

New Issue: MOODY'S ASSIGNS Aaa RATING TO PORT OF HOUSTON AUTHORITY'S \$300M ULT TAX BONDS SERIES 2010D AND 2010E

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AFFECTS \$769M IN OUTSTANDING DEBT, INCLUSIVE OF THE CURRENT ISSUE

Ports
TX

Moody's Rating

ISSUE	RATING
Unlimited Tax Refunding Bonds, Series 2010E	Aaa
Sale Amount	\$50,000,000
Expected Sale Date	08/02/10
Rating Description	General Obligation
Unlimited Tax Port Improvement and Refunding Bonds, Series 2010D	Aaa
Sale Amount	\$250,000,000
Expected Sale Date	08/02/10
Rating Description	General Obligation

Opinion

NEW YORK, Jul 20, 2010 -- Moody's Investors Service has assigned a Aaa rating to the Port of Houston Authority's [TX] \$250 million Unlimited Tax Port Improvement Bonds, Series 2010D and \$50 million Unlimited Tax Refunding Bonds, Series 2010E. Concurrently, we have affirmed the Aaa rating on the Authority's \$769 million of general obligation bonds outstanding, following the current issue. The Aaa rating reflects the Authority's significant tax base essentially coterminous with Harris County (GO rated Aaa) with modest direct debt levels and well maintained financial operations. Bond proceeds will refund outstanding Commercial Paper that funded Port expansion and improvements as well as up to \$50M in tenders of the Port's outstanding Series 2008A bonds (net present value savings and no extension of final maturity). Annual principal and interest requirements are payable from an ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property within the Authority's taxing jurisdiction.

The Authority operates a large number of Authority owned wharves and works in conjunction with a considerable number of privately owned wharves. The bulk of facilities are located on the Houston Ship Channel that extends 50 miles inland and connects the City of Houston (rated Aa2/stable outlook) with the Gulf of Mexico. Authority operated or leased facilities include terminals handling general cargo, autos, containers, grain, other dry bulk materials, project and heavy-lift cargo, and essentially any other type of cargo.

AUTHORITY TAXBASE COTERMINOUS WITH HARRIS COUNTY

The tax base of the Authority is essentially coterminous with that of Harris County, though the Authority is a legally distinct entity, governed by a 7 member Port Commission. Commissioners are appointed by Harris County and the City of Houston (2 appointees each), City of Pasadena (rated Aa2, 1 appointee) and the Harris County Mayors and Councils Association (1 appointee). The City and County jointly appoint the Authority's Chairman. Despite the authority's legal autonomy in operational matters, both the Authority and the County must approve all Authority bond issues. The County sets the Authority's tax rate upon consultation with the Authority as to debt service requirements and property taxes are collected on behalf of the Authority by the Harris County Tax Assessor-Collector. The county's Treasurer acts as Treasurer of the Port as well and holds property tax receipts, which can only be used for G.O. debt service. Current year collections as reflected in the Ports audit have historically reflected only a portion of tax year collections. The Appraisal District reports that for fiscal 2010 current year actual collections are 97% through July 1, 2009-June 30,2010 with total collections reaching 99%, exclusive of penalties and interest.

TAXBASE IMPACTED BY NATIONAL ECONOMIC CONDITIONS; DEMOGRAPHIC TRENDS SUPPORT RETURN TO TAXBASE GROWTH

Harris County, the third most populous in the U.S., encompasses the City of Houston, serving as the center of the country's energy sector. Moody's Economy.com reports the MSA's economic diversity index has improved markedly since the oil bust of the 1980's approaching 60% of the national average, as compared to the 30% range exhibited prior to 1990. The county's dependence on the volatile energy sector remains but has decreased somewhat over time given the importance of the medical services/research (Texas Medical Center with 42 institutions and over 73,500 jobs), transportation and distribution sectors (Continental Airlines, rated B2 with a negative outlook, and Port of Houston). While oil prices have substantially recovered and the rig count is up 70% over May 2009, gas prices remain low. A number of developing issues could potentially impact the county's tax and employment base. The de-funding of the NASA Constellation program could impact the bay area centered aerospace base - specifically the estimated 6,000 contractor jobs with a substantial economic multiplier. The proposed Continental Airlines (16,000 jobs) merger is not expected to have a dramatic impact on Harris County, despite likely job losses as Houston is expected to remain a significant hub for the combined airline. It is unknown whether the BP oil leak (domestic operations based in Houston) in the Gulf will impact federal offshore drilling policy over the long term nor can Moody's currently project the potential for negative impact of any potential changes to Houston's oil and gas driven economy.

