of the City incident to the issuance and authorization of the Series 2012 Bonds. A copy of the proposed opinion of Bracewell & Giuliani LLP and Bates & Coleman, P.C., to be delivered in connection with the Series 2012 Bonds, is attached to this Official Statement as APPENDIX C.

In their capacity as Co-Bond Counsel, Bracewell & Giuliani LLP, Houston, Texas, and Bates & Coleman, P.C., Houston, Texas, have reviewed the statements and information contained in the Official Statement under the captions and sub-captions “PURPOSE AND PLAN OF FINANCING – The Refunded Bonds,” “THE SERIES 2012 BONDS,” “HOUSTON AIRPORT SYSTEM ORDINANCE AMENDMENTS,” “SECURITY FOR THE SERIES 2012 BONDS” (except for information under the sub-caption “Bondholders’ Remedies”), “COVENANTS AND TERMS OF THE ORDINANCE” (except for the information under the sub-caption “Rate Covenant – Other Factors Impacting Rate

Covenant”), “CONTINUING DISCLOSURE” (except for the information under the sub-captions “Compliance With Prior Undertakings” and “No Continuing Disclosure Undertakings by Airlines” as to which no opinion is expressed), and APPENDIX B-1 and Co-Bond Counsel is of the opinion that the statements and information contained therein, insofar as such statements and information summarize certain provisions of the Ordinance and the Series 2012 Bonds, in all material respects fairly and accurately reflect the provisions of the Ordinance and the Series 2012 Bonds; further, Co-Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions “TAX MATTERS” and “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” and Co-Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

Such firms have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City or the Houston Airport System for the purpose of passing upon the fairness, accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms’ limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the fairness, accuracy or completeness of any of the information contained herein. The fees of Bracewell & Giuliani LLP and Bates & Coleman, P.C., for their services with respect to the Series 2012 Bonds are contingent upon the sale and delivery of the Series 2012 Bonds.

Certain matters will be passed upon by for the City by its Special Disclosure Co-Counsel, Haynes and Boone, LLP, Houston, Texas and Bratton & Associates, Houston, Texas. Certain other legal matters will be passed on for the Underwriters by their counsel, Fulbright & Jaworski L.L.P., Houston, Texas.

Bracewell & Giuliani LLP, Haynes and Boone, LLP, Bratton & Associates, and Bates & Coleman, P.C., represent the Underwriters from time to time in matters unrelated to the issuance of Series 2012 Bonds. Fulbright & Jaworski L.L.P. represents the City from time to time in matters unrelated to the Series 2012 Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2012 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

CO-FINANCIAL ADVISORS

First Southwest Company, who in turn has retained TKG & Associates LLC as Co-Financial Advisor, has been retained by the City as Financial Advisor in connection with the issuance of the Series 2012 Bonds and, in such capacity, has assisted the City in the preparation of documents. The Financial Advisor’s fee for services rendered with respect to the sale of the Series 2012 Bonds is not contingent upon the issuance and delivery of the Series 2012 Bonds.

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

INDEPENDENT AUDITORS

The financial statements of the Houston Airport System Fund, as of and for the years ended June 30, 2010 and 2009, included in this Official Statement as APPENDIX A, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

UNDERWRITING

Morgan Stanley & Co. LLC ("Morgan Stanley"), as representative and on behalf of all of the Underwriters set forth on the cover page hereof, has agreed to purchase the Series 2012A Bonds, subject to certain conditions, and has agreed to pay therefor a price of \$_____ (reflecting the par amount of the Series 2012A Bonds, plus a net offering premium of \$_____, less an underwriting discount of \$_____).

Morgan Stanley, as representative and on behalf of all of the Underwriters set forth on the cover page hereof, has agreed to purchase the Series 2012B Bonds, subject to certain conditions, and has agreed to pay therefor a price of \$_____ (reflecting the par amount of the Series 2012B Bonds, plus a net offering premium of \$_____, less an underwriting discount of \$_____).

Morgan Stanley, as representative and on behalf of all of the Underwriters set forth on the cover page hereof, has agreed to purchase the Taxable Series 2012C Bonds, subject to certain conditions, and has agreed to pay therefor a price of \$_____ (reflecting the par amount of the Taxable Series 2012C Bonds, plus a net offering premium of \$_____, less an underwriting discount of \$_____). Morgan Stanley will be obligated to purchase all of the Series 2012 Bonds, if any of the Series 2012 Bonds are purchased.

Morgan Stanley, an underwriter of the Series 2012 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley will distribute municipal securities to retail investors through the financial advisor network of a separate broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2012 Bonds.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the City as Underwriters) for the distribution of the Bonds at the original issue prices. Such agreements generally provide that the relevant Underwriters will share a portion of its underwriting compensation or selling concession with such broker-dealers.

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

FORWARD LOOKING STATEMENTS

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or to be taken by third parties, including

customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

GENERAL INFORMATION

All of the summaries of the statutes, ordinances and other related reports set forth herein are made subject to all of the provisions of such documents. The descriptions of the Series 2012 Bonds and the Ordinance herein do not purport to be complete and all such descriptions or references thereto contained in this Official Statement are qualified in their entirety by reference to the complete forms of the Series 2012 Bonds and of the Ordinance. Statements made herein involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will even approximate actual results.

Copies of the June 30, 2011 Comprehensive Annual Financial Report of the City of Houston, Texas are available to each of the prospective purchasers of the Series 2012 Bonds upon written request addressed to the office of the City Controller, P.O. Box 1562, Houston, Texas 77251. THE SERIES 2012 BONDS ARE, HOWEVER, PAYABLE SOLELY FROM NET REVENUES OF THE HOUSTON AIRPORT SYSTEM AND CERTAIN RESERVES ESTABLISHED PURSUANT TO THE ORDINANCE, AND NO IMPLICATION IS MADE THAT ANY OTHER REVENUES OR MONEY OF THE CITY ARE TO BE AVAILABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2012 BONDS. Copies of the Ordinance are available to each of the prospective purchasers of the Series 2012 Bonds upon written request to the Office of the City Attorney, 900 Bagby, 4th Floor, Houston, Texas 77002. This document was approved by the City Council of the City.

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SCHEDULE I

SCHEDULES OF REFUNDED BONDS*

City of Houston, Texas
 Airport System Subordinate Lien Revenue Refunding Bonds, Series ____ (AMT)

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
*** (1)	***	***	***	***
*** (1) (2)	***	***	***	***

City of Houston, Texas
 Airport System Subordinate Lien Revenue Refunding Bonds, Series ____ (Non-AMT)

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
*** (1)	***	***	***	***
*** (1) (2)	***	***	***	***

(1) Term bond

(2) Only a portion of the term bond will be optionally redeemed. The mandatory sinking fund redemption requirements for such term bond will be reduced by the par amount of such optional redemption, with reductions being made in the earlier years first.

*Preliminary, subject to change.

APPENDIX A
AIRPORT SYSTEM FUND FINANCIAL STATEMENTS

APPENDIX B-1
THE ORDINANCE

The following are summaries of certain provisions of and certain defined terms contained in the Ordinance or used in this Official Statement. These summaries do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the full terms of the Ordinance. Additional summaries of certain provisions of the Ordinance are included in the forepart of the Official Statement under the caption "THE SERIES 2012 BONDS."

SUMMARY OF SELECTED PROVISIONS

Funds

Establishment of Funds. The Ordinance requires that the following listed eight special funds be established, maintained and accounted for so long as there are any Houston Airport System Bonds Outstanding: the Revenue Fund; the Senior Lien Bond Interest and Sinking Fund; the Senior Lien Bond Reserve Fund; the Subordinate Lien Bond Interest and Sinking Fund; the Subordinate Lien Bond Reserve Fund; the Operation and Maintenance Reserve Fund; the Renewal and Replacement Fund; and the Airports Improvement Fund.

The Ordinance provides that the Revenue Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall be maintained as separate funds or accounts on the books of the City and all amounts credited to such Funds shall be maintained in an official depository bank of the City or in a trustee bank designated by the City. The Ordinance further provides that the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City.

The Senior Lien Bond Interest and Sinking Fund constitute trust funds which are to be held in trust for the Owners of the Senior Lien Obligations to which they are pledged and the proceeds of which (other than the interest income thereon, which may be transferred to the Revenue Fund or such other Funds as may be required under federal tax law) shall be pledged to the payment of the Senior Lien Obligations. The Senior Lien Bond Reserve Fund and the accounts created therein are pledged to the particular Senior Lien Obligations, as described in the ordinances authorizing the issuance of the Senior Lien Obligations.

The Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund constitute trust funds which shall be held in trust for the Owners of the Subordinate Lien Bonds to which they are pledged and the proceeds of which (other than the interest income thereon, which shall be transferred to the extent herein provided to the Revenue Fund or such other Funds as may be required under federal tax law) shall be pledged to the payment of such Subordinate Lien Bonds.

The City has also reserved the right to create additional accounts within any Fund as necessary or desirable in furtherance of the intent and purpose of the Ordinance, including the purpose of causing the supplemental funding of any reserve fund.

Flow of Funds. All Gross Revenues of the Houston Airport System shall be deposited as received into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments, provided that, so long as such Federal Payments are excluded from the definition of Gross Revenues, such Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses. Moneys from time to time credited to the Revenue Fund shall be applied in the following order of priority:

- (1) First, to pay and to provide by encumbrance for the payment of all current Operation and Maintenance Expenses;
- (2) Second, to transfer all amounts to the Senior Lien Bond Interest and Sinking Fund required by any ordinance authorizing the issuance of Senior Lien Bonds or Senior Lien Notes;

- (3) Third, to transfer all amounts to the Senior Lien Bond Reserve Fund required by any ordinance authorizing the issuance of Senior Lien Bonds or Senior Lien Notes, including transfers to pay all reimbursement obligations under any reserve fund surety policies obtained with respect to Senior Lien Bonds or Senior Lien Notes;
- (4) Fourth, to transfer all amounts to the Subordinate Lien Bond Interest and Sinking Fund required by the Ordinance and any ordinance authorizing the issuance of Subordinate Lien Bonds;
- (5) Fifth, to transfer all amounts to the Subordinate Lien Bond Reserve Fund required by the Ordinance and any ordinance authorizing the issuance of Subordinate Lien Bonds, including transfers to pay all reimbursement obligations under any reserve fund surety policies obtained with respect to the Subordinate Lien Bonds;
- (6) Sixth, to transfer all amounts necessary to provide for the payment, and/or to provide reserves for the payment, of principal of, premium, if any, and interest on any Inferior Lien Bonds to the appropriate funds or accounts established for such purpose and required to be maintained by any ordinance authorizing such Inferior Lien Bonds;
- (7) Seventh, to transfer all amounts to the Operation and Maintenance Reserve Fund required by the Ordinance and any other ordinance authorizing Senior Lien Obligations, Subordinate Lien Bonds or Inferior Lien Bonds;
- (8) Eighth, to transfer all amounts to the Renewal and Replacement Fund required by the Ordinance and any other ordinance authorizing Senior Lien Obligations, Subordinate Lien Bonds or Inferior Lien Bonds; and
- (9) Ninth, the balance shall be transferred to the Airports Improvement Fund.

Senior Lien Bond Interest and Sinking Fund. Except as may be otherwise provided in any ordinance authorizing any Senior Lien Obligations, so long as any Senior Lien Obligations remain Outstanding, after making all required payments and provision for payment of Operation and Maintenance Expenses, there shall be transferred to the Senior Lien Bond Interest and Sinking Fund from the Revenue Fund such amounts on such dates as may be provided in the ordinances authorizing the issuance of the Senior Lien Obligations in order to provide for the full and timely payment of all principal of, interest on and any redemption premiums on all such Senior Lien Obligations and all expenses of providing for their full and timely payment in accordance with their terms, including without limitation, all fees charged or incurred obligations in connection with bond insurance, letters of credit, lines of credit, standby bond purchase agreements, or other credit or liquidity facilities, remarketing agreements, interest rate indexing agreements and tender agent agreements obtained or entered into by the City in connection with any Senior Lien Obligations.

Senior Lien Bond Reserve Fund. So long as any Senior Lien Obligations secured by the Senior Lien Bond Reserve Fund remain Outstanding, the City shall establish and maintain as hereinafter provided a balance in the Senior Lien Bond Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund equal to the Reserve Fund Requirement for the Senior Lien Bonds that are secured thereby. The City shall establish and maintain a balance in the Senior Lien Note Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund equal to the Reserve Fund Requirement for the Senior Lien Notes that are secured thereby. With respect to any series of Senior Lien Bonds that are not Reserve Fund Participants, the City shall maintain a balance in the account created within the Senior Lien Bond Reserve Fund for such series equal to the Reserve Fund Requirement for each such series of Senior Lien Bonds secured thereby. With respect to any series of Senior Lien Notes that are not Reserve Fund Participants, the City shall maintain a balance in the account created within the Senior Lien Bond Reserve Fund for such series equal to the Reserve Fund Requirement for each such series of Senior Lien Notes secured thereby.

Each increase in the Reserve Fund Requirement for any account of the Senior Lien Bond Reserve Fund resulting from the issuance of any Additional Senior Lien Obligations shall be satisfied at the time of issuance and delivery of such series of Additional Senior Lien Obligations. In any month in which any account of the Senior Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement, then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Senior Lien Bond Reserve Fund Participant Account (in the case of Senior Lien Bonds that are Reserve Fund Participants) and the Senior Lien Note Reserve Fund Participant Account (in the case of Senior Lien Notes that are Reserve Fund Participants) and such other designated accounts (in the case of Senior Lien Obligations that are not Reserve Fund

Participants) of the Senior Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under Senior Lien Bond Reserve Fund Surety Policies allocable to the various accounts of the Senior Lien Bond Reserve Fund, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the various accounts of the Senior Lien Bond Reserve Fund, the applicable Reserve Fund Requirement for the Senior Lien Obligations secured thereby. After such amounts have been accumulated in the various accounts of the Senior Lien Bond Reserve Fund, and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the accounts of the Senior Lien Bond Reserve Fund. But if and whenever the balance in the accounts of the Senior Lien Bond Reserve Fund is reduced below such amount, monthly transfers to such account shall be resumed and continued in such amounts as shall be required to restore the balance in the accounts of the Senior Lien Bond Reserve Fund to such amount within a twelve (12) month period.

Subordinate Lien Bond Interest and Sinking Fund. On or before the last Business Day of each month so long as any Subordinate Lien Bonds remain Outstanding, after making all required payments and provision for payment of Operation and Maintenance Expenses and making all required transfers to the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund, there shall be transferred into the Subordinate Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

- (i) Such amounts as shall be necessary so that the balance in the Subordinate Lien Bond Interest and Sinking Fund equals the Debt Service Requirements on all Subordinate Lien Bonds accrued to the end of the current month; plus
- (ii) Such amounts as shall be necessary to enable the City to pay when due all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Subordinate Lien Bonds in accordance with their terms, including without limitation, all fees charged or obligations incurred in connection with bond insurance, letters of credit, lines of credit, standby bond purchase agreements, or other credit or liquidity facilities, remarketing agreements, interest rate indexing agreements and tender agent agreements obtained or entered into by the City in connection with the Subordinate Lien Bonds.

Whenever the total amounts on deposit to the credit of the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Subordinate Lien Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further transfers need be made into the Subordinate Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Reserve Fund, and such Subordinate Lien Bonds shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. Moneys credited to the Subordinate Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Subordinate Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Subordinate Lien Bonds, plus all bank charges and other costs and expenses relating to such payment, including those described in clause (ii) above. On or before each principal and/or interest payment date on the Subordinate Lien Bonds, the City shall transfer from the Subordinate Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar for the Subordinate Lien Bonds an amount equal to the principal, interest and redemption premiums payable on the Subordinate Lien Bonds on such date including all amounts due and payable on Credit Agreements or Qualified Hedge Agreements relating to such Subordinate Lien Bonds.

Subordinate Lien Bond Reserve Fund. The City shall establish and maintain as hereinafter provided a balance in the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund equal to the Reserve Fund Requirement for the Subordinate Lien Bonds that are secured thereby. With respect to any series of Subordinate Lien Bonds that are not Reserve Fund Participants, the City shall establish and maintain a balance in the accounts created within the Subordinate Lien Bond Reserve Fund for such series equal to the Reserve Fund Requirement for the Subordinate Lien Bonds that are secured thereby. Each increase in the Reserve Fund Requirement resulting from the issuance of any Additional Subordinate Lien Bonds shall be satisfied at the time of issuance and delivery of such series of Additional Subordinate Lien Bonds. The Reserve Fund Requirement shall be satisfied by depositing to the credit of the Subordinate Lien Bond Reserve Fund Participant Account (in the case of Additional Subordinate Lien Bonds that are Reserve Fund Participants) or such other designated accounts (in the case of Additional Subordinate Lien Bonds that are not Reserve Fund Participants) of the Subordinate Lien Bond Reserve Fund either (i) proceeds of such Additional Subordinate Lien Bonds or other lawfully appropriated funds in not less than the amount which, together with investment

earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Subordinate Lien Bonds has been provided out of proceeds of such Additional Subordinate Lien Bonds or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues or (ii) a surety bond, insurance policy or letter of credit in a principal amount equal to the amount required to be funded, provided that, at the time of deposit, either the rating for the long-term unsecured debt of the issuer of such surety bond, insurance policy or letter of credit or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the two highest letter categories by the at least one major municipal securities evaluation services (or, if such entities are no longer in existence, by comparable services) and which Subordinate Lien Bond Reserve Fund Surety Policy shall be payable on demand of the City for the benefit of the Owners of the Subordinate Lien Bonds that are secured thereby (collectively, a "Subordinate Lien Bond Reserve Fund Surety Policy").

