

OFFICIAL STATEMENT DATED NOVEMBER 16, 2021

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS: Moody's: "Aa3"

S&P "AA+"

(See "RATINGS" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (as defined below) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

\$322,180,000

PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS

(A political subdivision of the State of Texas having boundaries generally coterminous with Harris County, Texas)



FIRST LIEN REVENUE BONDS,
SERIES 2021 (Non-AMT)

Interest Accrual Date: Date of Delivery

CUSIP Prefix: 734262

Due: October 1, as shown on page i herein

The Port of Houston Authority of Harris County, Texas, First Lien Revenue Bonds, Series 2021 (Non-AMT) (the "Bonds") are hereby offered for sale by the Port of Houston Authority of Harris County, Texas (the "Authority"). The Bonds are special obligations of the Authority constituting First Lien Obligations that, together with any additional First Lien Obligations hereafter issued, shall be payable solely from, and equally ratably secured by a lien on, the Net Revenues and the applicable accounts of the First Lien Debt Service Reserve Fund, all as defined and provided in the Resolution (defined herein). **The Bonds are not an indebtedness or a general obligation of the State of Texas (the "State"), Harris County, Texas, the City of Houston, Texas or the Authority. Owners of the Bonds shall never have the right to demand payment of principal of or interest on the Bonds from any funds raised or to be raised by taxation.** See "SECURITY AND SOURCE OF PAYMENT" herein.

The Bonds are issued pursuant to the Constitution and laws of the State, including particularly (i) Article XVI, Section 59 of the Texas Constitution, (ii) Chapter 5007, Texas Special District Local Laws Code, as amended, (iii) Chapter 60, Texas Water Code, as amended, (iv) Chapter 62, Texas Water Code, as amended, and (v) Chapter 1371, Texas Government Code, as amended, and the Master Resolution adopted by the Port Commission of the Authority (the "Port Commission") on September 28, 2021 (the "Master Resolution") and the Second Supplemental Resolution adopted by the Port Commission on October 26, 2021 (the "Second Supplemental Resolution"). In the Second Supplemental Resolution, the Port Commission delegated to authorized officers of the Authority the authority to execute a pricing certificate (the "Pricing Certificate"), executed on the date hereof, that completed the sale of the Bonds. The Master Resolution, the Second Supplemental Resolution and Pricing Certificate are collectively referred to herein as the "Resolution."

Interest on the Bonds will accrue from the later of their Date of Delivery (as defined below) to the underwriters identified below (the "Underwriters") or the most recent interest payment date to which interest has been paid or duly provided for, calculated on the basis of a 360-day year of twelve 30-day months, payable on April 1, 2022, and each October 1 and April 1 thereafter until maturity or earlier redemption by check mailed to the registered owner of record as of the 15th day of the month next preceding each interest payment date. The Bonds will be issued only in fully-registered form in the denomination of \$5,000 principal amount, or integral multiples thereof. See "THE BONDS."

The Bonds will be initially registered solely in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds, until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, the Bonds will be payable by Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas (the "Paying Agent/Registrar") from amounts paid by the Authority to Cede & Co., which will, in turn, remit such amounts to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See "APPENDIX D — BOOK-ENTRY-ONLY SYSTEM."

Proceeds of the Bonds will be used to (i) pay a portion of the Authority's costs for the design, construction, property acquisition and equipment of the Houston Ship Channel Expansion Channel Improvement Project and (ii) pay the costs of issuance of the Bonds. See "INTRODUCTION – Plan of Financing" and "THE BONDS."

The Bonds are subject to redemption prior to their maturity, as provided herein. See "THE BONDS – Optional Redemption," and "THE BONDS – Mandatory Sinking Fund Redemption."

SEE PAGE i FOR THE MATURITY AND PRICING SCHEDULE AND REDEMPTION PROVISIONS

The Bonds are offered for delivery, when, as, and if issued by the Authority, subject to the approving opinion of the Attorney General of Texas, and the opinions of Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Co-Bond Counsel and Tax Counsel, and West & Associates, L.L.P., Houston, Texas, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Haynes and Boone, LLP, Houston, Texas and Bratton & Associates, Houston, Texas, co-counsel to the Underwriters. Certain legal matters will be passed upon for the Authority by Bracewell LLP, Houston, Texas and the Hardwick Law Firm LLC, Houston, Texas, as Co-Disclosure Counsel to the Authority. The Bonds are expected to be available for delivery through the facilities of the DTC in New York, New York on or about December 9, 2021 (the "Date of Delivery").

SIEBERT WILLIAMS SHANK & Co., LLC

ACADEMY SECURITIES

MORGAN STANLEY

RAYMOND JAMES

RBC CAPITAL MARKETS, LLC

PORT OF HOUSTON AUTHORITY



MATURITY AND PRICING SCHEDULE AND REDEMPTION PROVISIONS

**PORT OF HOUSTON AUTHORITY OF
HARRIS COUNTY, TEXAS**

**\$322,180,000
FIRST LIEN REVENUE BONDS
SERIES 2021 (Non-AMT)**

CUSIP PREFIX: 734262^(a)

\$166,810,000 Serial Bonds

Maturity (October 1) ^(b)	Principal Amount	Interest Rate	Initial Yield ^(c)	CUSIP Suffix ^(a)
2022	\$ 5,330,000	5.000%	0.170%	FB9
2023	5,365,000	5.000	0.320	FC7
2024	5,635,000	5.000	0.410	FD5
2025	5,915,000	5.000	0.560	FE3
2026	6,210,000	5.000	0.720	FF0
2027	6,520,000	5.000	0.870	FG8
2028	6,845,000	5.000	1.020	FH6
2029	7,190,000	5.000	1.140	FJ2
2030	7,550,000	5.000	1.250	FK9
2031	7,925,000	5.000	1.300	FL7
2032	8,320,000	5.000	1.350	FM5
2033	8,740,000	5.000	1.380	FN3
2034	9,175,000	5.000	1.410	FP8
2035	9,635,000	4.000	1.580	FQ6
2036	10,020,000	4.000	1.600	FR4
2037	10,420,000	4.000	1.640	FS2
2038	10,835,000	4.000	1.670	FT0
2039	11,270,000	4.000	1.700	FU7
2040	11,720,000	4.000	1.730	FV5
2041	12,190,000	5.000	1.620	FW3

\$155,370,000 Term Bonds

\$69,325,000 Term Bond Due October 1, 2046^{(b) (d)}, Interest Rate 4.000%, Initial Yield^(c) 1.930% - CUSIP Suffix^(a) FX1

\$86,045,000 Term Bond Due October 1, 2051^{(b) (d)}, Interest Rate 5.000%, Initial Yield^(c) 1.820% - CUSIP Suffix^(a) FY9

^(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the Authority, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

^(b) The Authority reserves the right, at its option, to redeem Bonds having stated maturities on and after October 1, 2032, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on April 1, 2032, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption."

^(c) The initial yields are established by and are the sole responsibility of the Underwriters, and may subsequently be changed. Initial yields are calculated to the earlier of maturity or the first optional redemption date.

^(d) Subject to mandatory sinking fund redemption as described in "THE BONDS – Mandatory Sinking Fund Redemption."

USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, which includes the cover page and Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation with respect to the Bonds to be issued, other than those contained in this Official Statement, and, if given or made, such other information or representations not so authorized must not be relied upon as having been given or authorized by the Authority or the Underwriters.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

All financial and other information presented herein, except for the information expressly attributed to other sources, has been provided by the Authority from its records and is intended to show recent historical information. Such information is not guaranteed as to accuracy or completeness. No representation is made that past performance, as might be shown by such financial and other information, will necessarily continue or be expected in the future. All descriptions of laws and documents contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that the information contained herein has remained unchanged since the respective dates as of which such information is given herein.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

None of the Authority, the Financial Advisor, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. See "FORWARD-LOOKING STATEMENTS" herein.

References to web-site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for any purpose.