The county's population has grown 16.5% since 2000, based upon 2009 Census projections driving a trend of taxbase growth. The Authority's assessed valuation (AV) grew modestly in FY2010 to \$276 billion (+2.7%), bringing down the 5 year average increase to 6.3%. The appraisal district has provided the county with an estimate of a 4% decline in 2011-which is an improvement over initial projections of a 5.5% decline. The county's top ten taxpayers comprise a modest 6.0% of assessed value with no single payer contributing more than 1.1%. National economic

trends are reflected in elevated unemployment (8.3% in May based on preliminary BLS data) as compared to 8.3% and 9.7% for the state and nation respectively for the same time period. County wealth indices exceed state averages (PCI is 109% of state average) but are slightly below the national average. Full value per capita is \$69,991.

SIGNIFICANT ADDITIONAL BORROWING PLANNED

The current issue exhausts the Port's remaining G.O. debt authorization. The Authority's 5 year CIP, however, remains sizable at \$971M. Management reports it anticipates it will seek substantial additional County and voter authorization in 2011, with current estimates ranging from \$500-\$600 million. The CIP continues to largely represent the cost of expansion of the Bayport Terminal primarily to support greater container volume in addition to retrofitting Barbers Cut Terminal for container traffic. The Authority no longer has outstanding revenue debt and no current plans for further revenue bonds, however, absence of county and/or voter approval for additional G.O. bonds could result in further revenue debt issuance. The Authority's direct debt ratio is 0.3%; when looked at on an overlapping basis, debt burden is high at 7.7%. The Authority's long term debt is all fixed rate and the Port has no swap agreements in place. The existing CP program essentially expires with the current issuance given absence of borrowing authority under the program. The Authority may enter future CP liquidity agreements to provide interim financing in the event additional voter authorization is obtained.

SATISFACTORY FINANCIAL OPERATIONS

Economic conditions in 2009 resulted in volume declines for the Port sector nationwide and reflecting those trends, Authority cargo volume was down 14% in FY2009. In fiscal 2009, the Port realized \$178 million in operating revenues exclusive of \$47 million of property tax receipts. Net revenue after debt service provided \$48.5 million in 2009 down from \$63.7 million in 2008. Operating expenditures decreased 8% in 2009 to partially offset the decline in operating revenues (-13%). The Authority maintains a strong cash position with net working capital, equal to 2.1 times O&M in 2009 and unrestricted cash equal to 1.85 times O&M. As previously noted, tax levy proceeds may only be used for General Obligation debt service. Fiscal 2009 property tax receipts provided 1.1x coverage of G.O. debt service as compared to 1.04x coverage in 2008 (cash basis). In fiscal 2007 the levy fell modestly short of debt service reflecting bonds issued late in the prior fiscal year, subsequent to the setting of the tax levy. Management was aware that this would occur, and planned to cover the difference from operations. Going forward, Moody's expects the Authority will time debt issuance to avoid this issue.

Growth in total cargo has averaged 2.1% over the last five years-reflective of the 14% decline in 2009. The average tonnage growth rate in the prior five year period was 7.5%, with growth largely concentrated in containerized tonnage. Management reports that while most categories of tonnage have improved year to date, steel (9% of total revenue tonnage in 2009 vs. 18% in 2008) has decreased a further 58% on a year to date basis in fiscal 2010. Year to date cargo has led the Authority to revise the 2010 forecast from budget, however, operations are expected to continue to produce strong positive cash flow. We expect that the financial position of the Authority will remain favorable, with strong working cash despite plans to cash fund a significant portion of the Authority's CIP.

KEY STATISTICS:

2009 Population estimate: 4,070,989 (+19.7% over 2000)

Fiscal 2010 assessed valuation: \$276 billion

Direct debt burden: 0.28%

Overall debt burden: 7.7%

Principal Amortization in 10 years: 28%

2009 Net working capital as a % of O&M: 210%

Harris County PCI as % of state/nation: 109%/99%

Harris County MFI as % of state/nation: 107%/98%

Parity debt outstanding following current issue: \$769 million

Principal Methodology

The principal methodology used in assigning the rating was General Obligation Bonds Issued by U.S. Local Governments, published in October 2009, and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Last Rating Acting

The last rating action with respect to the Port of Houston Authority, Tx was on June 12, 2008, when a municipal finance scale rating of Aa1 was assigned to the Port's G.O. debt. That rating was subsequently recalibrated to Aaa on April 23, 2010.

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