In any month in which any account of the Subordinate Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Additional Subordinate Lien Bonds as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Subordinate Lien Bond Reserve Fund Participant Account (in the case of Subordinate Lien Bonds that are Reserve Fund Participants) and such other designated accounts (in the case of Subordinate Lien Bonds that are not Reserve Fund Participants) of the Subordinate Lien Bond Reserve Fund from the Revenue Fund, amounts sufficient to enable the City to pay all reimbursement obligations under the Subordinate Lien Bond Reserve Fund Surety Policies within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Subordinate Lien Bonds secured thereby. After such amount has been accumulated in the Subordinate Lien Bond Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, and any excess amounts in such accounts shall be transferred to the Subordinate Lien Bond Interest and Sinking Fund to the extent the excess is attributable to the Subordinate Lien Bond Reserve Fund for any tax-exempt Subordinate Lien Bonds, and otherwise, shall be transferred to the Revenue Fund or such other accounts as may be permitted by federal tax law. But if and whenever the balance in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts is reduced below such amount, monthly transfers to such account shall be resumed and continued in such amounts as shall be required to restore the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, to such amount within a twelve (12) month period. The Subordinate Lien Bond Reserve Fund Participant Account shall be used to pay the principal of and interest on the Subordinate Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account), to pay reimbursements under the Subordinate Lien Bond Reserve Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account, and it may be used to make the final payments for the retirement or defeasance of all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants.

The City directs and requires the paying agent for any series of Subordinate Lien Bonds to ascertain the necessity for claim or draw upon the applicable Subordinate Lien Bond Reserve Fund Surety Policy and to provide notice to the issuer thereof in accordance with its terms and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal and interest on the Subordinate Lien Bonds to which it pertains.

Operation and Maintenance Reserve Fund. Amounts from time to time credited to the Operation and Maintenance Reserve Fund may be used at any time first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Revenue Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent such amounts are available, to be transferred to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund or any similar fund created to provide for the payment, or reserves for the payment, of Inferior Lien Bonds to the extent of any deficiency therein.

Renewal and Replacement Fund. Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time first, to pay for any costs of replacing depreciable property and equipment of the Houston Airport System and making repairs, replacements or renovations of the Houston Airport System; second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Revenue Fund and the Operation and Maintenance Reserve Fund; and third, to the extent any amounts are remaining, to be transferred to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund or any similar fund created to provide for the payment, or reserves for the payment, of Inferior Lien Bonds to the extent of any deficiency therein.

Airports Improvement Fund. Amounts credited to the Airports Improvement Fund may be used only for lawful Houston Airport System purposes, including without limitation, to pay for any capital expenditures or to pay costs of replacing any depreciable property or equipment of the Houston Airport System, to make any major or extraordinary repairs, replacements or renewals of the Houston Airport System, to acquire land or any interest therein, to pay any lease or contractual obligations not paid as Operation and Maintenance Expenses and to make any transfers required to cure any deficiencies in the Renewal and Replacement Fund; provided, however, that if at any time any unappropriated, unbudgeted, unreserved or otherwise unencumbered amounts in the Airports Improvement Fund exceeds (1) the unfunded amount of the Houston Airport System capital improvements program for the next 24 months or (2) \$50,000,000, whichever is greater, such excess amount may be used by the City for any lawful purpose not inconsistent with the terms of any Federal grants or aid or any contracts to which the City is a party.

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

Investment of Funds; Transfer of Investment Income. Money in the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or in any other investments authorized by Texas law; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. All such investments shall be valued no less frequently than the last Business Day of the City's Fiscal Year at their market value, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the City, in common investments of the kind described above, or in a common pool of such investments maintained by the City which shall be kept and held at an official depository of the City, which shall not be deemed to be a loss of the segregation of such money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund and the Operation and Maintenance Reserve Fund, shall remain in such funds to the extent necessary to accumulate the Reserve Fund Requirements or other required balance therein. All interest and income derived from deposits and investments of any amounts held in any construction fund, including amounts held therein as capitalized interest, created by any ordinance authorizing the issuance of Senior Lien Obligations, Subordinate Lien Bonds or Inferior Lien Bonds, shall remain in such construction fund for application in the manner provided in such applicable ordinance.

To the extent it is not otherwise provided for above or specifically excluded from the definition of Gross Revenues, all interest and income derived from deposits and investments credited to the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and

Replacement Fund and the Airports Improvement Fund, shall be transferred or credited monthly to the Revenue Fund or to such other Funds as may be required under federal tax law.

Notwithstanding anything to the contrary contained in the Ordinance, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required in order to prevent interest on any Bonds from being includable within the gross income of the owners thereof for federal income tax purposes.

Annual Budget

The Ordinance provides that prior to the commencement of each Fiscal Year, the Aviation Director is required to prepare and deliver to the Mayor, for submission to the City Council of the City, a recommended annual budget for the Houston Airport System in compliance with the definitional and accounting requirements and the Rate Covenant contained in the Ordinance. The City is required to adopt annual budgets for the Houston Airport System each Fiscal Year, each of which shall contain an estimate of revenues and only such budgeted expenditures as will produce Net Revenues of the Houston Airport System in an amount not less than the Net Revenues of the Houston Airport System necessary to comply with the Rate Covenant. The Ordinance requires that total Operation and Maintenance Expenses will not exceed total expenditures authorized for such purposes by the budget, as it may from time to time be amended.

Additional Senior Lien Obligations and Additional Subordinate Lien Bonds

General Provisions. Under the Ordinance, the City reserves the right to issue, for any lawful Houston Airport System purpose, one or more series of Additional Senior Lien Obligations and Additional Subordinate Lien Bonds, provided that no Additional Houston Airport System Bonds may be issued unless all of the following conditions are satisfied (the "Additional Bonds Test"):

(1) The Mayor and the Aviation Director certify that, upon the issuance of each of such series of Additional Houston Airport System Bonds, the City will not be in default under any term or provision of any Houston Airport System Bonds then Outstanding or any ordinance pursuant to which any of such Houston Airport System Bonds were issued;

(2) The City Controller certifies that, upon the issuance of each such series of Additional Houston Airport System Bonds, the Senior Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Interest and Sinking Fund will contain the amounts required to be on deposit therein and the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Reserve Fund will contain the applicable Reserve Fund Requirement or so much thereof as is required to be funded at such time;

(3) The City Controller certifies that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues of the Houston Airport System were equal to at least (a) 125% of the Debt Service Requirements on all then-Outstanding Senior Lien Obligations for such period plus (b) 110% of the Debt Service Requirements on all then-Outstanding Subordinate Lien Bonds for such period;

(4) Either:

(a) An Airport Management Consultant provides a written report setting forth projections which indicate the estimated Net Revenues of the Houston Airport System for each of three consecutive Fiscal Years beginning in the earlier of (i) the first Fiscal Year following the estimated date of completion and initial use of all revenue-producing facilities to be financed with such series of Additional Houston Airport System Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or (ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the series of the Additional Houston Airport System Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Management Consultant from proceeds of such series of Additional Houston Airport System Bonds, investment income thereon or from other appropriated sources (other than Net Revenues) are equal to at least (A) 125% of the Debt Service Requirements on all Senior Lien Obligations plus (B) 110% of the Debt Service Requirements on all Subordinate Lien Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for

the series of Additional Houston Airport System Bonds to be issued (such projections being referred to herein as the "Future Earnings Test"); or

(b) In lieu of the certification described in (a), the City Controller may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues of the Houston Airport System were equal to at least (i) 125% of the maximum Debt Service Requirements on all Senior Lien Obligations plus (ii) 110% of the maximum Debt Service Requirements on all Subordinate Lien Bonds scheduled to occur in the then-current or any future Fiscal Year after taking into consideration the issuance of the series of Additional Houston Airport System Bonds proposed to be issued (such certification being referred to herein as the "Historical Earnings Test");

(5) If Additional Houston Airport System Bonds are being issued for the purpose of refunding less than all of the previously issued Houston Airport System Bonds which are then Outstanding, none of the certifications described in paragraphs (3) or (4) under "General Provisions" above are required (except if Senior Lien Obligations are being issued to refund Subordinate Lien Bonds) so long as the Debt Service Requirements in any Fiscal Year after the issuance of such Additional Houston Airport System Bonds will not exceed the scheduled Debt Service Requirements in the same Fiscal Year prior to the issuance of such Additional Houston Airport System Bonds;

(6) In the ordinance authorizing the series of Additional Houston Airport System Bonds proposed to be issued, provision is made for (a) additional payments into the applicable Interest and Sinking Fund sufficient to provide for any principal and interest requirements resulting from the issuance of the series of Additional Houston Airport System Bonds including, in the event that interest on the series of Additional Houston Airport System Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the applicable Interest and Sinking Fund of amounts fully sufficient to pay interest on such series of Additional Houston Airport System Bonds during the period specified in the ordinance and (b) satisfaction of the Reserve Fund Requirement (if such Additional Houston Airport System Bonds are to be secured by a reserve fund) by not later than the date required by the Ordinance or any other ordinance authorizing a series of Additional Senior Lien Bonds, Senior Lien Notes, or Subordinate Lien Bonds, as the case may be;

(7) The provisions of paragraphs (4) and (5) above shall not apply to the issuance of Additional Senior Lien Obligations, or Additional Subordinate Lien Bonds for the purpose of refunding Short Term/Demand Obligations;

(8) The provisions of paragraphs (3) and (4) above shall not apply to the issuance of Completion Bonds in accordance with the Ordinance;

(9) The City may enter into Credit Agreements with respect to any Houston Airport System Bonds or Qualified Hedge Agreements if (a) prior to entering into such Credit Agreement, the City, to the extent required by law, shall cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating thereto to be submitted to and approved by the Attorney General of Texas; and (b) for any Credit Agreement that obligates the City to make any future payments for the availability of such Credit Agreement, the City's financial advisor for the Houston Airport System must certify that the inclusion of such payments within the Debt Service Requirements on the Houston Airport System Bonds or Qualified Hedge Agreement to which the Credit Agreement relates will not cause such Houston Airport System Bonds or Qualified Hedge Agreement to fail to comply with the applicable coverage requirements for their issuance or incurrence. The issuer of any Credit Agreement shall be entitled to be subrogated to the rights of the Owners of the Houston Airport System Bonds or the counterparty to the Qualified Hedge Agreement secured by such Credit Agreement, and the City's reimbursement and repayment obligations to the issuer of the Credit Agreement shall be secured by Net Revenues as provided in the Ordinance; and

(10) The City may enter into Qualified Hedge Agreements contemporaneously with or following the issuance of any Houston Airport System Bonds or in conjunction with the payment, sale, resale or exchange of any Houston Airport System Bonds for any purpose authorized by law if (a) the proceedings authorizing the Qualified Hedge Agreement and any contracts or reimbursement agreements relating thereto shall, to the extent required by law, be submitted to and approved by the Attorney General of Texas; (b) the City shall have received written confirmation from each rating agency then rating the Houston Airport System Bonds that entering into such Qualified Hedge Agreement will not, in and of itself, result in a withdrawal or reduction of any rating assigned to the Houston Airport System Bonds; and (c) the City's financial advisor for the Houston Airport System shall certify that the Houston Airport System Bonds to which the Qualified Hedge

Agreement relates could have been issued in satisfaction of all the applicable coverage requirements contained in the Ordinance if the Debt Service Requirements with respect to such Houston Airport System Bonds are recalculated (as provided in the definition of Debt Service Requirements) to take into account payments due under the Qualified Hedge Agreement.

Special Provisions for Short Term/Demand Obligations. In the Ordinance, the City has reserved the right to issue, from time to time, one or more series of Additional Senior Lien Bonds, Additional Senior Lien Notes, and/or Additional Subordinate Lien Bonds as Short Term/Demand Obligations, provided that the aggregate principal amount of Short Term/Demand Obligations Outstanding at any time may not exceed the greater of \$150,000,000 or 30% of the aggregate principal amount of Houston Airport System Bonds Outstanding at the time of issuance of the last series of Short Term/Demand Obligations, and further provided that the other conditions for issuing Additional Houston Airport System Bonds are met. In addition, no Short Term/Demand Obligation shall be subject to the limitations as to maximum principal amount as set forth above during any period of time that the City's financial advisor for the Houston Airport System certifies that the City's variable or adjustable interest rate exposure under such Short Term/Demand Obligation is substantially hedged pursuant to an interest rate swap, interest rate cap or other interest rate hedging mechanism with a counterparty having a rating in one of the two highest credit rating categories by at least two major rating agencies (or with a counterparty whose payment obligations under such interest rate swap, interest rate cap, or other interest rate hedging mechanism are insured or guaranteed by an entity having such rating) pursuant to which the maximum net rate of interest that the City is obligated to pay (after taking into account all payments to be made by such counterparty) does not exceed the interest rate certified with respect to such Short Term/Demand Obligation by such financial advisor pursuant to paragraph (ii) clause (2) of the definition of Debt Service Requirements.

Special Provisions for Completion Bonds. The City has also reserved the right in the Ordinance to issue one or more series of Additional Houston Airport System Bonds to pay the cost of completing any Project (as defined in the following paragraph) for which Houston Airport System Bonds have been previously issued. Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required in "General Provisions" above, (1) a certificate from the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that such Project has not materially changed in scope since the issuance of the most recent series of Houston Airport System Bonds for such purpose (except as permitted in the applicable ordinance authorizing such series of Houston Airport System Bonds) and setting forth the aggregate cost of the Project which, in the opinion of such consulting engineer, has been or will be incurred; and (2) a certificate of the Aviation Director (a) stating that all amounts allocated to pay the costs of the Project from the proceeds of the most recent series of Houston Airport System Bonds issued in connection with the Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of such Project, (b) containing a calculation of the amount by which the aggregate cost of that Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Project paid to such date plus the moneys available at such date within any construction fund established therefor or other like account applicable to the Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund, and (c) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Project.

For purposes of the provisions for Completion Bonds, the term "Project" shall mean any Houston Airport System facility or project which shall be defined as a Project in any ordinance authorizing the issuance of Additional Houston Airport System Bonds for the purpose of financing such Project. Any such ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Project.

Exception for Inferior Lien Obligations. The City has also reserved the right in the Ordinance to issue or incur, for any lawful Houston Airport System purpose, bonds, notes or other obligations, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Senior Lien Obligations and the Subordinate Lien Bonds. Such Inferior Lien Bonds may be further secured by any other source of payment lawfully available for such purposes.

Exception for Special Facilities Bonds. In the Ordinance, the City has also reserved the right to issue, from time to time, in one or more series, Special Facilities Bonds to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. In no event shall any Gross Revenues or any other amounts held in any other fund or account

maintained by the City as security for the Houston Airport System Bonds or for the construction, operation, maintenance or repair of the Houston Airport System be pledged to the payment of Special Facilities Bonds or to the payment of any expenses of maintenance and operation of Special Facilities.

Exception for PFC Obligations. The City has reserved the right to issue or incur for any lawful Houston Airport System purpose bonds, notes, or other obligations secured in whole or in part by a lien on all or any designated portion of the PFC Revenues. Such PFC obligations may be further secured by any other source of payment lawfully available for such purposes.

Exception for Excluded Fee and Charge Revenues Obligations. The City has reserved the right to issue or incur for any lawful Houston Airport System purpose bonds, notes or other obligations secured in whole or in part by a lien on all or any designated portion of the Excluded Fee and Charge Revenues for periods after the Amendment Effective Date. Such obligations may be further secured by any other source of payment lawfully available for such purposes.

Discharge by Deposit

The City may discharge its obligation to the Owners of any or all of the Series 2012 Bonds or other series of Bonds to pay principal, interest and redemption premium (if any) thereon by depositing with the applicable paying agent/registrar cash in an amount equal to the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of \$100,000,000, pursuant to an escrow or trust agreement, cash and/or any obligation authorized under Texas law to be deposited for the payment or redemption of the such Bonds, in principal amounts and maturities and bearing interest at rates sufficient, based upon a verification report of an independent nationally recognized certified public accountant, to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption. Upon such deposit, such Bonds shall no longer be regarded as being Outstanding or unpaid. In case any Bonds are to be redeemed on any date prior to their maturity, the City shall give to the Paying Agent/Registrar instructions to give notice of redemption of said Bonds to be so redeemed in the manner required in the ordinance or ordinances authorizing such Bonds. For any Bonds not to be redeemed or paid in full within the next succeeding sixty (60) days from the date of deposit provided for in the Ordinance, the City shall give the paying agent/registrar, in form satisfactory to it, irrevocable instructions to mail, by certified mail, a notice to the Registered Owner of each such Bond that the required deposit has been made and that said Bonds are deemed paid in accordance with the Ordinance and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal amount and redemption premium (if any) on such Bonds plus interest thereon to the date of maturity or redemption. Any failure, error or delay in giving such notice shall not affect the defeasance of such Bonds.

Certain Covenants and Agreements of the City

Maintenance of Airport System. The City covenants in the Ordinance that it will at all times maintain and operate the Airport System, or, within the limits of its authority, cause the same to be maintained and operated, in good and serviceable condition.