The agreements of the Authority and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the issuance of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Port of Houston Authority of Harris County, Texas

PORT COMMISSION

Ric Campo, Chairman

Dean E. Corgey, Commissioner

Clyde Fitzgerald, Commissioner

Stephen H. DonCarlos, Commissioner

Roy D. Mease, Commissioner

Wendy Montoya Cloonan, Commissioner

Cheryl D. Creuzot, Commissioner

ADMINISTRATION

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Thomas J. Heidt, Chief Operating Officer

Erik A. Eriksson, Chief Legal Officer

Tim Finley, Chief Financial Officer

Maxine N. Buckles, Chief Audit Officer and Chief Business Equity Officer

Dylan Osborne, Harris County Treasurer

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Financial Advisor	PFM Financial Advisors LLC
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Co-Disclosure Counsel	Bracewell LLP Hardwick Law Firm, LLC
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OFFICIAL STATEMENT

relating to

PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS

\$322,180,000

FIRST LIEN REVENUE BONDS, SERIES 2021 (Non-AMT)

INTRODUCTION

General

This Official Statement is furnished in connection with the offering by the Port of Houston Authority of Harris County, Texas (the “Authority”), a political subdivision of the State of Texas (the “State”), having boundaries generally coterminous with Harris County, Texas (the “County”), of its First Lien Revenue Bonds, Series 2021 (Non-AMT) (the “Bonds”). The Bonds are special obligations of the Authority constituting First Lien Obligations that, together with any additional First Lien Obligations hereafter issued, shall be payable solely from, and equally ratably secured by a lien on, the Net Revenues and the applicable accounts of the First Lien Debt Service Reserve Fund, all as defined and provided in the Resolution (defined herein). **The Bonds are not an indebtedness or a general obligation of the State, the County, the City of Houston, Texas (the “City”) or the Authority. Owners of the Bonds shall never have the right to demand payment of principal of or interest on the Bonds from any funds raised or to be raised by taxation.** See “SECURITY AND SOURCE OF PAYMENT” herein. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution and as set forth in “APPENDIX A – EXCERPTS FROM MASTER RESOLUTION” and “APPENDIX B – EXCERPTS FROM SECOND SUPPLEMENTAL RESOLUTION.”

The Bonds are issued pursuant to the Constitution and laws of the State, including particularly (i) Article XVI, Section 59 of the Texas Constitution, (ii) Chapter 5007, Texas Special District Local Laws Code, as amended, (iii) Chapter 60, Texas Water Code, as amended, (iv) Chapter 62, Texas Water Code, as amended, and (v) Chapter 1371, Texas Government Code, as amended, and the Master Resolution adopted by the Port Commission of the Authority (the “Port Commission”) on September 28, 2021 (the “Master Resolution”) and the Second Supplemental Resolution adopted by the Port Commission on October 26, 2021 (the “Second Supplemental Resolution”). In the Second Supplemental Resolution, the Port Commission delegated to authorized officers of the Authority the authority to execute a pricing certificate (the “Pricing Certificate”), executed on the date hereof, that completed the sale of the Bonds. The Master Resolution, the Second Supplemental Resolution and Pricing Certificate are collectively referred to herein as the “Resolution.”

The Authority is a navigation district and a political subdivision of the State. The Authority is the non-federal sponsor of the 52-mile Houston Ship Channel (the “Houston Ship Channel” or “Channel”), the nation’s busiest waterway. With authorized depths ranging from 37.5 feet to 46.5 feet, the Channel links the City with the Gulf of Mexico. The more than 200 public and private terminals along the Channel comprise the greater port of Houston (“Port of Houston”). During 2019, the greater Port of Houston ranked first among United States ports in waterborne tonnage according to the U.S. Army Corps of Engineers (“USACE”) and reported by the U.S. Department of Transportation. The Authority owns and operates public wharves, marine terminals, freight handling facilities and related equipment, land, warehouses, and railroad rights-of-way and trackage adjoining the Houston Ship Channel. Most notably, the Authority owns and operates two container terminals, one at the Bayport Industrial Complex adjoining Pasadena, Texas, and the other at Morgan’s Point, Texas. The Authority’s container operations rank sixth in the nation in volume, moving more than three million Twenty Foot Equivalent Units (“TEUs” – a measure of container volume) in 2020. See “THE AUTHORITY” herein for more detailed information on the facilities and operations of the Authority.

The financial and operating data contained herein and in the appendices hereto, including in “APPENDIX C - Audited Financial Statements of the Authority,” present information on the general financial condition of the Authority and are as of the dates and for the periods indicated therein.

Plan of Financing

The proceeds of the Bonds will be used to (i) pay a portion of the Authority’s costs for the design, construction, property acquisition and equipment of the Houston Ship Channel Expansion Channel Improvement Project (“Project 11”) and (ii) pay the costs of issuance of the Bonds.

Project 11 – Houston Ship Channel Expansion Channel Improvement Project

The Houston Ship Channel Expansion Channel Improvement Project is the result of the Authority’s multi-year collaboration with the United States Congress (“Congress”), the USACE, and Channel stakeholders. It has been internally labeled, and is referred to in this Official Statement, as “Project 11,” as it is arguably the eleventh major improvement project to the waterway in its history. The improvements planned for Project 11 include widening the Houston Ship Channel by 170 feet along its Galveston Bay reach, from 530 feet to 700 feet, other widening upstream, deepening upstream segments up to 46.5 feet, safety and efficiency improvements, and new environmental features.

As the non-federal sponsor of the Channel, since 2010 the Authority has acted in partnership and coordination with, and support of, the USACE to carry out this work. As part of the planning, the USACE completed a five-year feasibility study that considered the economic benefits and environmental impacts of various proposed Channel improvements through the entire 52-mile waterway. During the study period, it was noted that the growth in U.S. energy production, manufacturing, and exports, as well as the increased size of ships, has significantly grown demand for use of the Houston Ship Channel and regional infrastructure, thereby increasing the urgency for these improvements. Safety was also a primary driver for an expanded Houston Ship Channel. Widening the Galveston Bay segment, in particular, was identified as critical in maintaining safe two-way traffic on the busiest waterway in the nation with 20,000 annual ship transits and 200,000 barge movements annually, as tabulated by the USACE.

Following completion of the feasibility study, in April 2020 the USACE Chief of Engineers signed the final Chief’s Report for Project 11, and in December, Congress authorized the locally-preferred plan for Project 11 by Public Law 116-260, Section 401(1) of the Water Resources Development Act (“WRDA”) of 2020. In January 2021, the Authority was notified by the USACE that it had been awarded a “new start” designation and \$19.5 million in federal funds to begin construction of Project 11. In July 2021, the Authority and USACE executed a Project Partnership Agreement (“PPA”) that describes the project and sets forth the respective responsibilities of the USACE and Authority in cost sharing and the execution of project work. At this time, the design work for the majority of Project 11 construction has also been completed by the Authority, in cooperation with the USACE.

See “THE AUTHORITY – Project 11 – Houston Ship Channel Expansion Channel Improvement Project” for additional information on Project 11 scope, cost sharing arrangements, federal approvals for the funding and construction, and construction phasing.

Summary of Security and Source of Payment

The Bonds are the first issuance of obligations under the Master Resolution, and are special obligations of the Authority constituting First Lien Obligations that, together with any additional First Lien Obligations hereafter issued, shall be payable solely from, and equally ratably secured by a lien on, the Net Revenues and the applicable accounts of the First Lien Debt Service Reserve Fund, all as defined and provided in the Resolution. See “SECURITY AND SOURCE OF PAYMENT.” See “DEBT INFORMATION – Third Lien Revenue Note Program” for a description of a third lien revolving note program established by the Authority. There are no notes currently outstanding under the note program.

NONE OF THE STATE, THE COUNTY, THE CITY OR ANY OTHER AGENCY OR POLITICAL SUBDIVISION OF THE STATE OTHER THAN THE AUTHORITY IS OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE BONDS DO NOT

CONSTITUTE GENERAL OBLIGATIONS OF THE AUTHORITY. OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF PRINCIPAL OF OR INTEREST ON THE BONDS FROM ANY FUNDS RAISED OR TO BE RAISED BY TAXATION.

Investment Considerations

All financial and other information presented in this Official Statement has been provided by the Authority from its records, except for information expressly attributed to other sources. The presentation of information, including tables of revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Authority. Investment in the Bonds involves certain risks, some of which are discussed throughout this Official Statement. The statements contained in this Official Statement, and in other information provided by the Authority, that are not purely historical, are forward-looking statements, including statements regarding the Authority’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 Authority on the date hereof, and the Authority assumes no obligation to update any such forward-looking statements. See “FORWARD LOOKING STATEMENTS.” See “CERTAIN INVESTMENT CONSIDERATIONS” for a discussion of certain investment considerations that should also be considered in evaluating an investment in the Bonds. The investment considerations do not purport to be an exhaustive list of all considerations that may be relevant to investment in the Bonds.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:

Principal Amount	\$322,180,000.00
Premium	<u>80,157,308.55</u>
Total Sources of Funds	<u>\$402,337,308.55</u>

Uses of Funds:

Deposit to Project Fund	\$400,000,000.00
Underwriters’ Discount	1,235,305.84
Costs of Issuance ⁽¹⁾	<u>1,102,002.71</u>
Total Uses of Funds	<u>\$402,337,308.55</u>

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

THE BONDS

Description of the Bonds

The Bonds are dated November 15, 2021 and mature on October 1 in each of the years and in the aggregate principal amounts shown on page i hereof. Interest on the Bonds will accrue from December 9, 2021 (the “Date of Delivery”), will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on each April 1 and October 1, commencing April 1, 2022 continuing until maturity or prior redemption. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of and interest on the Bonds will be payable by

Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas (the “Paying Agent/Registrar”) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein.