Limitation on City Charges for Operation and Maintenance Expenses. The City covenants in the Ordinance that it will not charge the Airport System any amounts for overhead expenses relating to the administration, operation and maintenance of the Airport System except to the extent that such amounts are reasonably allocable to the Airport System based upon a stated policy of allocation, reasonably applied to the Airport System and all other departments of the City and further covenants that the City will not charge the Airport System for any property provided or services rendered by the City unless such services are reasonably necessary and required for the Airport System and are not otherwise provided to the Airport System. All such charges imposed by the City upon the Airport System shall be reasonable, fair and consistent with similar charges imposed upon other departments of the City and shall be consistent with all applicable federal laws, regulations and other requirements applicable to the Airport System or imposed upon the Airport System in connection with the acceptance by the Airport System of any federal grants or aid.

Sale or Encumbrance of Airport System. Except for the use of the Airport System or services pertaining thereto in the normal course of business, neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Senior Lien Obligations have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part

thereof, including, without limitation, any property necessary to the operation and use of the Airport System, except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities, except for any pledges of and liens on revenues derived from the operation and use of the Airport System, or any part thereof, or any Special Facilities pertaining thereto, for the payment of Senior Lien Obligations, Subordinate Lien Bonds, Special Facilities Bonds and any other obligations pertaining to the Airport System, and except as otherwise provided in the next two paragraphs.

The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, or shall be paid into the Airports Improvement Fund for the purposes thereof.

Nothing herein shall prevent any transfer of all or a substantial part of the Airport System to another body corporate or politic (including, but not necessarily limited to a joint action agency or an airport authority) which assumes the City's obligations under the Ordinance and under any ordinance authorizing the issuance of Senior Lien Obligations or Subordinate Lien Bonds, wholly or in part, if, in the written opinion of the Airport Management Consultant, the ability to meet the rate covenant and other covenants under the Ordinance and under any ordinance authorizing the issuance of Senior Lien Obligations or Subordinate Lien Bonds, are not materially and adversely affected. In the event of any such transfer and assumption, nothing herein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the Airport Management Consultant, such retention will not materially and adversely affect nor unreasonably restrict such other body's ability to comply with the requirements of the rate covenant and the other covenants of the Ordinance and in any ordinance authorizing the issuance of Senior Lien Obligations or Subordinate Lien Bonds.

Insurance. The City covenants and agrees in the Ordinance that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available. All net proceeds of such insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Senior Lien Obligations or Subordinate Lien Bonds, except for proceeds of business interruption insurance, which shall be credited to the Revenue Fund.

Accounts, Records, and Audits. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Gross Revenues and the Airport System. The City shall, within 120 days after the close of each of its Fiscal Years or as soon thereafter as practicable, cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants, which shall calculate the Gross Revenues, Net Revenues and Debt Service Requirements for such Fiscal Year and shall set forth a calculation to demonstrate whether the City has satisfied the rate covenant contained in the Ordinance. In addition, the City shall each year, as a part of its annual audit, cause an independent certified public accountant or independent firm of certified public accountants to prepare a report containing an analysis of any overhead and direct charges imposed on the Airport System by the City to determine whether such charges were imposed in conformity with the covenant described above under "Limitation on City Charges for Operation and Maintenance Expenses." Each year promptly after such reports are prepared, the City shall furnish copies thereof to any Owners of Senior Lien Obligations who shall request same. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

Amendments to Outstanding Ordinances

In the Ordinance, the City ratifies and confirms any and all actions taken with respect to the amendment of each ordinance relating to the Outstanding Senior Lien Obligations and Subordinate Lien Bonds, in the ordinances authorizing the Series 2007 Bonds, the Series 2009 Bonds, and the Series 2010 Bonds (collectively, the "Amendments"). See APPENDIX B-2 for a full description of the Amendments.

The Amendments shall be effective and shall become incorporated into the ordinances authorizing the Outstanding Senior Lien Obligations and Outstanding Subordinate Lien Bonds on the Amendment Effective Date for the Amendments, which shall be set forth in the Officers Pricing Certificate. The City will certify that (i) the Amendments have been consented to by the required bond insurers and surety providers and (ii) notice has been given to the rating agencies, as required by the ordinances authorizing the Outstanding Subordinate Lien Bonds and the various agreements with the bond insurers. The City will not exercise its rights under the Amendments until such Amendment Effective Date.

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Proposed Amendment to Outstanding Ordinances

The City has determined that is in the best interest of the Airport System to amend the ordinances authorizing the issuance of all Senior Lien Obligations and Subordinate Lien Bonds as set forth bold italics* below (such amendment herein referred to as the "Proposed 2011 Amendment"):

"Airport System" shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Airport System currently includes the present airports of the City, known as "*George Bush Intercontinental Airport/Houston*" and "*William P. Hobby Airport*."

The City intends to include the Proposed 2011 Amendment in each ordinance hereafter adopted authorizing any Additional Senior Lien Bonds, Additional Senior Lien Notes, or Additional Subordinate Lien Bonds and any series of Bonds issued to refund any Outstanding Bonds.

Incorporation of the Proposed 2011 Amendment. The City will seek to achieve the incorporation of the Proposed 2011 Amendment as follows:

(a) the Proposed 2011 Amendment is adopted as part of the Ordinance, and shall be binding upon all Owners, from time to time, of the Series 2011 Bonds and the Series 2012 Bonds, and shall become effective on the Amendment Effective Date;

(b) the conditions for the effectiveness of the Proposed 2011 Amendment shall be deemed satisfied with respect to each series of Bonds upon either (x) payment in full or defeasance of such series of Bonds so that they are no longer Outstanding or (y) certification by the City that applicable ordinance authorizing such series of Bonds has been duly amended to incorporate the Proposed 2011 Amendment and that the conditions for amendment of such ordinance have been satisfied, as described below.

(c) the City authorizes each of its previously adopted ordinances pursuant to which Bonds are Outstanding to be amended to include the Proposed 2011 Amendment, subject, however, in each case to satisfying the conditions in such prior ordinances and in related documents which are required in order to amend the respective prior ordinances. Such conditions with respect to amending certain of the prior ordinances include the following (provided that such conditions are included for reference herein but are subject in all respects to the actual terms of the prior ordinances and related documents, as such terms may be amended or modified from time to time by the terms thereof): (1) with respect to each series of Outstanding Bonds, the City's certification that: (A) notice of the Proposed 2011 Amendment has been given as required by the ordinance authorizing the respective series of Bonds, including to the rating agencies; (B) in accordance with Section 9.03 of the ordinance authorizing such series of Bonds, the City has received the consent of either (i) the Owners of not less than a majority in aggregate unpaid amount of such bonds or (ii) the bond insurer (if any) as deemed owner of such Bonds; and (C) the ordinance authorizing each respective series of Bonds has been duly amended to incorporate the Proposed 2011 Amendment; and (2) to the extent applicable to any series of Outstanding Bonds, the City's certification that the City has received the consent of the provider of the reserve fund surety policy relating to such series or subseries of Bonds.

Effective Date of Proposed Amendments. The Proposed 2011 Amendment shall become effective on the Amendment Effective Date for the Proposed 2011 Amendment. The Mayor, the City Attorney, the City's Director of Finance, the City Controller, and the Deputy City Controller are each authorized and directed to take any such actions and to prepare such notices, consents, certificates or other documentation as may be necessary to effectuate the amendment of the previously adopted ordinances pursuant to which Bonds are Outstanding. Further, the Mayor, the City Attorney, the City's Director of Finance, the City Controller, and the Deputy City Controller are each authorized and directed to execute and deliver, individually or together, one or more certificates or other documents as may be necessary or desirable in order

* From and after the Amendment Effective Date, the words "and "Ellington Airport" (formerly known as "Ellington Field") are deleted from the definition of "Airport System."

to evidence the amendment of the prior ordinances authorizing Outstanding Bonds to incorporate the Proposed 2011 Amendment, or to evidence compliance with any prerequisites or conditions to the Amendment Effective Date. The occurrence of the Amendment Effective Date for the Proposed 2011 Amendment shall be evidenced by such certificate executed on behalf of and in the name of the City. The City shall not exercise its rights under the Proposed 2011 Amendment until the Amendment Effective Date.

The City may supplement, clarify, update, and otherwise amend the provisions of the Ordinance relating to amendments from time to time by ordinance as it deems necessary or appropriate. Counsel is authorized to prepare and obtain such notices and/or consents, if any, as may be required in connection therewith.

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CERTAIN DEFINED TERMS CONTAINED IN ORDINANCE

Except as otherwise indicated, the following terms are defined in the Ordinance or otherwise used in the Official Statement. Proposed amendments are underlined and designated with an asterisk and will become effective from and after the Amendment Effective Date.

“Act” shall mean, collectively, Chapters 1201, 1207, 1371, and 1503, Texas Government Code, as amended.

“Additional Senior Lien Bonds” shall mean the additional senior lien revenue bonds and obligations permitted to be issued by the City pursuant to the Ordinance.

“Additional Senior Lien Notes” shall mean the additional senior lien revenue notes permitted to be issued by the City pursuant to the Ordinance.

“Additional Senior Lien Obligations” shall mean Additional Senior Lien Bonds and/or Additional Senior Lien Notes.

“Additional Subordinate Lien Bonds” shall mean the additional subordinate lien revenue bonds, notes and obligations permitted to be issued by the City pursuant to the Ordinance.

“Airports Improvement Fund” shall mean the fund described in Section 5.12 of the Ordinance.

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

“Airport System” shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Airport System currently includes the present airports of the City, known as “George Bush Intercontinental Airport/Houston,” “William P. Hobby Airport,” and “Ellington Airport” (formerly known as “Ellington Field”)*.

“Amendment Effective Date” shall mean the date on which any Amendment or Proposed Amendments (or portions thereof) is incorporated or deemed incorporated into every ordinance pursuant to which Bonds are Outstanding.

“Authorized Denominations” shall mean, with respect to the Series 2012 Bonds, \$5,000 or any integral multiple thereof, unless otherwise provided in the Officers Pricing Certificate.

“Authorized Representative” shall mean the person from time to time holding the office of the City Controller and, to the extent so designated in writing by the City Controller as set forth in the Ordinance, the Deputy Controller, or any officer or manager in the Debt Section of the Office of the City Controller.

“Aviation Director” shall mean the Director of the Houston Airport System (a department of the City that operates the Airport System), or his successor or person acting in such capacity.

“Beneficial Owner” means any Person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any Person holding a Bond through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

* From and after the Amendment Effective Date, the underlined text shall be replaced with the following: “George Bush Intercontinental Airport/Houston” and “William P. Hobby Airport.”

“Bonds” shall mean any or all of the Senior Lien Bonds, Senior Lien Notes, and the Subordinate Lien Bonds, as the context may indicate, including Completion Bonds and Short Term/Demand Obligations.

“Bond Insurance Policy” shall mean the municipal bond insurance policy or policies (if any) issued by the Bond Insurer that guarantees payment of the principal of and interest on any of the Series 2012 Bonds.

“Bond Insurer” shall mean the bond insurer(s), if any, identified in the Officers Pricing Certificate.

“City” shall mean the City of Houston, Texas, and, where appropriate, the City Council thereof, or any successor thereto as the owner and operator of the Airport System.

“Completion Bonds” shall mean each series of Additional Senior Lien Obligations or Additional Subordinate Lien Bonds issued to pay the cost of completing any project for which Senior Lien Obligations or Subordinate Lien Bonds, respectively, have previously been issued.

“Comptroller” shall mean the Comptroller of Public Accounts of the State of Texas.

“Credit Agreement” shall mean any agreement between the City and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, Bond Insurance Policy, line of credit, standby bond purchase agreement, surety policy, surety bond or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the City’s obligations pursuant to any Bonds or Qualified Hedge Agreements and in consideration for which the City may agree to pay, but solely from Net Revenues as provided herein, (i) periodic payments for the availability of such Credit Agreement and/or (ii) reimbursements or repayments of any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges related to such amounts advanced. Obligations of the City pursuant to a Credit Agreement shall be deemed to be, and shall be included within, the Debt Service Requirements for the series of Bonds to which the Credit Agreement relates. Further, obligations of the City to make payments under a Credit Agreement as reimbursements or repayments of amounts paid or advanced under such Credit Agreement for interest on or principal of any Bonds (including interest and other stipulated costs and charges related to such amounts advanced) shall be deemed to be payments of interest on or principal of such Bonds. Each Credit Agreement shall be deemed to be a part of the Bonds of the series to which it relates for the purpose of securing its payment or repayment by the pledge of Net Revenues as provided in the Ordinance. However, issuers of Credit Agreements shall not be treated as Owners of Bonds for purposes of any voting rights to approve amendments or to direct the exercise of any remedies under the Ordinance.

“Debt Service Requirements” shall mean, as of any date of calculation, an amount equal to the sum of the following for any period and with respect to all or any portion of the Bonds:

A. Current interest scheduled to accrue during such period on such Bonds, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of Bonds, from interest earned or to be earned thereon, from other Airport System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund, as the case may be;

Plus

B. That portion of the principal amount of, or compounded interest on, such Airport System Bonds scheduled to be payable on or before the next July 1 (either at maturity, by reason of amortization of bank bonds or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Bond redemptions) which would accrue if such principal amount were deemed to accrue daily in equal amounts from the next preceding July 1;

Less

C. In addition to the amounts credited under paragraph A above, any portion or all of the interest on or principal of Airport System Bonds which has been irrevocably committed by the City to be paid from other Airport System funds other than Net Revenues, including, but not limited to, PFC Revenues or Excluded Fee and Charge Revenues;

provided, however, that the following rules shall apply to the computation of Debt Service Requirements on certain series of Short-Term/Demand Obligations and on any series of Airport System Bonds bearing interest at a floating or variable rate:

(i) For any series of Short-Term/Demand Obligations issued pursuant to a commercial paper program or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest on such Short-Term/Demand Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of Senior Lien Bonds or Subordinate Lien Bonds which shall be assumed to be amortized over a period not to exceed 25 years and shall be assumed to be amortized in such a manner that the maximum Debt Service Requirements in any twelve (12) month period shall not exceed 110% of the minimum Debt Service Requirements for any other twelve (12) month period, and shall be assumed to bear interest at a fixed interest rate estimated by the City's financial advisor or underwriter to be the interest rate such series of Bonds would bear if issued on such terms on the date of such estimate.

(ii) For any series of Bonds bearing interest at a variable or adjustable rate or a rate to be negotiated or revised from time to time such that the actual future rate of interest thereon cannot be ascertained at the time of calculation, it shall be assumed that such Bonds will bear interest at the higher of (1) a long-term interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such Airport System Bonds would bear if issued as long-term bonds bearing interest at fixed interest rates to be amortized over 30 years with level debt service or (2) a short-term interest rate calculated as follows: (a) for any series of Bonds then Outstanding, at the greater of (i) the average interest rate derived from the variable or adjustable interest rate formula or computation applicable to, or average interest rate borne by, such series of Bonds during a twelve (12) month period ending within 30 days prior to the date of computation or (ii) the actual interest rate derived from such variable or adjustable interest rate formula or computation, or the actual interest rate payable on such series of Bonds, on the date of such calculation, and (b) for any series of Bonds then proposed to be issued, at an interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such series of Bonds will bear during the period or periods for which the Debt Service Requirements are being calculated.

Debt Service Requirements shall be calculated on the assumption that no Bonds Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such Bonds, except as provided above for Short-Term/Demand Obligations.

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Qualified Hedge Agreements shall cause Debt Service Requirements to be (i) increased by the amount of any scheduled payments and charges for the availability of the Qualified Hedge Agreement, (ii) decreased by the amount of any scheduled interest payments on the related Bonds which the City's financial advisor certifies to be substantially hedged pursuant to the Qualified Hedge Agreement, and (iii) increased by the gross payments of the City under the Qualified Hedge Agreement (without regard to netting); provided, however, that any variable or adjustable payment obligation of the City under the Qualified Hedge Agreement shall be deemed to be a fixed rate obligation based upon the provisions contained in paragraph (ii) above of the definition of Debt Service Requirements, as certified by the City's financial advisor.

“DTC” means The Depository Trust Company, New York, New York, or any successor thereto.

“Excluded Fee and Charge Revenues” shall mean all income and revenues (i) derived from fees and charges imposed by any City ordinance adopted after July 1, 2007 and declared in such ordinance to constitute fees and charges of the kind that will generate Excluded Fee and Charge Revenues and (ii) related to periods after the Amendment Effective Date. Such Excluded Fee and Charge Revenues may be authorized pursuant to any federal, state or local authority and may include, but not be limited to, any charge or fee relating to providing, enhancing or maintaining security for the Airport System or any fee or charge imposed on any commercial cargo activity of the Airport System.

“Federal Payments” shall mean those funds received by the Airport System from the federal government or any agency thereof as payments for the use of any facilities or services of the Airport System.

“Fiscal Year” shall mean the City’s fiscal year as from time to time designated by the City, which is currently July 1 to June 30.

“Form of Series 2012 Bond” shall mean the form of bond approved in Article IV of the Ordinance and attached thereto as Exhibit A, with the final form of bond being approved by the Officers Pricing Certificate pursuant to Article III of the Ordinance and any supplement thereof.

“Funds” shall mean any fund or account established or maintained under the Ordinance.

“Gross Revenues” shall mean all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to the Ordinance or any other ordinance authorizing the issuance of Bonds. Gross Revenues expressly exclude:

- (i) proceeds of any Bonds and Inferior Lien Bonds;
- (ii) interest or other investment income derived from Bond proceeds deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Bonds;
- (iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;
- (iv) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;
- (v) insurance proceeds other than loss of use or business interruption insurance proceeds;
- (vi) the proceeds of any passenger facility charge or other per-passenger charge as may be hereafter authorized under federal law, including but not limited to, those revenues defined as PFC Revenues;
- (vii) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;
- (viii) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause

the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;

- (ix) the net proceeds received by the City from the disposition of any Airport System property;
- (x) any Excluded Fee and Charge Revenues; and
- (xi) any Taxable Bond Credit Revenues.

“Inferior Lien Bonds” shall mean each series of bonds, notes or other obligations permitted to be issued or incurred by the City pursuant to the Ordinance as Inferior Lien Bonds secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Senior Lien Obligations and Subordinate Lien Bonds. Inferior Lien Bonds include but are not limited to the Series C Commercial Paper Obligations.

“Interest Payment Date” with respect to the Series 2012 Bonds shall mean the date(s) designated as such in the Form of Series 2012 Bond and/or the Officers Pricing Certificate.

“Issuance Date” with respect to each series of the Series 2012 Bonds issued under the Ordinance, shall mean the date of initial delivery for each such series of Series 2012 Bonds to the Underwriter, as further designated in the applicable Officers Pricing Certificate. If more than one series of Series 2012 Bonds is issued under the Ordinance, the separate series of Series 2012 Bonds may have separate delivery dates.

“Maximum Lawful Rate” means the maximum rate of interest allowed by Chapter 1204, Texas Government Code, as amended.

“Net Revenues” shall mean that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses.

“Non-PAB Bond” shall mean any Series 2012 Bond that is to be designated by the City in the Officers Pricing Certificate as “Non-PAB” or as a “non-private activity bond.”

“Non-PAB Refunded Bond” shall mean any Refunded Obligation that is refunded with proceeds of a Non-PAB Bond.

“Officers Pricing Certificate(s)” shall mean one or more certificates executed by either the Mayor or the City’s Director of Finance and the City Controller or the Deputy City Controller with respect to the pricing of any series of Series 2012 Bonds pursuant to the Ordinance.

“Operation and Maintenance Expenses” shall mean all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport System, including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund not in excess of premiums which would otherwise be required for such insurance; any general and excise taxes or other governmental charges imposed by entities other than the City; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Airport System as are requested from the City by the Airport System and as are reasonably necessary for the operation of the Airport System; costs of issuance of Bonds for the Airport System (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but excluding:

- (a) any allowance for depreciation;
- (b) costs of capital improvements;
- (c) reserves for major capital improvements, Airport System operations, maintenance or repair;

- (d) any allowance for redemption of, or payment of interest or premium on, Bonds;
- (e) any liabilities incurred in acquiring or improving properties of the Airport System;
- (f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;
- (g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Airports Improvement Fund;
- (h) liabilities based upon the City's negligence or other grounds not based on contract; and
- (i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

Operation and Maintenance Expenses shall only include those current expenses due or payable within the next 30 days.

"Ordinance" shall mean the bond ordinance, the exhibits attached thereto and all amendments and supplements relating to such bond ordinance, including any findings or determinations made in the Officers Pricing Certificate.

"Outstanding" when used with reference to the Senior Lien Bonds, Senior Lien Notes or Subordinate Lien Bonds, as the case may be, means, as of a particular date, all such bonds or notes theretofore and thereupon delivered except: (a) any such bond or note cancelled by or on behalf of the City at or before said date; (b) any such bond or note defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such bond or notes in lieu of or in substitution for which another bond or note shall have been delivered pursuant to the ordinance authorizing the issuance of such bond or note.

"Owner" or "Registered Owner," when used with respect to any Senior Lien Bond, Senior Lien Note or Subordinate Lien Bond, shall mean the person or entity in whose name such bond or note is registered in the Register. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Senior Lien Bonds, Senior Lien Notes or Subordinate Lien Bonds then Outstanding under the Ordinance.

"PAB Bond" shall mean any Series 2012 Bond that is to be designated by the City in the Officers Pricing Certificate as a "PAB" or a "private activity bond."

"PAB Refunded Bond" shall mean any Refunded Obligation that is refunded with proceeds of a PAB Bond.

"Participant" means, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

"Paying Agent/Registrar" shall mean, for the Series 2012 Bonds, initially The Bank of New York Mellon Trust Company, National Association, and its successors in that capacity.

"PFC Revenues" shall mean, during any Fiscal Year, proceeds of any charges and fees collected by the Airport System, including passenger facility charges collected by the City pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 and 14 CFR Part 158, as amended from time to time, in respect to any component of the Airport System, and interest earnings thereon.

"Principal Office" means, with respect to the Paying Agent/Registrar, the address identified as its notice address in the Paying Agent/Registrar Agreement or otherwise notified in writing by the Paying Agent/Registrar to the City.

“Qualified Hedge Agreement” shall mean any agreement between the City and a qualifying financial institution (as described in the following sentence) for the purpose of providing an interest rate swap, exchange, cap, collar, floor, forward or other hedging mechanism, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on any portion of any Airport System Bonds and in consideration for which the City may agree to pay, but solely from Net Revenues as herein provided, (i) periodic payments for the availability of such Qualified Hedge Agreement and/or (ii) net amounts as a result of fluctuation in hedged interest rates or in the value of any index of payment and/or (iii) termination charges. A Qualified Hedge Agreement may only be entered into with a financial institution that has long-term credit ratings or the obligations of which are unconditionally guaranteed by a financial institution with long term credit ratings in one of the two highest generic rating categories by two of the nationally recognized rating services then rating the Bonds. Obligations of the City pursuant to a Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of Bonds to which the Qualified Hedge Agreement relates. Further, obligations of the City to make payments under a Qualified Hedge Agreement derived from or resulting from a fluctuation in hedged interest rates or in the value of any index of payment shall be deemed to be payments of interest on the Bonds so hedged. Each Qualified Hedge Agreement shall be deemed to be a part of the Bonds of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in the Ordinance. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as Owners of Bonds for purposes of any voting rights to approve amendments or direct the exercise of any remedies under the Ordinance.

“Refunded Bonds” shall mean all or any such portion of the Outstanding Bonds as may be designated in the applicable Officers Pricing Certificate to be refunded with proceeds of the Series 2012 Bonds.

“Refunded Bonds Escrow Agent” shall mean The Bank of New York Mellon Trust Company, National Association, and its successors in such capacity, or such other escrow agent(s) designated in the Officers Pricing Certificate or supplemental ordinance.

“Refunded Bonds Escrow Agreement” shall mean one or more escrow agreements between the City and the Refunded Bonds Escrow Agent related to the Refunded Bonds, in substantially the form approved by the Officers Pricing Certificate.

“Refunded Bonds Escrow Fund” shall mean one or more special dedicated escrow funds created under the Refunded Bonds Escrow Agreement and maintained by the Escrow Agent for the benefit of the holders of the Refunded Bonds

“Register” shall mean the books of registration kept by the Paying Agent/Registrar in which are maintained the name and address of, and the principal amounts registered to, each Owner.

“Regulations” shall have the meaning assigned to that term in Section 11.01 of the Ordinance.

“Renewal and Replacement Fund” shall mean the fund described in Section 5.11 of the Ordinance.

“Reserve Fund Participants” shall mean: (i) with respect to Senior Lien Bonds, any series of Senior Lien Bonds designated by the City as “Reserve Fund Participants” and secured by a lien on the Senior Lien Bond Reserve Account of the Senior Lien Bond Reserve Fund, and (ii) with respect to Senior Lien Notes, the Series A Commercial Paper Notes, the Series B Commercial Paper Notes, and any other series of Senior Lien Notes secured by a lien on the Senior Lien Note Reserve Account of the Senior Lien Bond Reserve Fund, and (iii) any series of Subordinate Lien Bonds designated by the City as “Reserve Fund Participants” and secured by a lien on the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund.

“Reserve Fund Requirement” shall mean the amount required to be maintained in the Senior Lien Bond Reserve Fund (and the accounts therein) or the Subordinate Lien Bond Reserve Fund (and the accounts therein), as the case may be, as further set forth in the applicable ordinance and/or officers pricing certificate authorizing a series of Bonds. For Senior Lien Bonds, such amount shall be the amount required in the ordinances authorizing the Senior Lien Bonds. For Subordinate Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Subordinate Lien Bonds that are Reserve Fund Participants and on each date on which

Subordinate Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Subordinate Lien Bonds then being issued that are Reserve Fund Participants. For any series of Subordinate Lien Bonds that are not Reserve Fund Participants, such amount shall be computed upon the issuance of such series of Subordinate Lien Bonds and on each date on which any of such series of Subordinate Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for such series of Subordinate Lien Bonds then Outstanding. Upon the issuance of any series of Additional Subordinate Lien Bonds, the Reserve Fund Requirement for the Subordinate Lien Bonds shall be as set forth in the Officers Pricing Certificate. Notwithstanding the foregoing, the amount of the Reserve Fund Requirement properly allocable to each issue of Bonds, whether or not such issue is a Reserve Fund Participant, shall at no time exceed, the lesser of (a) the maximum annual debt service on such issue of Bonds, (b) one hundred twenty-five percent (125%) of the average annual debt service on such issue of Bonds or (c) ten percent (10%) of the initial principal amount of such issue of Bonds (or sale proceeds in the event that the amount of original issue discount exceeds two percent multiplied by the stated redemption price at maturity of such issue of Bonds), all within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations.

“Securities Act” means the Securities Act of 1933, as amended.

“Senior Lien Bond Interest and Sinking Fund” shall mean the fund so designated which was created and established pursuant to the ordinances authorizing the Senior Lien Obligations and which is maintained pursuant to the Ordinance.

“Senior Lien Bond Reserve Fund” shall mean the fund so designated that was created and established pursuant to the ordinances authorizing the Senior Lien Obligations, including the accounts established therein, and that is maintained pursuant to the Ordinance.

“Senior Lien Bonds” shall mean the Outstanding Series 2009 Bonds and each series of Additional Senior Lien Bonds from time to time hereafter issued.

“Senior Lien Notes” shall mean the Outstanding Series A and B Commercial Paper Obligations and any Additional Senior Lien Notes from time to time hereafter issued.

“Senior Lien Bond Reserve Fund” shall mean the fund so designated which was created and established pursuant to the ordinances authorizing the Senior Lien Obligations, including the accounts established therein, and which is maintained pursuant to the Ordinance.

“Senior Lien Obligations” shall mean either or both of the Senior Lien Bonds and the Senior Lien Notes, as applicable.

“Series 1997A Special Facilities Bonds” shall mean the City of Houston, Texas, Airport System Special Facilities Revenue Bonds (Automated People Mover Project), Series 1997A.

“Series 1998 Bonds” shall mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds, Series 1998B (AMT), and the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds, Series 1998C (Non-AMT).

“Series 2000 Bonds” shall collectively mean the City of Houston, Texas Airport System Subordinate Lien Revenue Bonds Series 2000A (AMT), Series 2000B (Non-AMT) and the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds (Periodic Auction Reset Securities), Series 2000P-1 (AMT) and P-2 (AMT).

“Series 2001 Bonds” shall mean the City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2001A (AMT).

“Series 2002 Bonds” shall collectively mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds, Series 2002A (AMT), the Series 2002B (Non-AMT), the Series 2002C (AMT) (Auction Rate Securities), the Series 2002D-1 (AMT) (Auction Rate Securities), and the Series 2002D-2 (AMT) (Auction Rate Securities).

“Series 2007B Bonds” shall mean the City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2007B (Non-AMT).

“Series 2009 Bonds” shall mean the City of Houston, Texas Airport System Senior Lien Revenue and Refunding Bonds, Series 2009A (Non-AMT).

“Series 2010 Bonds” shall mean the City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2010 (Non-AMT).

“Series 2011 Bonds” shall mean the City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2011A (AMT) and Series 2011B (Non-AMT).

“Series 2012 Bonds” shall mean the bonds authorized pursuant to this Ordinance and the Officers Pricing Certificate as contemplated by the Ordinance.

“Series A and B Commercial Paper Obligations” shall mean the Series A Commercial Paper Notes and the Series B Commercial Paper Notes and credit agreements related thereto.

“Series A Commercial Paper Notes” shall mean the City of Houston, Texas, Airport System Senior Lien Commercial Paper Notes, Series A (AMT).

“Series B Commercial Paper Notes” shall mean the City of Houston, Texas, Airport System Senior Lien Commercial Paper Notes, Series B (Non-AMT).

“Series C Commercial Paper Obligations” shall mean the City of Houston, Texas, Airport System Inferior Lien Commercial Paper Notes, Series C and any credit agreements related thereto.

“Short Term/Demand Obligations” shall mean each series of bonds, notes and other obligations issued pursuant to the Ordinance, (a) the payment of principal of which is either (i) payable on demand by or at the option of the holder at a time sooner than a date on which such principal is deemed to be payable for purposes of computing Debt Service Requirements, or (ii) scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced for a specified period or term through the issuance of additional Short Term/Demand Obligations pursuant to a commercial paper or other similar financing program, and (b) the purchase price, payment or refinancing of which is additionally secured by a letter of credit, line of credit, standby bond purchase agreement, bond insurance, surety bond or other credit or liquidity facility which does not impose upon the City a reimbursement obligation payable over a period shorter than three years.

“Special Facilities” shall mean structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, in-flight kitchens, training facilities, consolidated rental car facilities, terminal facilities, cargo facilities and any and all other facilities and appurtenances being a part of or related to the Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

“Special Facilities Bonds” shall mean any bonds heretofore or from time to time hereafter issued by the City pursuant the Ordinance, including, but not limited to, the Series 1997A Special Facilities Bonds.

“Special Facilities Lease” shall mean any lease or agreement, howsoever denominated, pursuant to which a Special Facilities are leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facilities (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facilities.

“Subordinate Lien Bond Interest and Sinking Fund” shall mean the fund so designated that is required to be maintained pursuant to the Ordinance.

“Subordinate Lien Bond Reserve Fund” shall mean the fund so designated that was created and established pursuant to the ordinances authorizing the Subordinate Lien Bonds, including the accounts established therein, and that is required to be maintained pursuant to the Ordinance.

“Subordinate Lien Bond Reserve Fund Participant Account” shall mean the account so within the Subordinate Lien Bond Reserve Fund, which account shall constitute trust funds and shall be held in trust for Owners of the Subordinate Lien Bonds that are Reserve Fund Participants.

“Subordinate Lien Bond Reserve Fund Surety Policy” shall mean any surety bonds, insurance policies, letters of credit or other instruments as provided in any ordinance authorizing the issuance of any Subordinate Lien Bonds, whether heretofore or hereafter acquired for the purpose of satisfying all or any part of the Reserve Fund Requirement for the Subordinate Lien Bonds.

“Subordinate Lien Bonds” shall mean the Outstanding Series 1998 Bonds, Series 2000 Bonds, Series 2001 Bonds, Series 2002 Bonds, Series 2007B Bonds, Series 2010 Bonds, the Series 2011 Bonds, the Series 2012 Bonds and each series of Additional Subordinate Lien Bonds which the City has reserved the right to issue from time to time, payable from and secured by a lien on and pledge of Net Revenues junior and subordinate to the lien and pledge securing the Senior Lien Obligations

“Taxable Bond” shall mean any Series 2012 Bond that is not a Tax-Exempt Bond.

“Taxable Bond Credit Revenues” shall mean payments (i) made to the City from the federal government or any agency or department thereof with respect to the return to the City of a portion of the interest paid by the City on any taxable Bonds, including but not limited to any such payments received pursuant to the American Recovery and Reinvestment Act of 2009 or any legislation in amendment or succession thereto and (ii) received by the City after the Amendment Effective Date.

“Tax-Exempt Bond” shall mean a PAB Bond or a Non-PAB Bond.

“2012 Bonds Subordinate Lien Reserve Fund Surety Policy” shall mean the debt service reserve fund policy or policies, if any, authorized pursuant to the Ordinance and issued in the amounts and by the provider(s) identified in the applicable Officers Pricing Certificate.

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APPENDIX B-2
THE AMENDMENTS

2007 Amendments

The 2007 Amendments are shown in bold italics:

- I. The definition of “**Debt Service Requirements**” is amended to read in its entirety as follows:

“**Debt Service Requirements**” shall mean, as of any date of calculation, an amount equal to the sum of the following for any period and with respect to all or any portion of the Bonds:

A. Current interest scheduled to accrue during such period on such Bonds, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of Bonds, from interest earned or to be earned thereon, from other Airport System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund, as the case may be;

plus

B. That portion of the principal amount of, or compounded interest on, such Bonds scheduled to be payable on or before the next July 1 (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Bond redemptions) which would accrue if such principal amount were deemed to accrue daily in equal amounts from the next preceding July 1;

less

C. In addition to the amounts credited under paragraph A above, any portion or all of the interest on or principal of Bonds which has been irrevocably committed by the City to be paid from other Airport System funds other than Net Revenues, including, but not limited to, PFC Revenues or Excluded Fee and Charge Revenues.

provided, however, that the following rules shall apply to the computation of Debt Service Requirements on certain series of Short Term/Demand Obligations and on any series of Bonds bearing interest at a floating or variable rate:

(i) For any series of Short Term/Demand Obligations issued pursuant to a commercial paper program or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest on such Short Term/Demand Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of Senior Lien Obligations or Subordinate Lien Bonds which shall be assumed to be amortized over a period not to exceed 25 years and shall be assumed to be amortized in such a manner that the maximum Debt Service Requirements in any twelve month period shall not exceed 110% of the minimum Debt Service Requirements for any other 12-month period, and shall be assumed to bear interest at a fixed interest rate estimated by the City’s financial advisor or underwriter to be the interest rate such series of Bonds would bear if issued on such terms on the date of such estimate;

(ii) For any series of Bonds bearing interest at a variable or adjustable rate or a rate to be negotiated or revised from time to time such that the actual future rate of interest thereon cannot be ascertained at the time of calculation, it shall be assumed that such Bonds will bear interest at the higher of (1) a long-term interest rate

estimated by the City's financial advisor or underwriter to be the average rate of interest such Bonds would bear if issued as long-term bonds bearing interest at fixed interest rates to be amortized over 30 years with level debt service or (2) a short-term interest rate calculated as follows: (a) for any series of Bonds then Outstanding, at the greater of (i) the average interest rate derived from the variable or adjustable interest rate formula or computation applicable to, or average interest rate borne by, such series of Bonds during a 12-month period ending within 30 days prior to the date of computation or (ii) the actual interest rate derived from such variable or adjustable interest rate formula or computation, or the actual interest rate payable on such series of Bonds, on the date of such calculation, and (b) for any series of Bonds then proposed to be issued, at an interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such series of Bonds will bear during the period or periods for which the Debt Service Requirements are being calculated.