Authority for Issuance

The Bonds are issued pursuant to the provisions of the Constitution and laws of the State, including particularly (i) Article XVI, Section 59 of the Texas Constitution, (ii) Chapter 5007, Texas Special District Local Laws Code, as amended, (iii) Chapter 60, Texas Water Code, as amended, (iv) Chapter 62, Texas Water Code, as amended, (v) Chapter 1371, Texas Government Code, as amended, and (vi) the Resolution.

Optional Redemption

The Authority reserves the right, at its option, to redeem the Bonds having stated maturities on and after October 1, 2032, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on April 1, 2032, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the Authority may select the maturities of Bonds (or mandatory sinking fund payments with respect to term bonds) and the principal amount thereof to be redeemed and shall direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to call by lot or other customary random selection method the Bonds, or portions thereof, within such maturity (or mandatory sinking fund payment with respect to term bonds) to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Mandatory Sinking Fund Redemption

The Bonds maturing on October 1, 2046 and October 1, 2051 (collectively, the “Term Bonds”), shall be subject to mandatory sinking fund redemption (at a redemption price equal to the principal amount thereof, without premium, plus any accrued interest thereon to the date set for redemption, out of monies available for such purpose in the interest and sinking fund) on October 1 in each of the years and in the amounts set forth below:

Term Bonds Maturing October 1, 2046

<u>Mandatory Redemption Dates</u>	<u>Principal Amount</u>
October 1, 2042	\$12,800,000
October 1, 2043	\$13,310,000
October 1, 2044	\$13,845,000
October 1, 2045	\$14,395,000
October 1, 2046 (Stated Maturity)	\$14,975,000

Term Bonds Maturing October 1, 2051

<u>Mandatory Redemption Dates</u>	<u>Principal Amount</u>
October 1, 2047	\$15,570,000
October 1, 2048	\$16,350,000
October 1, 2049	\$17,170,000
October 1, 2050	\$18,025,000
October 1, 2051 (Stated Maturity)	\$18,930,000

Prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Bonds equal to the aggregate principal amount of such Term Bonds to be redeemed, shall call such Term Bonds for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption. The principal amount of the Term Bonds required to be redeemed on any redemption date pursuant to such mandatory redemption requirements shall be reduced, at the option of the Authority, by the principal amount of any Term Bonds which, at least forty-five (45) days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the Authority, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the Paying Agent/Registrar, at the direction of the Authority, shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Authority reserves the right, in the case of a redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the Authority retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the Authority delivers a certificate of the Authority to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected owners. Any Bond subject to conditional redemption for which such redemption has been rescinded shall remain outstanding and the rescission of such redemption shall not constitute an event of default.

Defeasance

The Authority reserves the right to discharge and defease its obligations with respect to the Bonds in any manner now or hereafter permitted by the laws of the State. Without limiting the provisions of the foregoing, the Authority may discharge its obligation to the Owners of any or all of the Bonds to pay the principal of and interest on, the Maturity Amount, and redemption premium and other obligations (if any) thereon:

- (i) by depositing with the applicable paying agent/registrar, if any, or escrow agent for such Bonds cash in an amount equal to the principal amount of and interest on, the Maturity Amount and redemption premium, if any, on such Bonds plus interest thereon to the date of maturity or redemption, or
- (ii) by depositing either with the applicable paying agent/registrar, if any, or escrow agent for such Bonds or with any entity qualifying to receive such funds under Chapter 1207, Texas Government Code, as amended (or its successor), pursuant to an escrow or trust agreement, cash and/or any obligation authorized under State law to be deposited for the payment or redemption of such Bonds, in principal amounts and maturities and bearing interest at rates sufficient, based upon a verification report of an independent certified public accountant or other verification agent, to provide for the timely payment of the principal amount of or the Maturity Amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption.

See “APPENDIX A – EXCERPTS FROM MASTER RESOLUTION” and “APPENDIX B – EXCERPTS FROM SECOND SUPPLEMENTAL RESOLUTION” for additional information regarding defeasance.

Replacement Bonds

In the event that a Bond is lost, apparently destroyed or wrongfully taken, the Paying Agent/Registrar, pursuant to the applicable laws of the State and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall authenticate and deliver a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner first: (1) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction or theft of such Bond; (2) furnishes such security or indemnity as may be required by the Paying Agent/Registrar and the Authority to save them harmless; (3) pays 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 is authorized to be imposed; and (4) satisfies any other reasonable requirements imposed by the Authority and the Paying Agent/Registrar.

If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the Authority and the Paying Agent/Registrar shall be entitled to recover such replacement 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 Authority or the Paying Agent/Registrar in connection therewith.

In the event that any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the Paying Agent/Registrar, in its discretion, instead of issuing a replacement Bond, may pay such Bond.

Book-Entry-Only System

APPENDIX D describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in APPENDIX D concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Authority believes the source of such information to be reliable but the Authority and the Underwriters take no responsibility for the accuracy or completeness thereof.

The Authority and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The 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 Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the DTC Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

Paying Agent/Registrar

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas. In the Resolution, the Authority retains the right to replace the Paying Agent/Registrar. The

Authority covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a bank, including a commercial bank, or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the Authority agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, printed Bonds will be delivered to the registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed Bonds to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "APPENDIX D - BOOK- ENTRY- ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds unless and until use of such system is discontinued.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the 15th calendar day of the preceding month.

In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Authority. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five Business Days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last Business Day next preceding the date of mailing of such notice. "Business Day" shall mean any day other than a (i) Saturday or Sunday, (ii) day on which banking institutions generally in New York, New York, the State, or the principal offices of any Paying Agent are authorized or obligated by law or executive order to be closed for business, or (iii) day on which the New York Stock Exchange is closed.

SECURITY AND SOURCE OF PAYMENT

General

The following summary of the security for the Bonds is qualified in its entirety and reference is hereby made to the Master Resolution and Second Supplemental Resolution. See "APPENDIX A – EXCERPTS FROM MASTER RESOLUTION" and "APPENDIX B – EXCERPTS FROM SECOND SUPPLEMENTAL RESOLUTION." For definitions of certain capitalized terms used but not defined herein, see "APPENDIX A – EXCERPTS FROM MASTER RESOLUTION."

On September 28, 2021, the Port Commission adopted a Master Resolution establishing the Authority's Financing System to (i) pay the cost of any Project, (ii) fund any reserve or other fund established in connection with the issuance of Obligations, (iii) refund and refinance outstanding Obligations and any other obligations of the Authority, (iv) pay the costs of issuance of such Obligations, and (v) provide funds for any other lawful purpose.

Pursuant to the Master Resolution, the Obligations may, if and when authorized by the Authority pursuant to one or more Supplemental Resolutions, be issued or incurred in one or more Series, and the designation thereof, in addition to describing the priority of the security therefor as “First Lien,” “Second Lien,” “Third Lien,” or such other lien level as shall be designated for Inferior Lien Obligations, shall include such further appropriate particular designation added to or incorporated in such title for the Obligations of any particular Series as the Authority may determine, including, without limitation, the designation of such Obligations as “Bonds,” “Notes,” “Certificates,” “Commercial Paper,” “Program Notes” or other appropriate designation. A Supplemental Resolution may authorize one or more Series to be established as a program for the issuance of commercial paper, direct purchase notes or other similar forms of indebtedness from time to time as First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations. Such Obligations may be issued as Long Term Obligations, Short Term Obligations or Balloon Obligations.

The Bonds have been designated as First Lien Obligations under the Master Resolution and are issued pursuant to the Second Supplemental Resolution. The Second Supplemental Resolution sets forth the specific terms and provisions of the Bonds and extends the pledge, lien and provisions of the Master Resolution to and for the benefit of the Owners of the Bonds. See “THE BONDS” for a description of the terms of the Bonds.