Debt Service Requirements shall be calculated on the assumption that no Bonds Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such Bonds, except as provided above for Short Term/Demand Obligations.

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Qualified Hedge Agreements shall cause Debt Service Requirements to be (i) increased by the amount of any scheduled payments and charges for the availability of the Qualified Hedge Agreement, (ii) decreased by the amount of any scheduled interest payments on the related Bonds which the City's financial advisor certifies to be substantially hedged pursuant to the Qualified Hedge Agreement, and (iii) increased by the gross payments of the City under the Qualified Hedge Agreement (without regard to netting); provided, however, that any variable or adjustable payment obligation of the City under the Qualified Hedge Agreement shall be deemed to be a fixed rate obligation based upon the provisions contained in paragraph (ii) of the definition of Debt Service Requirements, as certified by the City's financial advisor.

2. The definition of "**Gross Revenues**" is amended to read in its entirety as follows:

"**Gross Revenues**" shall mean all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to this Ordinance or any other ordinance authorizing the issuance of Bonds. Gross Revenues expressly exclude:

- (i) proceeds of any Bonds and Inferior Lien Bonds;
- (ii) interest or other investment income derived from Bond proceeds deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Bonds;
- (iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;
- (iv) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;

- (v) insurance proceeds other than loss of use or business interruption insurance proceeds;
- (vi) the proceeds of any passenger facility charge or other per-passenger charge as may be hereafter authorized under federal law including, but not limited to, those revenues defined as PFC Revenues;
- (vii) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;
- (viii) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;
- (ix) the net proceeds received by the City from the disposition of any Airport System property; and
- (x) *any Excluded Fee and Charge Revenues.*

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2009 Amendments

The 2009 Amendments are shown in bold italics.

1. The definition of “**Gross Revenues**” is amended to read in its entirety as follows:

“**Gross Revenues**” shall mean all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to this Ordinance or any other ordinance authorizing the issuance of Bonds. Gross Revenues expressly exclude:

- (i) proceeds of any Bonds and Inferior Lien Bonds;
- (ii) interest or other investment income derived from Bond proceeds deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Bonds;
- (iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;
- (iv) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;
- (v) insurance proceeds other than loss of use or business interruption insurance proceeds;
- (vi) the proceeds of any passenger facility charge or other per-passenger charge as may be hereafter authorized under federal law including, but not limited to, those revenues defined as PFC Revenues;
- (vii) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;
- (viii) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;
- (ix) the net proceeds received by the City from the disposition of any Airport System property;
- (x) any Excluded Fee and Charge Revenues; and
- (xi) any Taxable Bond Credit Revenues.

2010 Amendments

The 2010 Amendments are shown in bold italics.

The following definitions shall be added, as applicable, or shall amend and restate the existing definition of such terms in their entirety:

“Reserve Fund Participants” shall mean (i) with respect to Senior Lien Bonds, any series of Senior Lien Bonds designated by the City as “Reserve Fund Participants” and secured by a lien on the Senior Lien Bond Reserve Account of the Senior Lien Bond Reserve Fund, (ii) with respect to Senior Lien Notes, the Series A Commercial Paper Notes, the Series B Commercial Paper Notes, and any other series of Senior Lien Notes secured by a lien on the Senior Lien Note Reserve Account of the Senior Lien Bond Reserve Fund, and (iii) *any series of Subordinate Lien Bonds designated by the City as “Reserve Fund Participants” and secured by a lien on the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund.*

“Reserve Fund Requirement” shall mean the amount required to be maintained in the Senior Lien Bond Reserve Fund (and the accounts therein) or the Subordinate Lien Bond Reserve Fund (and the accounts therein), as the case may be, as further set forth in the applicable ordinance and/or officers pricing certificate authorizing a series of Bonds. *For Senior Lien Bonds, such amount shall be the amount required in the ordinances authorizing the Senior Lien Bonds. For Subordinate Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Subordinate Lien Bonds that are Reserve Fund Participants and on each date on which Subordinate Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Subordinate Lien Bonds then being issued that are Reserve Fund Participants. For any series of Subordinate Lien Bonds that are not Reserve Fund Participants, such amount shall be computed upon the issuance of such series of Subordinate Lien Bonds and on each date on which any of such series of Subordinate Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for such series of Subordinate Lien Bonds then Outstanding. Upon the issuance of any series of Additional Subordinate Lien Bonds, the Reserve Fund Requirement for the Subordinate Lien Bonds shall be as set forth in the Officers Pricing Certificate. Notwithstanding the foregoing, the amount of the Reserve Fund Requirement properly allocable to each issue of Bonds, whether or not such issue is a Reserve Fund Participant, shall at no time exceed, the lesser of (a) the maximum annual debt service on such issue of Bonds, (b) one hundred twenty-five percent (125%) of the average annual debt service on such issue of Bonds or (c) ten percent (10%) of the initial principal amount of such issue of Bonds (or sale proceeds in the event that the amount of original issue discount exceeds two percent multiplied by the stated redemption price at maturity of such issue of Bonds), all within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations.*

“Subordinate Lien Bond Reserve Fund” shall mean the fund so designated *which was created and established pursuant to the ordinances authorizing the Subordinate Lien Bonds, including the accounts established therein, and which is required to be maintained pursuant to Section 5.09 of this Ordinance.*

“Subordinate Lien Bond Reserve Fund Participant Account” *shall mean the account of such name created under Section 5.04 within the Subordinate Lien Bond Reserve Fund.*

“Subordinate Lien Bond Reserve Fund Surety Policy” shall mean any one or more of the instruments so defined in Section 5.09 hereof, whether heretofore or hereafter acquired, *which at the time of deposit is rated as set forth in Section 5.09 and is* for the purpose of satisfying all or any part of the *applicable* Reserve Fund Requirement for any Subordinate Lien Bonds.

The 2010 Amendments amend and restate Article V in its entirety. For purposes of this summary, shown below are excerpts of the 2010 Amendments to Article V that show the sections that are being changed by the 2010 Amendments.

ARTICLE V

SECURITY AND SOURCE OF PAYMENT FOR ALL BONDS

SECTION 5.01 PLEDGE AND SOURCE OF PAYMENT. The City hereby covenants and agrees that all Gross Revenues shall be deposited and paid into the special funds hereinafter established, and shall be applied in the manner hereinafter set forth, in order to provide for the payment of all Operation and Maintenance Expenses of the Airport System and all principal, interest and any redemption premiums on the Senior Lien Obligations and the Subordinate Lien Bonds and all expenses of providing for their full and timely payment in accordance with their terms. The Subordinate Lien Bonds shall constitute special obligations of the City that shall be payable from, and subject to the prior and superior lien of the Senior Lien Obligations, shall be equally and ratably secured by a lien on, the Net Revenues. Such Net Revenues, together with certain proceeds of the Subordinate Lien Bonds or other lawfully available funds of the City, shall, in the manner herein provided, be set aside for and pledged to the payment of the Subordinate Lien Bonds in the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund as hereinafter provided. For the benefit of the Owners of the Subordinate Lien Bonds, the City hereby grants a lien on the Net Revenues (subject to the prior and superior lien of the Senior Lien Obligations) and further grants a lien on the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund to secure the payment of principal of, redemption premium, if any, and interest on the Subordinate Lien Bonds and all expenses of providing for their full and timely payment in accordance with their terms. For the additional benefit of Owners of the Subordinate Lien Bonds that are Reserve Fund Participants, the City hereby grants a lien on the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund. *For the additional benefit of the Owners of any one or more series of Subordinate Lien Bonds that are not Reserve Fund Participants, the City may create one or more separate accounts within the Subordinate Lien Reserve Fund and grant a lien on such account(s) for the benefit of the Owners of such series of Subordinate Lien Bonds that are not Reserve Fund Participants. Except with respect to the separate accounts of the Subordinate Lien Bond Reserve Fund described in this Section, all Subordinate Lien Bonds shall be in all respects on a parity with and of equal dignity with one another. The Owners of the Subordinate Lien Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the Subordinate Lien Bonds out of any funds raised or to be raised by taxation. Pursuant to Chapter 1208, Texas Government Code, the lien on Net Revenues created hereunder is valid, effective, and perfected.*

SECTION 5.01A PLEDGE AND SOURCE OF PAYMENT WITH RESPECT TO BANK BONDS.** To provide security for the payment of the principal and interest when due on Bank Bonds purchased by the Credit Facility Provider or the Liquidity Facility Provider pursuant to the Credit Facility or Liquidity Facility with respect to the [INSERT NAME OF SERIES], the City hereby grants a lien on and pledge of the following, subject to the provisions of this Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth herein:

- (i) the Net Revenues (subject to the prior and superior lien of the Senior Lien Obligations);*
- (ii) the Subordinate Lien Bond Interest and Sinking Fund; and*
- (iii) the account of the Subordinate Lien Bond Reserve Fund securing the [INSERT NAME OF SERIES].*

Provided however, that the lien and pledge provided in this Section 5.01A with respect to the Bank Bonds shall be in all respects on a parity with and of equal dignity with the lien and pledge of such revenues and funds with respect to all Subordinate Lien Bonds. The Credit Facility Provider and the Liquidity Facility Provider shall never have the right to demand payment of either the principal of or interest on Bank Bonds out of any funds raised or to be raised by taxation.

SECTION 5.02 No Amendments Proposed.

SECTION 5.03 No Amendments Proposed.

****** This section may be included in the ordinance for any Subordinate Lien Bonds authorizing a Credit Facility or Liquidity Facility with respect to such Subordinate Lien Bonds, and may be adjusted as appropriate to reflect the terms of such facilities.

SECTION 5.04 SPECIAL FUNDS. (a) The following special funds shall be established, maintained and accounted for as hereinafter provided so long as any of the Senior Lien Obligations remain Outstanding:

- (i) Revenue Fund;
- (ii) Senior Lien Bond Interest and Sinking Fund;
- (iii) Senior Lien Bond Reserve Fund;
- (iv) Subordinate Lien Bond Interest and Sinking Fund;
- (v) Subordinate Lien Bond Reserve Fund;
- (vi) Operation and Maintenance Reserve Fund;
- (vii) Renewal and Replacement Fund; and
- (viii) Airports Improvement Fund.

(b) The Revenue Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall be maintained as separate funds or accounts on the books of the City and all amounts credited to such Funds shall be maintained in an official depository bank of the City or in a trustee bank designated by the City. The Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City.

The Senior Lien Bond Interest and Sinking Fund shall constitute trust funds which shall be held in trust for the Owners of the Senior Lien Obligations to which they are pledged, and the proceeds of which (other than the interest income thereon, which may be transferred to the Revenue Fund or such other Funds as may be required under federal tax law) shall be pledged to the payment of the Senior Lien Obligations. The Senior Lien Bond Reserve Fund and the accounts created therein are pledged to the particular Senior Lien Obligations as described herein and in the ordinances authorizing the issuance of the Senior Lien Obligations. Within the Senior Lien Bond Reserve Fund, there has been created a Senior Lien Bond Reserve Account and a Senior Lien Note Reserve Account. The Senior Lien Bond Reserve Account shall constitute trust funds which shall be held in trust for the Owners of the Senior Lien Bonds to which they are pledged. The proceeds of the Senior Lien Bond Reserve Account (other than the interest income thereon, which may be transferred to the Senior Lien Bond Interest and Sinking Fund) shall be pledged to the payment of the Senior Lien Bonds that are Reserve Fund Participants. The Senior Lien Note Reserve Account shall constitute trust funds which shall be held in trust for the Owners of the Senior Lien Notes to which they are pledged. The proceeds of the Senior Lien Note Reserve Account (other than the interest income thereon, which may be transferred to the Senior Lien Bond Interest and Sinking Fund) shall be pledged to the payment of the Senior Lien Notes. The City reserves the right to issue Additional Senior Lien Bonds which are not Reserve Fund Participants and are not secured by the Senior Lien Bond Reserve Account; provided that the City may create a separate account within the Senior Lien Bond Reserve Fund for the benefit of any such series that is not a Reserve Fund Participant, the proceeds of which account (other than the interest income thereon, which may be transferred to the Senior Lien Bond Interest and Sinking Fund) shall be pledged to the payment of such series that is not a Reserve Fund Participant.

The Subordinate Lien Bond Interest and Sinking Fund shall constitute trust funds which shall be held in trust for the Owners of the Subordinate Lien Bonds to which they are pledged and the proceeds of which (other than the interest income thereon, which may be transferred to the extent herein provided to the Revenue Fund or such other Funds as may be required under federal tax law) shall be pledged to the payment of the Subordinate Lien Bonds. The Subordinate Lien Bond Reserve Fund shall constitute trust funds which shall be held in trust for the Owners of the Subordinate Lien Bonds to which they are pledged and the proceeds of which (other than the interest income thereon, which may be transferred to the extent herein provided to the Subordinate Lien Interest and Sinking Fund) shall be pledged to the payment of the Subordinate Lien Bonds. *Within the Subordinate Lien Bond Reserve Fund, there shall be created a Subordinate Lien Bond Reserve Fund Participant Account, which account shall constitute trust funds and shall be held in trust for*

Owners of the Subordinate Lien Bonds to which they are pledged. The proceeds of the Subordinate Lien Bond Reserve Fund Participant Account (other than the interest income thereon, which may be transferred to the Subordinate Lien Bond Interest and Sinking Fund) shall be pledged to the payment of the Subordinate Lien Bonds that are Reserve Fund Participants. All Subordinate Lien Bonds Outstanding on the date of adoption of this Ordinance are declared and designated to be Reserve Fund Participants. The Series 2011 Bonds are also declared and designated to be Reserve Fund Participants. The City may issue Additional Subordinate Lien Bonds which may be designated as Reserve Fund Participants. The City also reserves the right to issue Additional Subordinate Lien Bonds which are not designated as Reserve Fund Participants and are not secured by the Subordinate Lien Bond Reserve Fund Participant Account; provided that the City may create a separate account(s) within the Subordinate Lien Bond Reserve Fund for the benefit of any such series that is not a Reserve Fund Participant, the proceeds of which account (other than the interest thereon, which may be transferred to the Subordinate Lien Bond Interest and Sinking Fund) shall be pledged to the payment of such series that is not a Reserve Fund Participant.

All of the Funds named above shall be used solely as herein provided so long as any Bonds remain Outstanding.

The City reserves the right to create additional accounts within any Fund as necessary or desirable in furtherance of the intent and purpose of this Ordinance.

SECTION 5.05 No Amendments Proposed.

SECTION 5.06 No Amendments Proposed.

SECTION 5.07 No Amendments Proposed.

SECTION 5.08 No Amendments Proposed.

SECTION 5.09 SUBORDINATE LIEN BOND RESERVE FUND. (a) The City shall establish and maintain as hereinafter provided a balance in the Subordinate Lien Bond Reserve Fund *Participant Account of the Subordinate Lien Bond Reserve Fund* equal to the Reserve Fund Requirement for the Subordinate Lien Bonds *that are secured thereby. With respect to any series of Subordinate Lien Bonds that are not Reserve Fund Participants, the City shall establish and maintain a balance in the accounts created within the Subordinate Lien Bond Reserve Fund for such series equal to the Reserve Fund Requirement for the Subordinate Lien Bonds that are secured thereby.* Each increase in the Reserve Fund Requirement resulting from the issuance of any Additional Subordinate Lien Bonds shall be satisfied at the time of issuance and delivery of such series of Additional Subordinate Lien Bonds.

The Reserve Fund Requirement shall be satisfied by depositing to the credit *of the Subordinate Lien Bond Reserve Fund Participant Account (in the case of Additional Subordinate Lien Bonds that are Reserve Fund Participants) or such other designated accounts (in the case of Additional Subordinate Lien Bonds that are not Reserve Fund Participants)* of the Subordinate Lien Bond Reserve Fund either (i) proceeds of such Additional Subordinate Lien Bonds or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Subordinate Lien Bonds has been provided out of proceeds of such Additional Subordinate Lien Bonds or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues or (ii) a surety bond, insurance policy or letter of credit in a principal amount equal to the amount required to be funded, provided that, at the time of deposit, either the rating for the long-term unsecured debt of the issuer of such surety bond, insurance policy or letter of credit or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the two highest letter categories by at least *one* major municipal securities evaluation *service* (or, if such entities are no longer in existence, by comparable services) and which Subordinate Lien Bond Reserve Fund Surety Policy shall be payable on demand of the City for the benefit of the Owners of the Subordinate Lien Bonds that are secured thereby (collectively, a "Subordinate Line Bond Reserve Fund Surety Policy").

(b) In any month in which *any account of* the Subordinate Lien Bond Reserve Fund contains less than the *applicable* Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Additional Subordinate Lien Bonds as above provided), then on or before the last business day of such month, after making all required payments and provision for payment of

Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Interest and Sinking Fund, there shall be transferred *on a pro rata basis into the Subordinate Lien Reserve Fund Participant Account (in the case of Subordinate Lien Bonds that are Reserve Fund Participants) and such other designated accounts (in the case of Subordinate Lien Bonds that are not Reserve Fund Participants) of the Subordinate Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, within a 12-month period and such additional amounts as shall be sufficient to enable the City within a 12-month period to re-establish in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Subordinate Lien Bonds secured thereby; provided, however, that in the event that such monthly transfer requirements ever exceed 1/12th of the maximum Debt Service Requirements scheduled to occur in any future Fiscal Year on all Subordinate Lien Bonds then Outstanding (being the maximum transfer permitted by Section 5.09 of the prior ordinance authorizing the Subordinate Lien Bonds), any remaining required transfers shall be accomplished pursuant to Section 5.13 below.* After such amounts have been accumulated in the Subordinate Lien Bond Reserve Fund *Participant Account and such other designated accounts (as described above)*, and so long thereafter as such *accounts contain such amounts*, no further transfers shall be required to be made into the Subordinate Lien Bond Reserve Fund *Participant Account or such other designated accounts*, and any excess amounts in such *accounts shall be transferred to the Subordinate Lien Bond Interest and Sinking Fund to the extent the excess is attributable to the Subordinate Lien Bond Reserve Fund for any tax-exempt Subordinate Lien Bonds, and otherwise*, solely to the extent required by federal tax law, shall be transferred to the Revenue Fund or such other Funds as may be required by federal tax law. But if and whenever the balance in the Subordinate Lien Bond Reserve Fund *Participant Account or such other designated accounts* is reduced below such amount, monthly transfers to such *accounts* shall be resumed and continued in such amounts as shall be required to restore the Subordinate Lien Bond Reserve Fund *Participant Account or such other designated accounts, as applicable*, to such amount within a 12-month period.

The Subordinate Lien Bond Reserve Fund *Participant Account* shall be used to pay the principal of and interest on the Subordinate Lien Bonds *that are Reserve Fund Participants* at any time when there is not sufficient money available in the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments *on deposit in such account* be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policies *allocable to the Subordinate Lien Bond Reserve Fund Participant Account*) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to such Subordinate Lien Bond Reserve Fund *Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policy. The Subordinate Lien Bond Reserve Participant Account may also be used to make the final payments for the retirement or defeasance of all Subordinate Lien Bonds then Outstanding that are secured thereby.*

With respect to any series of Subordinate Lien Bonds that are not Reserve Fund Participants, any account created within the Subordinate Lien Bond Reserve Fund for the benefit of such series of Subordinate Lien Bonds shall be used to pay the principal and interest on such series of Subordinate Lien Bonds at any time when there is not sufficient money available if the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Subordinate Lien Bond Reserve Fund Surety Policies allocable to such account) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policy. Any such account may also be used to make the final payments for the retirement and defeasance of the series of Subordinate Lien Bonds then Outstanding that are secured thereby.

(c) The City directs and requires the paying agent for any series of Subordinate Lien Bonds to ascertain the necessity for claim or draw upon the applicable Subordinate Lien Bond Reserve Fund Surety Policy, and to provide notice to the issuer thereof in accordance with its terms and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal and interest on the Subordinate Lien Bonds to which it pertains.

SECTION 5.10 No Amendments Proposed.

SECTION 5.11 No Amendments Proposed.

SECTION 5.12 No Amendments Proposed.

SECTION 5.13 No Amendments Proposed.

SECTION 5.14 No Amendments Proposed.

SECTION 5.15 No Amendments Proposed.

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APPENDIX C
FORM OF OPINIONS OF CO-BOND COUNSEL

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APPENDIX D

SUMMARY OF SCHEDULES RELATED TO CONTINUING DISCLOSURE OF INFORMATION

Schedule 1	Passenger Statistics (including Schedule 1-A – Total Enplaned Passengers for the Houston Airport System)
Schedule 2	Airline Market Shares
Schedule 3	Total Aircraft Operations and Aircraft Landed Weight
Schedule 4	Total System Cargo Activity
Schedule 5	Selected Financial Information
Schedule 6	Summary of Certain Fees and Charges
Schedule 7	Houston Airport System Debt Service Requirements Schedule
Schedule 8	Houston Airport System Outstanding Debt
Schedule 8A	Cash and Liquidity
Schedule 9*	Municipal System Pension Plan Assets, Liabilities, and Unfunded Actuarial Accrued Liability

* The City agrees and is obligated to update Schedule 9 only to the extent that the City receives updated actuarial reports from the board of the Municipal Employees Pension System (the "Pension System"). The City is not empowered to require the board of the Pension System to obtain updated actuarial reports. The Pension System will periodically receive additional actuarial reports with regard to the City's pension plans, to the extent required under State law or requested by the board of the Pension System. Accordingly, an updated Schedule 9 may not be available in every annual continuing disclosure filing.

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APPENDIX E

DEPOSITORY TRUST COMPANY

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

The Depository Trust Company

Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Series 2012 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Series 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2012 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2012 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events

with respect to the Series 2012 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the financing documents. For example, Beneficial Owners of the Series 2012 Bonds may wish to ascertain that the nominee holding the Series 2012 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2012 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such a maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2012 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the Series 2012 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2012 Bonds at any time by giving reasonable notice to the Issuer or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2012 Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2012 Bond certificates will be printed and delivered to DTC.

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

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EXHIBIT F
RESERVED

EXHIBIT G
FORM OF CO-BOND COUNSEL AGREEMENT

BRACEWELL & GIULIANI LLP
711 LOUISIANA STREET
SUITE 2300
HOUSTON, TEXAS 77002-2770

BATES & COLEMAN, P.C.
1402 ALABAMA STREET
HOUSTON, TEXAS 77004-3910

February 8, 2012

Mayor and City Council
City of Houston
City Hall
901 Bagby
Houston, Texas 77002

Re: City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2012 and such other series as may be issued pursuant to this Ordinance or related supplemental ordinances (the "Bonds") and other matters pertaining to the Houston Airport System

Dear Mayor and Council Members:

We are pleased to set forth in this letter the terms of our engagement as co-bond counsel for the Houston Airport System. When adopted by the City Council of the City of Houston, Texas (the "City"), this letter will become effective and will evidence an agreement between the City and Bracewell & Giuliani LLP and Bates & Coleman, P.C. ("Co-Bond Counsel"). This agreement will be effective for the Bonds and any future series of bonds issued for the Houston Airport System unless terminated by the City with customary notice.

I. *Bond Counsel Services.*

Our services as Co-Bond Counsel shall include all of the following services, which may include services from prior airport issuances or projects related to the Houston Airport System, as requested by the City:

(i) preparing all necessary legal documents, agreements and certificates to be acted upon and executed in connection with the authorization of the Bonds, including preparing, reviewing, revising and structuring the ordinance, related financing documents, all certificates, notices and documents relating to any ordinance amendments and such other matters relating to authorizing and issuing the Bonds;

(ii) providing the required legal analysis and related memoranda relating to Airport System covenants contained in the various ordinances authorizing outstanding

debt and related credit enhancement agreements; review and preparation of legal analysis relating to legal structure and other matters pertaining to prior Houston Airport System debt; and

(iii) reviewing those sections of the offering documents that pertain to the description and security of the bonds and the City documents related to this financing, matters related to tax exemption and our opinion;

(iv) assisting in any required meetings with appropriate officials of the City, Houston Airport System, the underwriters or purchasers, rating agencies, credit enhancers, consultants to the Houston Airport System, the City's financial advisor(s), special disclosure counsel and other counsel, including disclosure issues specific to the aviation industry, and their impact on air traffic and airports and general financial planning for the Houston Airport System;

(v) reviewing and analyzing issues and covenants pertaining to auction rate debt and related legal issues;

(vi) issuing our approving opinion as co-bond counsel as to matters of state law authorization and federal tax exemption;

(vii) obtaining the approving opinion of the Attorney General, including preparation of various memoranda relating to such approval; and

(viii) providing assistance as requested by you or your assistants as to state law issues, federal tax issues, disclosure services, or related transactional services.

In connection with the Bond Counsel Services, each co-bond counsel firm would expect to be compensated on an hourly basis pursuant to its respective rate schedules attached hereto as Exhibits A-1 and A-2 and be subject to the other terms and provisions regarding this engagement contained in its respective Exhibit. The aggregate maximum fees paid to Co-Bond Counsel for Bond Counsel Services for the initial series of Bonds (the "Initial Series") shall not exceed \$450,000 for Bracewell & Giuliani and \$150,000 for Bates & Coleman. The City Attorney is authorized pursuant to the ordinance authorizing the issuance of the Bonds, to which this letter is attached as an exhibit, to increase aggregate total by an amount not to exceed \$25,000.

We have assumed that the closing of the issuance of the Bonds will occur prior to June 2012; that we will utilize bond documents previously utilized by the Houston Airport System without adding any new financial products; that closing will occur in Houston; that no bank will supply liquidity for the Bonds; that no material adverse issue will need to be disclosed which would require an unusual amount of time and legal work; and the Texas Attorney General's office would not devote unusual time and attention to reviewing the Bonds.

In addition, Co-Bond Counsel will be reimbursed for their reasonable and actual out-of-pocket expenses, such as the cost of reproduction of documents, deliveries, filing fees, and all items paid for by Co-Bond Counsel on behalf of the City, incurred in connection with the performance of all services hereunder. All of such expenses will be reasonable and subject to

approval of the City Attorney, provided, however, that aggregate maximum reimbursable expenses shall not exceed \$25,000.

Co-Bond Counsel recognizes that it shall be disqualified from representing any other client with interests materially and directly adverse to yours (i) in any matter which is substantially related to the firm's representation of you and (ii) with respect to any matter where there is a reasonable probability that confidential information you furnished to the firm could be used to your disadvantage. You understand and agree that with those exceptions, the firm is free to represent other clients, including clients whose interest may conflict with yours in litigations, business transactions or other matters. Also, as you know, the firm represents or has represented clients with interests that may conflict with yours, such as clients with litigation involving condemnation. You agree that the firm's representing you in this matter will not prevent or disqualify the firm from representing clients adverse to you in unrelated condemnation matters and in other unrelated matters, and that you consent in advance to the firm's undertaking such adverse representations. In the event a conflict cannot, in our judgment, be resolved in the City's favor, we will immediately advise the City Attorney.

Nothing herein shall be construed as creating personal liability on the part of any officer of the City.

Co-Bond Counsel agrees to submit to the City Attorney at the beginning of each calendar year a schedule showing the ethnic and gender make-up of partners and associates of our respective firms.

If the terms of this letter are satisfactory, it is requested that your acceptance be indicated below.

Very truly yours,

BRACEWELL & GIULIANI LLP

By: _____
Barron F. Wallace

BATES & COLEMAN, P.C.

By: _____
Willie Coleman

ACCEPTED AND APPROVED
PURSUANT TO ORDINANCE
ADOPTED BY CITY COUNCIL
ON FEBRUARY 8, 2012:

David M. Feldman
City Attorney

EXHIBIT A-1

HOURLY BILLING RATES AND OTHER TERMS FOR
BATES & COLEMAN, P.C.

Hourly billing rates for Bates & Coleman, P.C. (the "Firm") are rates charged to governmental entities similar to the City of Houston, Texas. The billing rates for the Firm are periodically reviewed by the Firm's management to provide for competitive rates within industry standards. The following are the proposed rates:

Legal Assistants	\$ 60-150
Associate Attorneys up to Four Years' Experience	\$135-250
Associate Attorneys Four Years' Experience and Longer, including Attorneys of Counsel	\$275-350
Partners	\$325-525

If any controversy arises between the City of Houston and any other client of the Firm, we, after taking into account the rules of professional ethics applicable to us, may decline to represent either you or such other client or both you and such other client.

You understand that the Firm represents many investment banking firms, commercial banks, and other parties to public finance transactions from time to time in connection with other issues, including the City of Houston's co-financial advisors and potential underwriters for your securities, and you do not object to our continued representation (in connection with other issues) of any such firm with respect to which you choose to do business in connection with issuance of the Co-Counsel Obligations, since doing so is how we are able to gain the experience we need to complete the Co-Counsel Matter in an effective and efficient manner. If a controversy arises between you and any other client of Bates & Coleman, P.C., we, after taking into account the rules of professional ethics applicable to us, may decline to represent either you or such other client or both you and such other client.

EXHIBIT A-2

HOURLY BILLING RATES AND OTHER TERMS FOR
BRACEWELL & GIULIANI LLP

Hourly billing rates for Bracewell & Giuliani personnel are reviewed annually and periodically readjusted by management of Bracewell & Giuliani. The following information has been prepared based upon hourly rates schedule approved for 2012 for Houston-based personnel that might work on this matter:

Legal Assistants	\$115-300
Associate Attorneys up to Four Years Experience	\$335-445
Associate Attorneys Four Years Experience and Longer, including Counsel	\$450-595
Partners	\$520-795

The services of Bracewell & Giuliani will be subject to our Standard Terms of Engagement for Legal Services attached hereto.

Bracewell & Giuliani recognizes that it shall be disqualified from representing any other client with interests materially and directly adverse to yours (i) in any matter which is substantially related to the firm's representation of you and (ii) with respect to any matter where there is a reasonable probability that confidential information you furnished to the firm could be used to your disadvantage. You understand and agree that with those exceptions, the firm is free to represent other clients, including clients whose interests may conflict with yours in litigations, business transactions or other matters. Also, as you know, the firm represents or has represented clients with interests that may conflict with yours, such as clients with litigation involving condemnation. You agree that the firm's representing you in this matter will not prevent or disqualify the firm from representing clients adverse to you in unrelated condemnation matters and in other unrelated matters, and that you consent in advance to the firm's undertaking such adverse representations.

BRACEWELL & GIULIANI LLP

TERMS OF ENGAGEMENT

Introduction

These are the Terms of Engagement adopted by Bracewell & Giuliani LLP (“B&G”) and the addressee of the preceding Engagement Letter (“Client”) and referred to in our Engagement Letter as the basis for our representation. Because they are an integral part of our agreement to provide representation, we ask that you review this document carefully and retain it for your files. If you have any questions after reading it, please promptly inform your principal contact at the Firm.

Client of the Firm

Because B&G has been engaged to represent the Client only, the engagement does not include the Client’s family members, affiliated or related entities, or their respective individual officers, directors, partners, equity owners or employees.

Unless otherwise specifically stated in the Engagement Letter, our representation does not include any parent, subsidiary, or affiliated entity; employee, officer, director, shareholder, member or partner of an entity; or, any commonly owned entity. For any trade association, our representation does not include any member of the trade association; and for individuals, our representation does not include any employer, partner, spouse, sibling, or other family member. In the event we are asked to undertake representation of any other entity in connection with this engagement, we will do so only by agreement defined in the Engagement Letter. By execution of the Engagement Letter, Client consents to B&G's use of the name and a generic description of the transaction in B&G marketing materials. Confidential Client information will not be included in such materials.

Our Relationship with Others and Conflicts of Interest

Conflict of Interest is a concern for B&G and its clients. We attempt to identify actual and potential conflicts at the outset of each engagement. Unfortunately, conflicts sometimes arise or become apparent after work begins on an engagement. When that happens, we will do our best to address and resolve the situation in the manner that best serves the interests of all of our affected clients.

If a Conflict of Interest unrelated to this engagement develops between you and another client of B&G, you consent to the firm’s adverse representation in the unrelated matter.

B&G accepts this engagement on the understanding that our representation of you will not preclude us from accepting another engagement from a new or existing client provided that (1) such engagement is not substantially related to the subject matter of services we provide to you and (2) such other engagement would not impair the confidentiality of related client information.

Staffing the Project

In most cases, one attorney will be your primary contact. In order to provide you with the expertise of our firm, and to provide services on a cost effective basis, that attorney will delegate parts of your work to other lawyers, paralegals and professionals.

Billing Arrangements and Terms of Payment

Fees for professional services and expenses are not contingent on the outcome of the project, unless expressly stated in the Engagement Letter.

Unless expressly stated in the Engagement Letter, B&G issues invoices on a periodic basis, normally each month, for fees and expenses. Invoices are due on receipt and are considered past due 30 days after receipt.

Clients frequently ask us to estimate the fees and other charges they are likely to incur in connection with a particular matter. Any estimate is based on professional judgment and facts and circumstances that appear at the time. As such, any estimate is subject to the understanding that, unless we agree otherwise in writing, it does not represent a maximum, minimum, or fixed-fee quotation. The ultimate cost frequently is more or less than the amount estimated.

It may be necessary for us to retain third parties, such as consultants, experts and investigators, in order to represent you adequately. In that event, you will be responsible for the prompt payment of the invoices of those third parties. Although we may advance third-party disbursements in reasonable amounts, we will ask you to pay larger third-party invoices (usually those over \$500) directly to the third party providing the services.

If the representation will require a concentrated period of activity, such as a trial, arbitration, or hearing, we reserve the right to require the payment of all amounts owed and the prepayment of the estimated fees and expenses to be incurred in completing the trial, arbitration, or hearing, as well as arbitration fees likely to be assessed. If you fail to pay timely the estimated fees and expenses, we will have the right to cease performing further work and the right to withdraw from the representation, subject to any applicable rules of court or other applicable tribunal.