Pledge of Net Revenues

The Bonds are special obligations of the Authority that, together with any Additional First Lien Obligations hereafter issued, are payable from and are equally and ratably secured by a first lien on the Net Revenues of the Authority and the First Lien Debt Service Fund and the applicable account of the First Lien Debt Service Reserve Fund, all as defined and provided in the Resolution. The Authority does not have any Second Lien Obligations or Inferior Lien Obligations currently Outstanding. The Authority has created a \$100 million Third Lien Note Program (as defined herein). Any Obligations issued under the Third Lien Note Program will be Third Lien Obligations. The Authority currently expects that permanent financing for any notes issued under the Third Lien Note Program will be provided through the refunding of such notes with First Lien Obligations. See “DEBT INFORMATION –Third Lien Revenue Note Program.”

In the Master Resolution, the Authority covenants and represents that it has the lawful power to create liens on and to pledge the Net Revenues and the other items pledged thereunder to secure the payment of the Obligations and has lawfully exercised such power under the Constitution and laws of the State. The Authority further covenants and represents that, other than to the payment of Operation and Maintenance Expenses (including maintenance of the operating reserve) and the Obligations, 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 Authority, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Obligations.

In the Master Resolution, the Authority covenants and agrees that all Gross Revenues, as collected and received by the Authority, shall be applied promptly to pay all Operation and Maintenance Expenses then due and, after paying, reserving or encumbering for all Operations and Maintenance Expenses due in a month, shall be deposited and credited promptly to the Revenue Fund, and shall be applied in the manner hereinafter set forth, in order to provide for the payment of principal of, interest on and redemption premiums, if any, on the Obligations, the payment of Credit Agreement Obligations and Hedge Agreement Payment Obligations and the payment of all expenses of paying the same, and to provide for the disposition of the remaining Net Revenues in accordance with the Master Resolution.

First Lien Obligations. The First Lien Obligations shall constitute special obligations of the Authority that shall be payable solely from, and equally and ratably secured by a first lien on, the Net Revenues. In the Master Resolution, the Authority granted a lien on Net Revenues in the Revenue Fund and on the money and investments held in the First Lien Debt Service Fund and any other fund so designated in any Supplemental Resolution to secure the payment of the principal of and interest on, the Maturity Amount, and, redemption premium, if any, on all First Lien Obligations and all expenses of providing for their full and timely payment in accordance with their terms. For the additional benefit of the owners of the First Lien Obligations that are Debt Service Reserve Fund Participants (see “– First Lien Debt Service Reserve Fund,” herein), the Authority granted a lien on the First Lien Reserve Fund Participant Account of the First Lien Debt Service Reserve Fund, as and to the extent provided in the Supplemental Resolution authorizing such First Lien Obligations. For the additional benefit of the owners of the First Lien

Obligations that are not Debt Service Reserve Fund Participants, the Authority may create one or more additional separate accounts within the First Lien Debt Service Reserve Fund and grant a lien on such accounts for the benefit of the Owners of such Series of First Lien Obligations all as more particularly described in Article V of the Master Resolution. Except with respect to the First Lien Debt Service Reserve Fund Participant Account or the other separate accounts of the First Lien Debt Service Reserve Fund and except to the extent a Supplemental Security has been provided in the manner described in Section 4.4 of the Master Resolution, all First Lien Obligations shall be in all respects on a parity with and of equal dignity with one another.

The owners of the Bonds shall never have the right to demand payment of either the principal of, or interest on, Maturity Amount of, or any redemption premium on, any Obligations, any Credit Agreement Obligations or any amounts due and owing under any Credit Agreement or Hedge Agreement out of any funds raised or to be raised by taxation.

“Net Revenues” is defined in the Master Resolution as the Gross Revenues received each month or during any period after the payment or set aside of the portion thereof required to pay Operation and Maintenance Expenses due in such month or period.

“Gross Revenues” is defined in the Master Resolution as all income, tariffs, revenues, tolls, rents, lease money, returns and charges derived directly or indirectly by the Authority from the operation and use of and otherwise pertaining to the Port Facilities (defined below), or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Port Facilities, exercise of the Authority’s regulatory authority, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the Authority from the Port Facilities, including, without limitation, all income, proceeds, tariffs, tolls, rents, lease moneys, returns, rates, fees and other charges from vessel and cargo services, grain elevator operations and bulk materials handling plant operations, for the use of the Port Facilities, or for any service rendered by the Authority in the operation thereof, and interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to the Master Resolution or any other Supplemental Resolution authorizing the issuance of Obligations. The aforementioned sources of revenues shall merely serve as types of revenue that the Authority may collect; the Authority is not enjoined from or mandated to collect all such revenues. Gross Revenues expressly exclude:

- (a) proceeds of any Obligations;
- (b) interest or other investment income derived from Obligation 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 a debt service fund, a Debt Service 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 Supplemental Resolution authorizing any Series of Obligations;
- (c) all gross revenue, income, proceeds, tolls, rents, lease moneys, returns and charges derived by the Authority from the operation of Excluded Facilities;
- (d) any monies received as grants, appropriations, or gifts, unless they are designated by official action of the Port Commission at the time of receipt as being part of Gross Revenues;
- (e) any revenues derived from any Special Facilities that are pledged to the payment of Special Facilities Obligations;
- (f) insurance proceeds other than loss of use or business interruption insurance proceeds;
- (g) deposits, option fees and other funds collected by the Authority to which a third party holds a contractually-based reversionary interest or other legal or equitable ownership interest;
- (h) the proceeds of any user charge as may hereafter be collected by the Authority on behalf of, and that is payable to, the State, the United States, or any other governmental entities;

(i) the proceeds of any charge as may hereafter be collected by the Authority that are statutorily restricted to a specific purpose to the extent utilized for such statutorily restricted purpose, unless they are designated by official action of the Port Commission at the time of receipt as being part of Gross Revenues;

(j) sales and other taxes collected by the Authority, on behalf of, and that are payable to, the State or any other taxing entities;

(k) Federal Payments, unless the Authority first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not adversely affect the excludability of the interest on any Obligations the interest on which is otherwise excludable from gross income for federal income tax purposes;

(l) subject to Section 6.3 of the Master Resolution, the net proceeds received by the Authority from the disposition of any Port Facilities or property owned by the Authority to the extent used to construct, improve, operate or maintain Port Facilities;

(m) Excluded Fee and Charge Revenue;

(n) Supplemental Security and revenue received under a Hedge Agreement; and

(o) any revenues derived from ad valorem taxes levied and collected by the Authority or by the County on behalf of the Authority.

“Operation and Maintenance Expenses” is defined in the Master Resolution as all reasonable and necessary current expenses of the Authority, as determined by the “Generally Accepted Accounting Principles” for governmental entities in the United States (the “Accounting Principles”), of operating, maintaining and repairing the Port Facilities and the administration of the Authority, including, without limitation, 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 Authority; costs of contractual and professional services, labor, materials and supplies for current operations; fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative and general expenses, but excluding:

(a) any allowance for depreciation;

(b) costs of capital improvements;

(c) any allowance for redemption of, or payment of principal, interest or premium on, Obligations or ad valorem tax supported obligations of the Authority;

(d) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities;

(e) any charges or obligations incurred in connection with any lawful Authority purpose, provided that such charges are payable from money on deposit in a specified fund or account created pursuant to the provisions of the Master Resolution and any Supplemental Resolution;

(f) liabilities based upon the Authority’s negligence or other grounds not based on contract;

(g) 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 to the extent that the Federal Payments are used to pay such expenses;

(h) so long as monies received as grants, appropriations or gifts are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to such grants, appropriations or gifts to the extent that they are used to pay such expenses; and

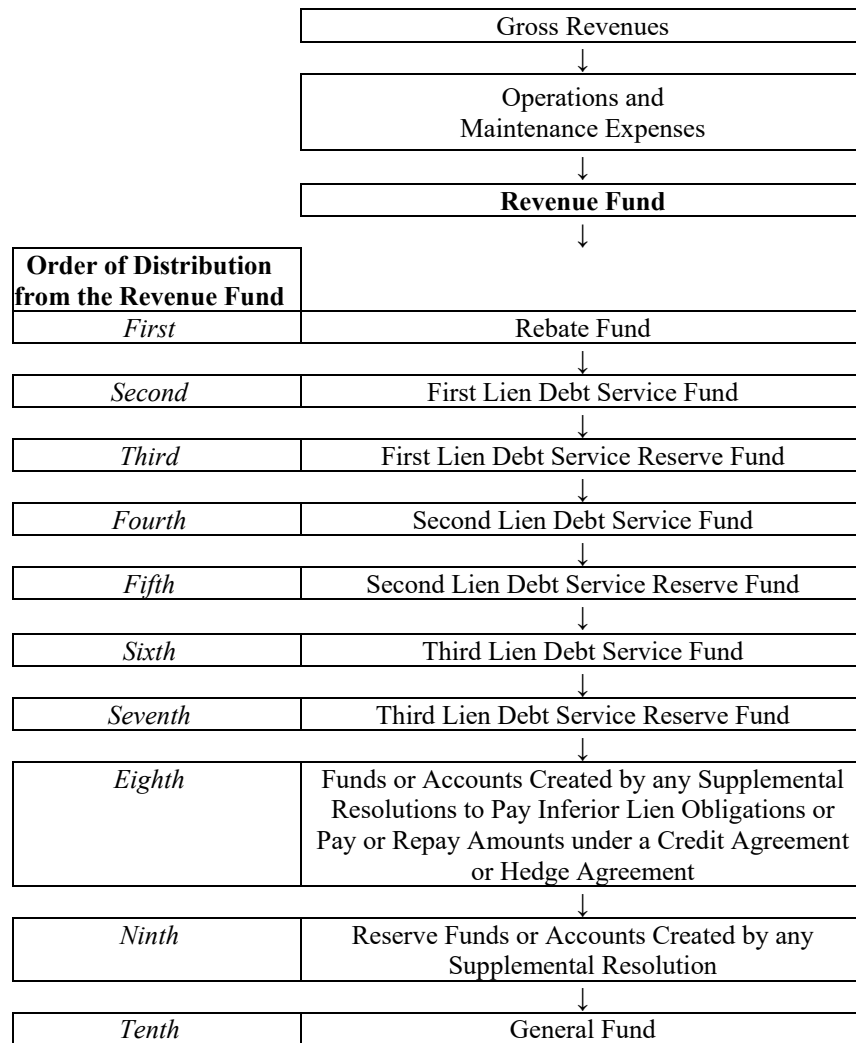
(i) so long as monies received as proceeds of a charge collected by the Authority that are statutorily restricted to a specific purpose are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to such proceeds to the extent they are utilized to pay such expenses.

“Port Facilities” is defined in the Master Resolution as the real improved property, navigation improvements and facilities, channels and turning basins, dock and wharf facilities, warehouses, grain elevators, bunkering facilities, belt railroads and related facilities, floating plants, lighterage, towing facilities, bulk handling facilities and appurtenances to all the above described facilities used in the present or future operations of the Authority, including the Houston Ship Channel, and all other facilities, equipment or aids incidental to or useful in the operation of the Authority’s ports and waterways or in aid of navigation and commerce in such ports and on such waterways, or any interest therein, now or from time to time hereafter owned, operated or controlled by the Authority, together with all properties, facilities and services thereof operated or controlled by the Authority, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the Authority in connection therewith, but expressly excluding the Excluded Facilities, the Special Facilities and all undeveloped real property not used for Authority operations or presently leased by the Authority as lessor.

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Revenue Fund; and Flow of Funds

The following is a graphic depiction of the flow of funds described below.



After the payment of or reservation or encumbrance for the payment of Operations and Maintenance Expenses due in a month from Gross Revenues, all Net Revenues shall be deposited as received by the Authority into the Revenue Fund. Unless modified with respect to a particular Series of Obligations in a Supplemental Resolution, which modifications shall not have an adverse effect with respect to any Outstanding Obligations, moneys on deposit in the Revenue Fund shall be deposited in, or credited to, as appropriate, the following Funds and Accounts, on or before the last Business Day of each month (each, a “Transfer Date”) beginning on the last Business Day of the calendar month in which any Obligations are issued and Outstanding hereunder (or on such other date or dates as may be provided in a Supplemental Resolution with respect to a particular Series of Obligations adopted in accordance herewith and any conditions contained in a Supplemental Resolution or Credit Agreement) in the following amounts and in the following order of priority (provided, however, that if the Chief Financial Officer of the Authority provides a written certification that a Fund contains the amount required to be deposited therein for a particular period under the Master Resolution and any Supplemental Resolution, the Authority may suspend transfers to such Fund for the period identified in such certification):

(a) **First**, to the Rebate Fund the amount, if any, necessary to pay the rebate amount required to be paid, pursuant to section 148(f) of the Internal Revenue Code of 1986, as amended, in the month following the Transfer Date; and

(b) **Second**, to the First Lien Debt Service Fund (or to a fund or account created to pay Credit Agreement Obligations under a Credit Agreement entered into in connection with First Lien Obligations or a Hedge Agreement Payment Obligation under a First Lien Hedge Agreement, if the same are not payable from the First Lien Debt Service Fund and deposits to such fund or account are ratable with deposits to the First Lien Debt Service Fund), an amount equal to the sum of the following:

(i) one-sixth (1/6) of the interest becoming due on the next semiannual Interest Payment Date with respect to First Lien Obligations that bear interest at a fixed rate payable semiannually; and

(ii) one-third (1/3) of the interest becoming due on the next quarterly Interest Payment Date with respect to First Lien Obligations that bear interest at a fixed rate payable quarterly; and

(iii) the amount of interest next becoming due in the following month on First Lien Obligations that bear interest at a fixed rate payable monthly; and

(iv) if interest on the First Lien Obligations bears interest payable at a variable rate or a fixed rate on other than a semi-annual, quarterly, or monthly basis, the amount required to provide for the payment of the interest thereon becoming due on the next Interest Payment Date in substantially equal monthly installments based on reasonably foreseeable financial conditions; and

(v) the amount of interest accruing in such month on First Lien Obligations that bear interest payable on other than a monthly basis (other than Capital Appreciation Bonds), together with the amount of interest that will accrue on such First Lien Obligations through any Interest Payment Dates that will occur prior to the next Transfer Date; and

(vi) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of First Lien Obligations that will mature and become due and payable on the next annual maturity date therefor; and

(vii) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of First Lien Obligations subject to mandatory sinking fund redemption on the next annual mandatory sinking fund redemption date; and

(viii) the Credit Agreement Obligation secured by a pledge of and a lien on Net Revenues on parity with other First Lien Obligations or Hedge Agreement Payment Obligation, if any, payable by the Authority under a First Lien Hedge Agreement accruing in such month or that will accrue through a payment date that will occur prior to the next Transfer Date; provided, that such amounts shall be included in the calculation of the monthly deposit only to the extent such amounts are required to be paid in addition to the amounts provided for by clauses (i) through (vii) above.

In calculating such monthly deposit to the First Lien Debt Service Fund, the following shall be taken into account and credited against deposits to the First Lien Debt Service Fund otherwise required by the foregoing clauses:

(a) any accrued interest deposited into the First Lien Debt Service Fund from the proceeds of a Series of First Lien Obligations, and any amounts credited to the First Lien Debt Service Fund and dedicated to pay capitalized interest on a Series of First Lien Obligations, in either case on or before the Transfer Date and anticipated to be available to pay interest on such First Lien Obligations on the next Interest Payment Date, (b) any other amounts deposited to the First Lien Debt Service Fund prior to the Transfer Date, (c) any investment income realized by the Authority from the investment of amounts on deposit in the First Lien Debt Service Fund and credited to the First Lien Debt Service Fund, and (d) any payments received by the Authority from a Counterparty under a First Lien Hedge Agreement and

deposited to the First Lien Debt Service Fund (which amounts shall be deposited to the First Lien Debt Service Fund as described in Section 3.3 of the Master Resolution).

No deposits shall be required under clauses (vi) or (vii), above, for the payment of the principal amount or Maturity Amount as applicable on a First Lien Obligation to the extent there is in effect a third party agreement (e.g. bond purchase agreement) to refund or refinance the principal amount or Maturity Amount coming due or the First Lien Obligation is a Short-Term Obligation that will be refinanced, refunded or rolled under a commercial paper program or a direct purchase note program.

Further, such monthly deposits shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to each Series of First Lien Obligations and the frequency of payments under any First Lien Hedge Agreements so as to assure ratable monthly accrual of all Obligations of the Authority payable thereunder. On or before each Transfer Date, the Authority shall make up any deficiencies in deposits on prior Transfer Dates from and to the extent moneys remain on deposit in the Revenue Fund.