Although an insurer's payment of defense costs may be applied to billings of the firm, the payment obligation remains with you. Failure of any insurer to pay all or part of the billings for this project does not relieve you from the obligation to pay billings in full and in a timely manner.

Taxes

The Client agrees that all payments under the Engagement Letter shall be payable to B&G in U.S. Dollars, free and clear of any and all present and future taxes, levies, imposts, duties, deductions, withholdings, fees, liabilities and similar charges (the "Taxes"). If any Taxes are required to be withheld or deducted from any amount payable under the Engagement Letter, then the amount payable under the Engagement Letter shall be increased to the amount which, after deduction from such increased amount of all Taxes required to be withheld or deducted therefrom, will yield to B&G the amounts stated to be payable to B&G under the Engagement Letter.

Termination

Because B&G has been engaged to provide services in connection with the representation specifically defined in our Engagement Letter, the attorney-client relationship terminates upon our completion of those services.

You may terminate the engagement at any time, with or without cause, by notifying us in writing. The firm also can terminate the engagement before the completion of its representation of you in the specified matter if (a) the continued representation would result in a violation of the applicable rules of professional conduct or other law; (b) the termination can be accomplished without material adverse effect on your interests; (c) you persist in a course of action that B&G reasonably believes is criminal or fraudulent, or you have used our services to perpetrate a crime or fraud, (d) the firm has a fundamental disagreement with the objective or tactics in this engagement; (e) you deliberately and substantially fail to discharge an obligation regarding this engagement, including the payment of fees and expenses and the duty of cooperation as provided in the Terms of Engagement; or (f) other good cause for termination exist. In the event that the firm intends to terminate the engagement, the firm will give reasonable notice and allow you access to your files relating to this engagement.

For purposes of this Engagement Letter, this engagement terminates upon written notice of termination by Client or by B&G, or 120 days after the date of B&G's last substantive legal service billed to Client's account, whichever may first occur.

The termination of our services will not affect your responsibility for payment of legal services rendered and other charges incurred before termination and in connection with an orderly transition of the project.

After completion of the representation, however, changes may occur in the applicable laws or regulations that could affect your future rights and liabilities in regard to the matter. B&G has no continuing obligation to give advice with respect to any future legal developments that may relate to the project.

Retention of Client Files

Client files are limited to: materials supplied by Client; final contracts; estate planning documents, deeds and corporate records; and, routine correspondence related to this engagement. At the close of any matter, Client files may be returned to you, sent to a private storage facility, archived for a limited time or destroyed. The attorney closing the file will determine, at his or her discretion, the disposition of Client files, unless you make a specific written request that they be returned.

Your request for return of Client files must be delivered to B&G no later than 120 days after the last substantive service relating to the closed matter. A substantive service does not include audit letter research and preparation, or any other service that does not directly relate to the substantive discharge of a Client engagement. Your request must be specific and designate your representative to receive the files. Client is responsible for paying the reasonable cost to retrieve, duplicate and deliver the Client files.

B&G adopted a program of document retention and management of electronically stored information, including regular deletion of outdated, corrupt or useless files. Such program may change from time-to-time.

It is important for Client to alert B&G in advance of special treatment, sensitive information, retention requirements and other unique conditions pertaining to Client files. Client agrees that it will notify B&G in a timely, written and specific manner, concerning any requirement for special or unusual handling or attention of its Client files. This includes any statutory or regulatory requirements relating to confidentiality and retention of Client files.

B&G Files

You agree that B&G will own and retain its own files and any related electronically stored information pertaining to the engagement. You will not have the right or ability to require us to deliver such files and records (or copies thereof) to you. Examples of B&G files and records are: firm administrative records, financial files and documents, time and expense reports, personnel and staffing materials, credit and accounting records, electronic mail correspondence (other than such correspondence which was sent to you by a member of our firm) and internal lawyer's work product, such as drafts, notes, memoranda and legal and factual research, including investigative reports prepared by or for the internal use of lawyers. Further, at the discretion of the responsible partner for the project in question, we may destroy any such documentation which is the property of B&G or any documentation which such partner determines to be duplicative or unnecessary in all cases without having to obtain your consent.

Choice of Law

Because B&G performs legal services in a number of jurisdictions, for consistency and predictability, the Client and B&G agrees that the Texas Disciplinary Rules of Professional Conduct (found at www.texasbar.com or www.txethics.org) will govern all issues of legal ethics and professionalism.

Disclaimer

We cannot guarantee the outcome of any matter. Any expression of our professional judgment regarding your matter or the potential outcome is, of course, limited by our knowledge of the facts and based on the law at the time of expression. It is also subject to any unknown or uncertain factors or conditions beyond our control.

Either at the commencement or during the course of the representation, we may express opinions or beliefs about the matter or various courses of action and the results that might be anticipated. Any expressions on our part concerning the outcome of the representation, or any other legal matters, are based on our professional judgment and are not guarantees.

By signing the Engagement Letter or otherwise indicating your acceptance of the Engagement Letter, you acknowledge that B&G has made no promises or guarantees to you about the outcome of the representation, and nothing in these Terms of Engagement shall be construed as such a promise or guarantee.

Your Cooperation

To enable us to provide effective representation, you agree to: (1) disclose to us fully, accurately and on a timely basis, all facts and documents that are or might be material or that we may request; (2) keep us apprised on a timely basis of all developments relating to the representation that are or might be material; (3) attend meetings, conferences, and other proceedings when it is reasonable to do so; (4) provide updated information for conflicts purposes, if necessary; and (5) cooperate fully with us in all matters relating to the engagement.

Modification of Our Agreement

The Terms of Engagement reflect our agreement on the terms of all engagements, and are not subject to any oral agreements, modifications, or understandings. Any change in these Terms of Engagement must be made in writing signed by both B&G and Client.

In Conclusion

If you have questions or concerns, at any time, relating to the terms and conditions of this engagement, the services or advice provided by B&G, or the fees and expenses reflected in the invoices, please bring them to the attention of your principal contact at our firm, or B&G's General Counsel or Managing Partner.

EXHIBIT H
SPECIAL DISCLOSURE CO-COUNSEL AGREEMENT

HAYNES AND BOONE, LLP
1221 McKinney St., Suite 2100
Houston, Texas 77010

BRATTON & ASSOCIATES
12 Greenway Plaza, Suite 1100
Houston, Texas 77046

February 8, 2012

Mayor and City Council
City of Houston
City Hall Annex
900 Bagby
Houston, Texas 77002

Re: Special Disclosure Co-Counsel Engagement
City of Houston, Texas Airport System [Subordinate Lien Revenue
Refunding Bonds, Series 2012A [B,C]

Mayor and Council Members:

On behalf of Haynes and Boone, LLP (“HB”) and Bratton & Associates (“Bratton”) (together, “Disclosure Co-Counsel”), we appreciate your decision to engage us to provide legal representation to the City of Houston, Texas (the “City”). We look forward to this engagement, and are confident that you will be pleased with the quality of our work and our responsiveness to your needs.

The purpose of this engagement letter is to confirm the terms on which HB and Bratton will undertake to represent the City as Disclosure Co-Counsel in connection with the issuance of one or more series of its Airport System [Subordinate Lien Revenue Refunding Bonds, Series 2012] (the “Bonds”). When approved by you, this letter will become effective and will evidence an agreement between the City and Disclosure Co-Counsel, subject to all applicable provisions of the City’s Charter and Code of Ordinances.

Disclosure Co-Counsel agrees to comply with the requirements and terms of the City’s Contractor’s Pay or Play Program, as set out in the Executive Order 1-7 at the time of City Council’s approval of this Agreement.

1. Client Relationship

HB and Bratton are being retained by the City solely as its Disclosure Co-Counsel with respect to the issuance of the Bonds, and our representation pursuant to this letter does not include the representation of any other entity or any individual, including but not limited to any

of your affiliates, employees or agents. As a result, our representation in this matter does not give rise to an attorney-client relationship between HB or Bratton attorneys and any of your affiliates. You agree that during the course of our representation, we will not be given any confidential information regarding any of your affiliates. Accordingly, in most instances, our representation of the City in this matter will not give rise to any conflict of interest if other clients of HB or Bratton are or become adverse to any of the City's affiliates.

2. Scope of Representation

You have asked us to represent the City as Disclosure Co-Counsel in connection with the issuance of the Bonds. You acknowledge that we are not the City's bond counsel or general counsel and that our acceptance of this engagement does not involve our representation of the City or its business, operations or other interests with respect to any matter other than disclosure issues relating to the issuance of the Bonds. After the closing of the issuance of the Bonds, changes may occur in the applicable laws or regulations that could affect the City's future rights and liabilities. Unless you engage us after closing to provide additional services on issues arising from the issuance of the Bonds, you agree that HB and Bratton have no continuing obligation to advise the City with respect to future legal developments.

As Disclosure Co-Counsel, we will assist the City's Legal and Finance Departments, and the Office of the City Controller, together with the City's Co-Financial Advisors, in connection with the issuance, sale and delivery of the Bonds. Our basic services shall include the following: consultation with and advice to City officials and staff and its financial advisor regarding any disclosure issues, including assistance in evaluating the materiality of such issues; preparation of the preliminary and final offering documents for the Bonds; assistance in the performance of any necessary due diligence investigation, including participation in due diligence calls or meetings, as appropriate; analysis of the requirements of Rule 15c2-12 and the basis upon which such rule is satisfied; and providing the City with a securities disclosure opinion in customary form reasonably satisfactory to the City and Disclosure Co-Counsel. In addition to the foregoing basic services, we are prepared to undertake additional services as directed by the City.

3. Staffing

Cheryl K. Rosenberg will be the primary contact at HB for the City's representation, although other HB lawyers and legal assistants may work on your engagement as we believe appropriate under the circumstances. We may delegate work to lawyers or support personnel with special experience in a given area or whom we otherwise believe will enable us to provide services on an efficient, timely and cost-effective basis. Regardless of who is working on a particular component of the engagement, we will always be available to discuss any aspect of our representation with you.

Lynette D. Bratton will be the primary contact at Bratton for the City's representation, although other Bratton lawyers and legal assistants may work on your engagement as we believe appropriate under the circumstances.

4. Fees and Expenses

Experience has shown that our relationship will be better if we begin with a clear understanding about our fees and the timing of payment. For the basic services described in paragraph 2, the City agrees to pay Disclosure Co-Counsel a professional services fee determined on an hourly rate basis pursuant to the schedules of rates attached hereto. The invoice for such service will include an itemization of the hours worked by each attorney and legal assistant, the rate for each individual and a description of the work performed by the individual. The fee for Disclosure Co-Counsel's services with respect to the Bonds shall not exceed \$275,000.00. The City's obligation to pay such fee is contingent upon the successful closing of the issuance of the Bonds. Such fee may be paid from any funds of the City, as it deems appropriate. Payment of the fee shall be made upon delivery of the Bonds and receipt by the City of an invoice therefore.

Bratton is a certified minority-owned business enterprise and Disclosure Co-Counsel agrees to a goal of 25% as the value of this Agreement which will be attributed to professional services rendered by Bratton.

The fees for any services provided by Disclosure Co-Counsel over and above those services which are customarily provided by Disclosure Counsel will be determined on an hourly rate basis or as the City and Disclosure Co-Counsel may agree. Our hourly rates will be those customarily charged by HB and Bratton to other clients for the same or similar services, taking into consideration the time consumed in provided such additional services, the level of experience and ability of the attorneys providing the services, and the difficulty and complexity of the tasks involved. See Exhibit A for the standard hourly rates for HB and Bratton attorneys.

Disclosure Co-Counsel will be reimbursed a maximum of \$7,500.00 for its reasonable and actual out-of-pocket expenses incurred and paid by Haynes Boone or Bratton on behalf of the City in connection with the performance of services hereunder. If our representation of the City requires us to incur any single expense in excess of \$2,500.00, you agree that the City will pay the expense directly, and authorize us to make arrangements to have the City billed directly.

Disclosure Co-Counsel understands further that the City's obligation to pay for our services is limited to the amount of the original allocation and any supplemental allocations that the City may make for payments for services performed under this Agreement, all as set forth in the provisions of "Limitation of City's Duties" attached hereto as Exhibit B. Nothing herein shall be construed as creating personal liability on the part of any officer of the City, and this Agreement may be terminated by the City by giving 30 days' written notice.

5. Advance and General Waiver/Consent to HB Conflicts with Respect to Unrelated Matters

Haynes and Boone, LLP is a large firm, with offices and professionals in many cities. HB's practice is broadly based and covers several areas of both domestic and international law. The very size of HB has created situations where work for one client in an area has precluded lawyers in HB from pursuing other matters, whether related or unrelated to the first matter. In order to avoid the potential for this kind of restriction on our practice, we request a waiver and

advance agreement that HB will not be disqualified from representing interests that may become adverse to you in regard to matters that are not substantially related to the issuance of the Bonds. This waiver is not intended to, and would not permit, HB to represent interests directly adverse to you in matters that are substantially related to the work done for you. Nor is it intended that there be, and there would not be, any waiver of the City's right not to have confidences or secrets that you transmit to HB disclosed to any third party or used against you. We would, of course, hold such information that the City provides to us in strict confidence. Accordingly, you agree that the City will not object to HB's representation of other clients on the basis of your retention of HB, and you consent to and waive any objection to HB's representation of other clients, unless the other representation would involve HB representing an interest directly adverse to you on a matter substantially related to the issuance of the Bonds.

Further, the nature of HB's practice is such that HB may from time to time represent one client in a matter while also representing that client's adversary in another unrelated matter. Such concurrent representation is undertaken only if it is HB's professional judgment that HB can do so impartially and without any adverse effect on our responsibilities to either client. Accordingly, you also agree that you do not consider any such concurrent representation, in unrelated matters, to be inappropriate and you consent to any such present or future concurrent representations.

HB agrees that conflicts of interest in which HB is asked to represent interests directly adverse to the City in matters substantially related to work performed for the City will be resolved in the City's favor whenever possible. If such a conflict cannot, in the judgment of HB, be resolved in the City's favor, HB will immediately advise the City Attorney. Any failure to resolve such a conflict in the City's favor will constitute grounds for termination of this Agreement by the City Attorney by giving 30 day's prior written notice.

6. Discharge and Withdrawal

You will have the right at any time to terminate Disclosure Co-Counsel's representation of the City by delivering written notice of termination to HB and Bratton. Disclosure Co-Counsel will have the right to withdraw from its representation of the City at any time with its consent, or for good cause without its consent. For example, if the City does not honor the terms of this letter (including the City's or a third-party payor's failure to pay), or if the City fails or refuses to cooperate with us or to follow our advice on a material matter, or if we become aware of any fact or circumstance that would, in our view, render our continuing representation of the City ineffective, unlawful or unethical, then we will have good cause to withdraw.

If the City discharges us or we elect to withdraw, then the City will take all steps necessary to free us of any obligation to perform, including by executing any documents necessary to complete the termination of the representation, and we will take all steps that, in our view, are reasonably practicable to protect the City's interests. If a discharge or withdrawal occurs, then the City will pay us for all costs and expenses paid or incurred by us on the City's behalf.

Unless previously terminated, our representation of the City with respect to any matters for which we have been engaged will terminate when we send the City our final statement for services rendered. In the course of our representation of the City, we likely will come into

February 8, 2012

Page 5

possession of copies or originals of documents or other materials belonging to the City or others (collectively, "materials"). When our engagement as Disclosure Co-Counsel with respect to the issuance of the Bonds is concluded, we will make arrangements either to return the documents to the City, retain them in our storage facilities, or to dispose of the materials. Absent any other arrangements made with the City, upon the expiration of five years after the closing of the issuance of the Bonds, all materials in the file may be destroyed. We may retain our own files, including lawyer work product, pertaining to the representation.

7. Entire Agreement

This letter constitutes the entire agreement between the City and HB and Bratton regarding our representation of the City as Disclosure Co-Counsel with respect to the issuance of the Bonds, and is subject to no oral agreements or understandings. No obligation or undertaking that is not set forth expressly in this letter shall be implied on the part of either the City, HB or Bratton.

8. Conclusion

We are pleased to have this opportunity to represent the City as Disclosure Co-Counsel. If you have any questions about any aspect of our engagement or our invoices at any time, please feel free to raise those questions.

If this letter correctly reflects your understanding of the scope, terms, and conditions of our representation of the City as Disclosure Co-Counsel with respect to the issuance of the Bonds, please indicate your acceptance by executing the enclosed copy of this letter in the space provided below. By executing this letter, you will be acknowledging that you have read this letter and understand its terms.

Very truly yours,

HAYNES AND BOONE, LLP

By: _____
Cheryl K. Rosenberg, Partner

BRATTON & ASSOCIATES

By: _____
Lynette D. Bratton

February 8, 2012

Page 6

APPROVED:

Mayor, City of Houston

ATTEST:

COUNTERSIGNED:

City Secretary

City Controller

(Seal)

Date: _____

APPROVED:

City Attorney

Attachments

EXHIBIT A

Standard Billing Rates

HAYNES & BOONE, LLP

Partner

Cheryl Rosenberg \$575/hour

Of Counsel

Janet Robertson \$480/hour

Associate

Robin Smith \$275/hour

BRATTON & ASSOCIATES

Partner

Lynette D. Bratton \$400/hour

Associate

Jalene M. Mack \$225/hour

EXHIBIT B

Limitation of City's Duties

(a) The City's duties to pay money to the Firm for any purpose under this Agreement are limited in their entirety by the provisions of this Section.