(c) **Third**, to the First Lien Debt Service Reserve Fund, all amounts, if any, which, together with amounts on deposit therein and amounts available under a First Lien DSRF Security, may be required by any Supplemental Resolution, including transfers to pay all Credit Agreement Obligations under a First Lien DSRF Security.

(d) **Fourth**, to the Second Lien Debt Service Fund (or to a fund or account created to pay or Credit Agreement Obligations under a Credit Agreement entered into in connection with Second Lien Obligations or a Hedge Agreement Payment Obligation under a Second Lien Hedge Agreement), an amount equal to the sum of the following:

(i) one-sixth (1/6) of the interest becoming due on the next semiannual Interest Payment Date with respect to Second Lien Obligations that bear interest at a fixed rate payable semiannually; and

(ii) one-third (1/3) of the interest becoming due on the next quarterly Interest Payment Date with respect to Second Lien Obligations that bear interest at a fixed rate payable quarterly; and

(iii) the amount of interest next becoming due in the following month on Second Lien Obligations that bear interest at a fixed rate payable monthly; and

(iv) if interest on the Second Lien Obligations bears interest payable at a variable rate or fixed rate on other than a semi-annual, quarterly, or monthly basis, the amount required to provide for the payment of the interest thereon becoming due on the next Interest Payment Date in substantially equal monthly installments under reasonably foreseeable financial conditions; and

(v) the amount of interest accruing in such month on Second Lien Obligations that bear interest payable on other than a monthly basis (other than Capital Appreciation Bonds), together with the amount of interest that will accrue on such Second Lien Obligations through any Interest Payment Dates that will occur prior to the next Transfer Date; and

(vi) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Second Lien Obligations that will mature and become due and payable on the next annual maturity date therefor; and

(vii) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Second Lien Obligations subject to mandatory sinking fund redemption on the next annual mandatory sinking fund redemption date; and

(viii) the Credit Agreement Obligation secured by a pledge of and a lien on the Net Revenues on parity with other Second Lien Obligations or Hedge Agreement Payment Obligations

the amount, if any, payable by the Authority under a Second Lien Hedge Agreement accruing in such month or that will accrue through a payment date that will occur prior to the next Transfer Date; provided, that such amounts shall be included in the calculation of the monthly deposit only to the extent such amounts are required to be paid in addition to the amounts provided for by clauses (i) through (vii) above.

In calculating such monthly deposit to the Second Lien Debt Service Fund, the following shall be taken into account and credited against deposits to the Second Lien Debt Service Fund otherwise required by the foregoing clauses: (a) any accrued interest deposited into the Second Lien Debt Service Fund from the proceeds of a Series of Second Lien Obligations, and any amounts credited to the Second Lien Debt Service Fund and dedicated to pay capitalized interest on a Series of Second Lien Obligations, in either case before the Transfer Date and anticipated to be available to pay interest on such Second Lien Obligations on the next Interest Payment Date, (b) any amounts deposited to the Second Lien Debt Service Fund prior to the Transfer Date, (c) any investment income realized by the Authority from the investment of amounts on deposit in the Second Lien Debt Service Fund and credited to the Second Lien Debt Service Fund, and (d) any payments received by the Authority from a Counterparty under a Second Lien Hedge Agreement and deposited to the Second Lien Debt Service Fund (which amounts shall be deposited to the Second Lien Debt Service Fund as described in Section 3.3 of the Master Resolution).

No deposits shall be required under clauses (vi) or (vii), above, for the payment of the principal amount or Maturity Amount as applicable on a Second Lien Obligation to the extent there is in effect a third party agreement (e.g. bond purchase agreement) to refund or refinance the principal amount or Maturity Amount coming due or the Second Lien Obligation is a Short-Term Obligation that will be refinanced, refunded or rolled under a commercial paper program or a direct purchase note program.

Further, such monthly deposits shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to each Series of Second Lien Obligations and the frequency of payments under any Second Lien Hedge Agreements so as to assure ratable monthly accrual of all Obligations of the Authority payable thereunder. On or before each Transfer Date, the Authority shall make up any deficiencies in deposits on prior Transfer Dates from and to the extent monies remain on deposit in the Revenue Fund.

(e) **Fifth**, to the Second Lien Debt Service Reserve Fund, all amounts, if any, which, together with amounts on deposit therein and amounts available under a Second Lien DSRF Security, may be required by any Supplemental Resolution, including transfers to pay all Credit Agreement Obligations under a Second Lien DSRF Security.

(f) **Sixth**, to the Third Lien Debt Service Fund (or to a fund or account created to pay Credit Agreement Obligations under a Credit Agreement entered into in connection with Third Lien Obligations or a Hedge Agreement Payment Obligation under a Third Lien Hedge Agreement, if the same are not payable from the Third Lien Debt Service Fund and deposits to such fund or account are ratable with deposits to the Third Lien Debt Service Fund), an amount equal to the sum of the following:

(i) one-sixth (1/6) of the interest becoming due on the next semiannual Interest Payment Date with respect to Third Lien Obligations that bear interest at a fixed rate payable semiannually; and

(ii) one-third (1/3) of the interest becoming due on the next quarterly Interest Payment Date with respect to Third Lien Obligations that bear interest at a fixed rate payable quarterly; and

(iii) the amount of interest next becoming due in the following month on Third Lien Obligations that bear interest at a fixed rate payable monthly; and

(iv) if interest on the Third Lien Obligations bears interest payable at a variable rate or a fixed rate on other than a semi-annual, quarterly, or monthly basis, the amount required to provide for the payment of the interest thereon becoming due on the next Interest Payment Date in substantially equal monthly installments based on reasonably foreseeable financial conditions; and

(v) the amount of interest accruing in such month on Third Lien Obligations that bear interest payable on other than a monthly basis (other than Capital Appreciation Bonds), together with the amount of interest that will accrue on such Third Lien Obligations through any Interest Payment Dates that will occur prior to the next Transfer Date; and

(vi) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Third Lien Obligations that will mature and become due and payable on the next annual maturity date therefor; and

(vii) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Third Lien Obligations subject to mandatory sinking fund redemption on the next annual mandatory sinking fund redemption date; and

(viii) the Credit Agreement Obligation secured by a pledge of and a lien on Net Revenues on parity with other Third Lien Obligations or Hedge Agreement Payment Obligation, if any, payable by the Authority under a Third Lien Hedge Agreement accruing in such month or that will accrue through a payment date that will occur prior to the next Transfer Date; provided, that such amounts shall be included in the calculation of the monthly deposit only to the extent such amounts are required to be paid in addition to the amounts provided for by clauses (i) through (vii) above.

In calculating such monthly deposit to the Third Lien Debt Service Fund, the following shall be taken into account and credited against deposits to the Third Lien Debt Service Fund otherwise required by the foregoing clauses: (a) any accrued interest deposited into the Third Lien Debt Service Fund from the proceeds of a Series of Third Lien Obligations, and any amounts credited to the Third Lien Debt Service Fund and dedicated to pay capitalized interest on a Series of Third Lien Obligations, in either case on or before the Transfer Date and anticipated to be available to pay interest on such Third Lien Obligations on the next Interest Payment Date, (b) any other amounts deposited to the Third Lien Debt Service Fund prior to the Transfer Date, (c) any investment income realized by the Authority from the investment of amounts on deposit in the Third Lien Debt Service Fund and credited to the Third Lien Debt Service Fund, and (d) any payments received by the Authority from a Counterparty under a Third Lien Hedge Agreement and deposited to the Third Lien Debt Service Fund (which amounts shall be deposited to the Third Lien Debt Service Fund as described in Section 3.3 of the Master Resolution).

No deposits shall be required under clauses (vi) or (vii), above, for the payment of the principal amount or Maturity Amount as applicable on a Third Lien Obligation to the extent there is in effect a third party agreement (e.g. bond purchase agreement) to refund or refinance the principal amount or Maturity Amount coming due or the Third Lien Obligation is a Short-Term Obligation that will be refinanced, refunded or rolled under a commercial paper program or a direct purchase note program.

Further, such monthly deposits shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to each Series of Third Lien Obligations and the frequency of payments under any Third Lien Hedge Agreements so as to assure ratable monthly accrual of all Obligations of the Authority payable thereunder. On or before each Transfer Date, the Authority shall make up any deficiencies in deposits on prior Transfer Dates from and to the extent moneys remain on deposit in the Revenue Fund.

(g) **Seventh**, to the Third Lien Debt Service Reserve Fund, all amounts, if any, which, together with amounts on deposit therein and amounts available under a Third Lien DSRF Security, may be required by any Supplemental Resolution, including transfers to pay all Credit Agreement Obligations under a Third Lien DSRF Security

(h) **Eighth**, to any funds or accounts created by any Supplemental Resolution to pay Inferior Lien Obligations or pay or repay amounts under a Credit Agreement or Hedge Agreement secured on a lien and subordinate to the First Lien Obligations, Second Lien Obligations, and Third Lien Obligations. Supplemental Resolutions establishing such funds or accounts shall establish the application of such deposits.

(i) *Ninth*, to any reserve funds or accounts created by any Supplemental Resolution to provide a reserve for any lawful purpose. Supplemental Resolutions establishing such reserve funds or accounts shall establish the application of such deposits.

(j) *Tenth*, except as otherwise provided in a Supplemental Resolution, to the General Fund all amounts remaining on deposit in the Revenue Fund.

It shall be the duty of the Authorized Representatives of the Authority or his designee to cause all Gross Revenues to be accounted for, deposited, invested, transferred and applied in accordance with the provisions of Article V of the Master Resolution and any Supplemental Resolution.

Rebate Fund

Amounts on deposit in the Rebate Fund may be used solely to make payments to the United States of America under Section 148 of the Code (or any successor provision) to pay costs related to the calculation of the amounts due.

First Lien Debt Service Fund

The Authority may create such additional accounts in the First Lien Debt Service Fund pursuant to a Supplemental Resolution as it deems necessary or appropriate, including, but not limited to, (i) an account into which drawings on a Credit Agreement are to be deposited and from which principal or Maturity Amount, as applicable (including redemption price), of and interest on the Series of First Lien Obligations secured by such Credit Agreement are to be paid (and upon such payment, amounts on deposit in the First Lien Debt Service Fund shall be used to repay the provider of the Credit Agreement for such payments as and to the extent provided in Section 5.2 of the Master Resolution), and (ii) an account into which payments to the Authority from any First Lien Hedge Agreement Counterparty are to be deposited and from which payments from the Authority to any such First Lien Hedge Agreement Counterparty are to be paid as and to the extent provided in Section 5.2 of the Master Resolution.

The moneys in the First Lien Debt Service Fund shall be held for the benefit of the First Lien Obligations, to the extent the First Lien Obligations are made payable therefrom in the applicable Supplemental Resolution, and, pending application, shall be subject to a lien and charge in favor of the Owners of such First Lien Obligations until paid out or transferred as hereinafter provided. The Authority shall pay out of the First Lien Debt Service Fund to the respective Paying Agents, if any, for First Lien Obligations or other payees thereof (a) on or before each Interest Payment Date and each date fixed for the redemption or other payment of First Lien Obligations, the amount required for the payment of the interest becoming due on such date and (b) on or before each date on which First Lien Obligations or other payments secured by the First Lien Debt Service Fund mature or become subject to scheduled mandatory sinking fund redemption or optional redemption or otherwise become due, the amount required for payment of the principal amount or Maturity Amount, as applicable, of the First Lien Obligations maturing or otherwise becoming due, the redemption price of First Lien Obligations becoming subject to redemption on such date (or to purchase First Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), and any other payments secured by moneys in the First Lien Debt Service Fund becoming due, except, in each case, to the extent such interest, principal amount or Maturity Amount, as applicable, or redemption price is paid from a fund or account other than the First Lien Debt Service Fund, as provided in the Supplemental Resolution authorizing such First Lien Obligation.

The Authority may determine to purchase First Lien Obligations in accordance with State law and may apply amounts in the First Lien Debt Service Fund to pay the purchase price of such First Lien Obligations if after the application of amounts in First Lien Debt Service Fund for such purpose, the amounts on deposit in the First Lien Debt Service Fund, together with amounts required to be deposited therein by Section 5.2 of the Master Resolution, will be sufficient to pay the principal or Maturity Amount, and interest next becoming due on the First Lien Obligations.

If at the time the Authority is required to make a transfer from the First Lien Debt Service Fund the moneys therein shall not be sufficient for such purpose, any remaining required transfers shall be accomplished pursuant to Section 5.11 of the Master Resolution.

Except as may be otherwise provided in any Supplemental Resolution authorizing any First Lien Obligations, whenever the total amounts on deposit to the credit of the First Lien Debt Service Fund and the First Lien Debt Service Reserve Fund, if applicable, shall be equivalent to the sum of the aggregate principal amount of all Outstanding First Lien Obligations plus the aggregate amount of all interest and other payments secured by the First Lien Debt Service Fund accrued and to accrue thereon, no further transfers need be made into the First Lien Debt Service Fund or the First Lien Debt Service Reserve Fund, if applicable, and such First Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds.

First Lien Debt Service Reserve Fund

The Authority shall establish and maintain as hereinafter provided a balance in the applicable account of the First Lien Debt Service Reserve Fund equal to the First Lien Debt Service Reserve Fund Requirement (as defined and provided in the Supplemental Resolution authorizing such First Lien Obligations) for the First Lien Obligations that are secured thereby as established in the Supplemental Resolution authorizing such First Lien Obligations. In addition, within the First Lien Debt Service Reserve Fund, subaccounts may be established pursuant to Supplemental Resolutions into which the applicable First Lien Debt Service Reserve Fund Requirement for the particular Series of First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants being issued under the Supplemental Resolution may be deposited. See “- Series 2021 Bond First Lien Debt Service Reserve Fund Requirement” for a description of the circumstances under which the Authority is required to fund a debt service reserve fund for the Bonds.

The First Lien Debt Service Reserve Fund Requirement shall, as provided in any Supplemental Resolution authorizing such First Lien Obligations, be satisfied by depositing to the credit of the First Lien Debt Service Reserve Fund Participant Account (in the case of First Lien Obligations that are First Lien Debt Service Reserve Fund Participants) or such other designated accounts, as applicable, (in the case of First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants) of the First Lien Debt Service Reserve Fund (i) after providing for the payment of Operating and Maintenance Expenses and making required transfers to the First Lien Debt Service Fund, transfers into the First Lien Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to accumulate within sixty (60) months the First Lien Debt Service Reserve Fund Requirement; (ii) proceeds of such First Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the Authority, will be sufficient to fund fully the First Lien Debt Service Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such First Lien Obligations has been provided out of proceeds of such Additional First Lien Obligations or investment earnings thereon as estimated by the Authority or from other lawfully available funds other than Net Revenues; or (iii) a surety bond, insurance policy or letter of credit or similar financial instrument; 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 similar financial instrument, or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the three highest letter categories by at least one nationally recognized securities rating agency (each, a “First Lien DSRF Security”) and which First Lien DSRF Security is in an amount equal to the amount required to be funded. The First Lien DSRF Security shall be payable (upon the giving of any notice as may be required thereunder) on any Interest Payment Date, principal payment date or redemption date on which moneys will be required to be withdrawn from the First Lien Debt Service Reserve Fund and applied to the payment of the principal amount, Maturity Amount or redemption price of or interest on any First Lien Obligations secured thereby, unless otherwise provided in a Supplemental Resolution. Any downgrade of an issuer of a First Lien DSRF Security shall have no effect on the value of such instrument for the purposes of meeting the First Lien Debt Service Reserve Fund Requirement and the Authority shall have no obligation to supplement or replace such First Lien DSRF Security or make additional cash contributions to the First Lien Debt Service Reserve Fund as a result of such downgrade. The Authority further expressly reserves the right to substitute at any time a First Lien DSRF Security for any funded amounts in the First Lien Debt Service Reserve Fund and to apply the funds thereby released for any lawful purpose, including without limitation any purpose for which First Lien Obligations may be issued or in order to pay debt service on First Lien Obligations. The Authority also reserves the right to provide for the use of a DSRF Security in relationship to a Series-specific debt service reserve requirement as may be required under any Supplemental Resolution.