(b) In order to comply with Article II, Sections 19 and 19a of the City's Charter and Article XI, Section 5 of the Texas Constitution, the City has appropriated and allocated the sum of \$275,000 for fees and \$7,500 for expenses to be used to discharge its duties to pay money under this Agreement (the "Original Allocation"). The parties recognize that the executive and legislative officers of the City, in the exercise of their sound discretion, may allocate supplemental sums of money for the purpose of this Agreement. Because the City's officers are not obligated to make any such supplemental allocations, the parties have agreed to certain procedures and remedies to be followed with respect thereto.

(c) A supplemental allocation will only be deemed to be made when the City sends a notice to the Firm (which notice must be signed by the City Attorney and signed by the City Controller, and for which no Council action will be required) in substantially the following form:

"NOTICE OF SUPPLEMENTAL ALLOCATION OF FUNDS"

TO: [Name of Firm]

FROM: City of Houston, Texas

DATE: [Date of Notice]

SUBJECT: Supplemental allocation of funds for the purpose of that certain "[title of this Agreement]" by and between the City and [name of Firm] countersigned by the City Controller on [date of countersignature] [the "Agreement"]

I, [name of City Controller], City Controller, do hereby certify that the supplemental sum of \$ _____ has been allocated for the purpose of this Agreement.

The aggregate of all sums allocated for the purpose of such Agreement, including the Original Allocation, other supplemental allocations (if any) and the supplemental sum specified herein, as of the date of this notice, is \$ _____.

Signed:

[Signature of the City Controller]
City Controller

REQUESTED:

[Signature of the City Attorney]

City Attorney

(d) City Council delegates to the City Attorney the authority to approve up to \$275,000 in supplemental allocations for this Agreement without returning to Council. The aggregate of the Original Allocation and all supplemental allocations, if any, effected by notice from the City Controller to the Firm in substantially the foregoing form shall be the Allocated Funds.

(e) The Original Allocation plus any supplemental allocations are the Allocated Funds. The City shall never be obligated to pay any money under this Agreement in excess of the Allocated Funds. The Firm must assure itself that sufficient allocations have been made to pay for services it provides. If Allocated Funds are exhausted, the Firm's only remedy is suspension or termination of its performance under this Agreement and it has no other remedy in law or in equity against the City and no right to damages of any kind.

EXHIBIT I

FORM OF DECLARATION OF INTENT TO REIMBURSE

**DECLARATION OF INTENT TO
FINANCE EXPENDITURES TO BE INCURRED**

WHEREAS, the City of Houston (the "Issuer") is a political subdivision of the State of Texas authorized to finance its activities by issuing obligations; and

WHEREAS, the Issuer will make, or has made not more than 60 days prior to the date hereof, payments with respect to the establishing, improving, enlarging, extending and repairing the airports of the Issuer or buildings, improvements, landing fields or other facilities or services which are necessary, desirable or convenient for the efficient operation and maintenance of the airports of the Issuer, or acquiring land for the airports of the Issuer, as more specifically listed on Exhibit A attached hereto (the "Financed Project"); and

WHEREAS, the Issuer has concluded that it does not currently desire to issue obligations to finance the costs associated with the Financed Project; and

WHEREAS, the Issuer desires to reimburse itself for the costs associated with the Financed Project from the proceeds of obligations to be issued subsequent to the date hereof; and

WHEREAS, the Issuer reasonably expects to issue obligations to reimburse itself for the costs associated with the Financed Project;

NOW, THEREFORE, be it resolved that:

Section 1. The Issuer reasonably expects to reimburse itself for costs that have been or will be paid subsequent to the date that is 60 days prior to the date hereof and that are to be paid in connection with the acquisition, construction, reconstruction or renovation of the Financed Project from the proceeds of obligations to be issued subsequent to the date hereof.

Section 2. The Issuer reasonably expects that the maximum principal amount of obligations issued to reimburse the Issuer for the costs associated with the Financed Project will be \$_____].

ADOPTED THIS ___ DAY OF _____, 20____.

CITY OF HOUSTON, TEXAS

By: _____

Director, Houston Airport System

Exhibit A to Declaration of Intent to Finance Expenditures to be Incurred

DESCRIPTION OF PROJECT

Purpose/Project

Amount

EXHIBIT J

FORM OF AGREEMENT WITH BOND INSURER

City of Houston, Texas Airport System Subordinate Lien Revenue Bonds, Series 2012 and Revenue Refunding Bonds, Series 2012

This document is being entered into between the City of Houston, Texas (the "City") and _____ (the "Bond Insurer"), pursuant to Section 12.02 of Ordinance No. 2012-____ adopted February ____, 2012 (the "Ordinance") by the City Council of the City authorizing the above-described bonds (the "Series 2012 Bonds). Capitalized terms used but not otherwise defined herein shall have the meanings assigned to them in the Ordinance. This Agreement may be amended by written agreement of the parties hereto, and the Bond Insurer may waive any of the provisions contained herein for its benefit.

(a) As provided in Section 5.14 of the Ordinance, the City and the Bond Insurer agree that all fund balances allocable to the Series 2012 Bonds shall, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or in any other investments authorized by Texas law. All such investments allocable to the Series 2012 Bonds shall be valued at least once per year.

(b) The City covenants and agrees that the Bond Insurer shall be provided with the following information:

(i) The Airport System budget for each year and annual audited financial statements, within 180 days after the end of the City's fiscal year or as soon thereafter as practicable;

(ii) Notice of any draw upon or deficiency due to market fluctuation in the amount, if any, on deposit in the Subordinate Lien Bond Reserve Fund;

(iii) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Series 2012 Bonds, including the principal amount, maturities and CUSIP numbers thereof; and

(iv) Simultaneously with the delivery of the annual audited financial statements, the City shall provide to the following information to the Bond Insurer:

(A) Annual traffic data:

(1) Number of enplanements/deplanements, and

(2) Number of airlines operating and percentage of enplanements/deplanements which each comprises;

(B) Number and names of airlines which maintain maintenance facilities at the airport;

(C) Current landing fee rates (\$/1000 lbs.);

- (D) Current terminal space rental rate (\$/sq. ft.);
- (E) Expansion and improvement projects planned or undertaken since last reporting date (which may be satisfied by providing the Airport System's most current capital improvement plan; and
- (F) Such additional information as the Bond Insurer may reasonably request from time to time.

(c) The City agrees to post or cause to be posted on the Electronic Municipal Market Access system (or, if such system is no longer operational or accepting documents for filing, an equivalent system), the official statement, if any, prepared in connection with the issuance of any Additional Senior Lien Bonds or Additional Subordinate Lien Bonds of the Airport System, within 30 days of the bond sale.

(d) Notwithstanding any provision herein to the contrary, without the consent of the Bond Insurer, the City covenants and agrees that no notice of redemption of any Series 2012 Bonds, other than mandatory sinking fund redemption and excepting any notice that refers to the Series 2012 Bonds that are the subject of an advanced refunding, shall be circulated unless sufficient funds have been deposited with the Paying Agent/Registrar to pay the redemption price of the Series 2012 Bonds to be redeemed or unless the notice of redemption states that redemption of such Series 2012 Bonds is conditioned upon the deposit of sufficient funds to pay the redemption price on or prior to the redemption date.

(e) Notwithstanding anything to the contrary contained in Section 7.08 of the Ordinance (relating to Bond Owners' remedies), it is agreed that:

(i) In determining whether a payment default has occurred with respect to the Series 2012 Bonds, no effect shall be given to payments made under the Bond Insurance Policy.

(ii) The Bond Insurer shall receive immediate notice of any payment default and notice of any other default known to the City, the Paying Agent/Registrar or any applicable trustee within 30 days of such person's knowledge thereof.

(iii) Except for the giving of notice of default to the Registered Owners, the Bond Insurer shall be deemed to be the sole Owner of the Series 2012 Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

(f) Notwithstanding anything contained in Article VII of the Ordinance to the contrary (containing covenants and provisions relating to Subordinate Lien Bonds), it is agreed that:

(i) The Bond Insurance Policy shall not be taken into account in determining whether the rights of the Registered Owners are adversely affected by actions taken pursuant to the terms and provisions of this Ordinance.

(ii) The Bond Insurer shall be included as a party in interest and as a party entitled to (i) notify the City, the Paying Agent/Registrar and any applicable trustee of the occurrence of an event of default and (ii) request any applicable trustee to intervene in judicial proceedings that affect the Series 2012 Bonds or the security therefor. The City, the Paying Agent/Registrar and any applicable trustee shall be obligated to accept a notice of default from the Bond Insurer.

(g) Notwithstanding anything contained in Article IX of the Ordinance to the contrary (relating to amendments to the Ordinance), the City agrees to provide notice of each amendment and a

copy thereof to each rating agency then rating the Series 2012 Bonds at least 15 days in advance of its effectiveness.

(h) Notwithstanding anything to the contrary contained in Article V of the Ordinance (relating to security and source of payment for all Outstanding Airport System bonds and notes), it is hereby agreed that the following special provisions shall be made with respect to the payment of the Series 2012 Bonds:

(i) If, on any interest payment date for the Series 2012 Bonds, there is not on deposit with the Paying Agent/Registrar sufficient moneys available to pay all principal of and interest on the Series 2012 Bonds due on such date, the Paying Agent/Registrar shall immediately notify the Bond Insurer of the amount of such deficiency and shall make a claim for payment with the Bond Insurer in accordance with the terms and procedures of the Bond Insurance Policy.

(ii) In the event that the Paying Agent/Registrar has notice that any payment of principal of or interest on a Bond has been recovered from a Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Paying Agent/Registrar shall, at the time it provides notice to the Bond Insurer, notify all Bondholders that in the event that any Bondholder's payment is so recovered, such Bondholder will be entitled to payment from the Bond Insurer to the extent of such recovery, and the Paying Agent/Registrar shall furnish to the Bond Insurer its records evidencing the payment of principal of and interest on the Series 2012 Bonds which have been made by the Paying Agent/Registrar and subsequently recovered from Bondholders, and the dates on which such payments were made.

(iii) The Bond Insurer shall, to the extent it makes payment of principal of or interest on the Series 2012 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy and, to evidence such subrogation, (1) in the case of subrogation as to claims for past due interest, the Paying Agent/Registrar shall note the Bond Insurer's rights as subrogee on the registration books maintained by the Paying Agent upon receipt from the Bond Insurer of proof of the payment of interest thereon to the Bondholders of such Series 2012 Bonds and (2) in the case of subrogation as to claims for past due principal, the Paying Agent shall note the Bond Insurer's rights as subrogee on the registration books for the Series 2012 Bonds maintained by the Paying Agent/Registrar upon receipt of proof of the payment of principal thereof to the Bondholders of such Series 2012 Bonds. Notwithstanding anything in this Ordinance to the contrary, the Paying Agent/Registrar shall make payment of such past due interest and past due principal directly to the Bond Insurer to the extent that the Bond Insurer is a subrogee with respect thereto.

The notice address for the Bond Insurer shall be as follows:

Attention: _____

[EXECUTION PAGE FOLLOWS]

This document will become effective upon the issuance of the Bond Insurance Policy.

EXECUTED as of this ____ day of _____, 2012.

CITY OF HOUSTON, TEXAS

By: _____
Annise D. Parker, Mayor

ATTEST:

COUNTERSIGNED:

By: _____
Anna Russell, City Secretary

By: _____
Ronald C. Green, City Controller

(SEAL)

[EXECUTION PAGE TO AGREEMENT WITH BOND INSURER]

[BOND INSURER]

By: _____

Name: _____

Title: _____

[EXECUTION PAGE TO AGREEMENT WITH BOND INSURER]

EXHIBIT K

FORM OF DEBT SERVICE RESERVE FUND POLICY AGREEMENT

This DEBT SERVICE RESERVE FUND POLICY AGREEMENT, dated as of _____, 2012, is entered into by and between City of Houston, Texas (the "Issuer") and _____ (the "Insurer") (the "Agreement").

In consideration of the issuance by the Insurer of its Municipal Bond Debt Service Reserve Fund Policy in an amount equal to the amount by which the Reserve Fund Requirement for the Subordinate Lien Bond Reserve Fund is increased by virtue of the issuance of the Bonds (as defined herein) (the "Reserve Policy") with respect to the Issuer's Airport System Subordinate Lien Revenue Bonds, Series 2012 and Revenue Refunding Bonds, Series 2012 (the "Bonds") pursuant to the City of Houston, Texas, Ordinance No. 2012-_____ adopted on February __, 2012 (the "Ordinance") and the Issuer's payment to the Insurer of the insurance premium for the Reserve Policy, the Insurer and the Issuer hereby covenant and agree as follows:

1. Upon any payment by the Insurer under the Reserve Policy, the Insurer shall furnish to the Issuer written instructions as to the manner in which payment of amounts owed to the Insurer as a result of such payment under the Reserve Policy shall be made.

2. The Issuer shall pay the Insurer the principal amount of any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Insurer and shall pay interest thereon from the date of payment by the Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of (a) the lower of (i) the per annum rate of interest, publicly announced from time to time by _____ at its principal office in the City of _____, as its prime or base lending rate ("Prime Rate") plus __%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days.

3. Repayment of draws and payment of expenses and the interest accrued thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12th of the aggregate of Policy Costs related to such draw.

4. Amounts in respect of Policy Costs paid to the Insurer shall be credited first to interest due, then to the expenses due and then to principal due.

5. As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

6. All cash and investments in the applicable account of the Reserve Fund shall be transferred to the debt service fund for payment of debt service on the Bonds before any drawing may be made on the Reserve Policy or on any alternative credit instrument. Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all alternative credit instruments (including the Reserve Policy) on which there is available coverage shall be made on a pro rata basis (calculated by reference to coverage then available under each such alternative credit instrument) after applying available cash and investments in the applicable account of the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with

respect to alternative credit instruments shall be made on a pro rata basis prior to replenishment of any cash drawn from the applicable account of the Reserve Fund.

7. If the Issuer shall fail to pay any Policy Costs in accordance with the requirements of the Ordinance and this Agreement, the Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Ordinance, other than (i) acceleration of the maturity of the Bonds or (ii) remedies which would adversely affect owners of the Bonds.

8. The Ordinance shall not be discharged until all Policy Costs owing to the Insurer shall have been paid in full. The Issuer's obligation to pay such amounts shall expressly survive payment in full of the Bonds.

9. In order to secure the Issuer's payment obligations with respect to the Policy Costs, there is hereby granted and perfected in favor of the Insurer a security interest (subordinate only to that of the owners of the Bonds) in all revenues and collateral pledged as security for the Bonds.

10. Policy Costs due and owing shall be included in debt service requirements for purposes of calculation of the additional bonds test and the rate covenant in the Ordinance.

11. The Paying Agent/Registrar shall ascertain the necessity for a claim upon the Reserve Policy and provide notice to the Insurer in accordance with the terms of the Reserve Policy at least five business days prior to each date upon which interest or principal is due on the Bonds. Where deposits are required to be made by the Issuer with the Paying Agent/Registrar to the debt service fund for the Bonds more often than semi-annually, the Paying Agent/Registrar shall give notice to the Insurer of any failure of the Issuer to make timely payment in full of such deposits within two business days of the date due.

12. Notices to the Insurer shall be sent to the following address (or such other address as the Insurer may designate in writing):

Attn: _____
Phone: _____

13. This Agreement may be executed in counterparts, each of which alone and all of which together shall be deemed one original Agreement.

14. If any one or more of the agreements, provisions or terms of this Agreement shall be for any reason whatsoever held invalid, then such agreements, provisions or terms shall be deemed severable from the remaining agreements, provisions or terms of this Agreement and shall in no way affect the validity or enforceability of the other provision of this Agreement.

15. All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Ordinance.

16. This Agreement and the rights and obligations of the parties of the Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of Texas.

[Execution Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have set their hands as of the date written above.

CITY OF HOUSTON, TEXAS

By: _____
Mayor

ATTEST:

City Secretary

COUNTER SIGNATURE:

City Controller

[INSURER]

By: _____
Name: _____
Title: _____

EXHIBIT L

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

SUMMARY OF SCHEDULES RELATED TO CONTINUING DISCLOSURE OF INFORMATION

- Schedule 1: Passenger Statistics (including Schedule 1A –Total Enplaned Passengers for the Houston Airport System)
- Schedule 2: Airline Market Shares
- Schedule 3: Total Aircraft Operations and Aircraft Landed Weight
- Schedule 4: Total System Cargo Activity
- Schedule 5: Selected Financial Information
- Schedule 6: Summary of Certain Fees and Charges
- Schedule 7: Houston Airport System Debt Service Requirements Schedule
- Schedule 8: Houston Airport System Outstanding Debt
- Schedule 8A: Cash and Liquidity
- Schedule 9*: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability

* The City agrees and is obligated to update Schedule 9 only to the extent that the City receives updated actuarial reports from the board of the Municipal Employees Pension System (the "Pension System"). The City is not empowered to require the board of the Pension System to obtain updated actuarial reports. The Pension System will periodically receive additional actuarial reports with regard to the City's pension plans, to the extent required under State law or requested by the board of the Pension System. Accordingly, an updated Schedule 9 may not be available in every annual continuing disclosure filing.

EXHIBIT M

PROPOSED AMENDMENT

PROPOSED 2011 AMENDMENT

(the Proposed 2011 Amendment are shown in bold italics) *

Airport System shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Airport System currently includes the present airports of the City, known as ***George Bush Intercontinental Airport/Houston*** and ***William P. Hobby Airport.***

* From and after the Amendment Effective Date, the words "and Ellington Airport" (formerly known as Ellington Field)" are deleted from the definition of "Airport System."