In any month in which any account of the First Lien Debt Service Reserve Fund contains less than the applicable First Lien Debt Service Reserve Fund Requirement (or so much thereof as shall then be required to be

therein if the Authority has elected to accumulate the First Lien Debt Service Reserve Fund Requirement for any Series of First 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 all required transfers to the First Lien Debt Service Fund, there shall be transferred on a pro rata basis into the First Lien Debt Service Reserve Fund Participant Account (in the case of First Lien Obligations that are Debt Service Reserve Fund Participants) and such other designated accounts, as applicable, (in the case of First Lien Obligations that are not Debt Service Reserve Fund Participants) of the First Lien Debt Service Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the Authority to pay all Credit Agreement Obligations under First Lien DSRF Security allocable to the First Lien Debt Service 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 Authority within a twelve (12) month period to reestablish in the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Fund, as applicable, the First Lien Debt Service Reserve Fund Requirement for the First Lien Obligations secured thereby. After such amounts have been accumulated in the First Lien Debt Service Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain the First Lien Debt Service Reserve Fund Requirement, no further transfers shall be required to be made into the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Reserve Fund, and any excess amounts in such accounts shall be transferred to the First Lien Debt Service Fund to the extent the excess is attributable to the First Lien Debt Service Reserve Fund for any tax-exempt First 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 First Lien Debt Service Reserve Fund Participant Account or such other designated accounts is reduced below the applicable First Lien Debt Service Reserve Fund Requirement, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Fund, as applicable, to such amount within a twelve (12) month period.

The First Lien Debt Service Reserve Fund Participant Account shall be used to pay the principal of and interest on the First Lien Obligations that are Debt Service Reserve Fund Participants at any time when there is not sufficient money available in the First Lien Debt Service Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any First Lien DSRF Security, unless provided otherwise in each of the First Lien DSRF Securities allocable to the First Lien Debt Service Reserve Fund Participant Account) and to repay amounts drawn under any First Lien DSRF Security allocable to such First Lien Debt Service Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the Authority's Credit Agreement Obligations incurred in connection with such First Lien DSRF Security. The First Lien Debt Service Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all First Lien Obligations then Outstanding that are secured thereby.

With respect to any Series of First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants, any account created within the First Lien Debt Service Reserve Fund for the benefit of such Series of First Lien Obligations shall be used to pay the principal and interest on such Series of First Lien Obligations at any time when there is not sufficient money available in the First Lien Debt Service Fund for such purpose and to repay amounts drawn under any First Lien DSRF Security allocable to such account for such purpose, in accordance with the terms of the Supplemental Resolution establishing such account.

The Authority directs and requires the Paying Agent/Registrar for any Series of First Lien Obligations to ascertain the necessity for claim or draw upon the applicable First Lien DSRF Security, 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 First Lien Obligations to which it pertains.

Series 2021 Bond First Lien Debt Service Reserve Fund Requirement

The Bonds are not First Lien Debt Service Reserve Fund Participants. However, in the Second Supplemental Resolution, an account has been created within the First Lien Debt Service Reserve Fund for the benefit of the Bonds (the "Series 2021 DSRF Account"). As described in greater detail below, the Series 2021 DSRF Account will not be funded from the proceeds of the Bonds.

The Series 2021 DSRF Account shall be used to pay the principal and interest on the Bonds at any time when there is not sufficient money available in the First Lien Debt Service Fund for such purpose in accordance with the terms of the Second Supplemental Resolution.

Under the Second Supplemental Resolution, for so long as Net Revenues of the Authority equal or exceed 300% of Annual Debt Service for all First Lien Obligations outstanding at the time of such calculation, there shall be no First Lien Debt Service Reserve Fund Requirement for the Bonds. However, if Net Revenues of the Authority decrease to an amount less than 300% of Annual Debt Service for all First Lien Obligations outstanding at the time of calculation, the Authority shall fund a First Lien Debt Service Reserve Fund for the Bonds for so long as the Net Revenues remain at an amount less than 300% of Annual Debt Service for all First Lien Obligations outstanding. If the obligation to fund a First Lien Debt Service Reserve Fund is triggered, the First Lien Debt Service Reserve Fund Requirement shall, as of any date of calculation, be an amount equal to the lesser of (i) ten percent of the stated principal amount of the Bonds (or Issue Price of the Bonds in the event that the amount of Original Issue Discount exceeds two percent multiplied by the Stated Redemption Price at Maturity of the Bonds), (ii) the maximum annual principal and interest requirements of the Bonds Outstanding, and (iii) 125 percent of average annual principal and interest requirements of the Bonds Outstanding. Once the funding obligation is triggered, the Authority shall initially fund such First Lien Debt Service Reserve Requirement over a period of 36 months in equal monthly installments. While obligated to maintain a First Lien Debt Service Reserve Fund Requirement for the Bonds, such fund shall be maintained in accordance with the Resolution. The requirement set forth above to establish and maintain a First Lien Debt Service Reserve Fund shall be suspended for such time as the Net Revenues of the Authority are equal or exceed 300% of Annual Debt Service for all First Lien Obligations outstanding at the time of such calculation. During such time as the obligation to maintain a First Lien Debt Service Reserve Fund has been suspended, the Authority may, at its option, withdraw all monies from the First Lien Debt Service Reserve Fund for the Bonds and deposit such surplus in the Revenue Fund; provided, however, to the extent such monies constitute Bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the Revenue Fund and shall only be used for the purposes for which Bond proceeds may be used.

Second Lien Debt Service Fund

Under the Master Resolution, the Authority may create such additional accounts in the Second Lien Debt Service Fund pursuant to a Supplemental Resolution as it deems necessary or appropriate. The moneys in the Second Lien Debt Service Fund shall be held for the benefit of the Second Lien Obligations, to the extent the foregoing are payable therefrom, and, pending application, shall be subject to a lien and charge in favor of the Holders of the second Lien Obligations until paid out or transferred as hereinafter provided. The Authority does not currently have any Second Lien Obligations Outstanding. For additional information on the Second Lien Debt Service Fund, see “APPENDIX A – EXCERPTS FROM MASTER RESOLUTION.”

Second Lien Debt Service Reserve Fund

Under the Master Resolution, the Authority is obligated to establish and maintain a balance in the Second Lien Debt Service Reserve Fund equal to the Second Lien Debt Service Reserve Fund Requirement for any Second Lien Obligations that are secured thereby as established in the Supplemental Resolution authorizing such Second Lien Obligations. The Authority does not currently have any Second Lien Obligations Outstanding. For additional information on the Second Lien Debt Service Reserve Fund, see “APPENDIX A – EXCERPTS FROM MASTER RESOLUTION.”

Third Lien Debt Service Fund

Under the Master Resolution, the Authority may create such additional accounts in the Third Lien Debt Service Fund pursuant to a Supplemental Resolution as it deems necessary or appropriate. The moneys in the Third Lien Debt Service Fund shall be held for the benefit of the Third Lien Obligations, to the extent the foregoing are payable therefrom, and, pending application, shall be subject to a lien and charge in favor of the Holders of the Third Lien Obligations until paid out or transferred as hereinafter provided. The Authority has created a \$100 million Third Lien Note Program (as defined herein). For additional information on the Third Lien Debt Service Fund, see “APPENDIX A – EXCERPTS FROM MASTER RESOLUTION.” For additional information on the Third Lien Note Program, see “DEBT INFORMATION – Third Lien Revenue Note Program.”

Third Lien Debt Service Reserve Fund

Under the Master Resolution, the Authority is obligated to establish and maintain a balance in the Third Lien Debt Service Reserve Fund equal to the Third Lien Debt Service Reserve Fund Requirement for any Third Lien Obligations that are secured thereby as established in the Supplemental Resolution authorizing such Third Lien Obligations. For additional information on the Third Lien Debt Service Reserve Fund, see “APPENDIX A – EXCERPTS FROM MASTER RESOLUTION.”

General Fund

After making all payments, credits and transfers described heretofore, amounts credited to the General Fund may be used for any purpose permitted by law and not inconsistent with the terms and provisions of any Federal grants or aid or any contracts to which the Authority is a party, including, but not limited to, capital expenditures, establishing self-insurance reserves, contingency reserves and/or unrestricted reserves, costs of replacing any depreciable property or equipment of the Authority, any major or extraordinary repairs, any lease or contractual obligation, and transfers to make up any deficiency in any Fund established under Article V of the Master Resolution. The General Fund may contain such other funds or accounts as may be established by the policies of the Port Commission from time to time. The Authority reserves the right to pledge the funds on deposit in the General Fund to any lawful Authority obligation, including those entered into outside of the Master Resolution.

Perfection of Security Interest

Pursuant to Chapter 1208, Texas Government Code, the liens created under the Resolution are valid, effective and perfected. If State law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the security granted by the Port Commission under the Master Resolution is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the Registered Owners of the Obligations the perfection of the security interest in said pledge, the Port Commission has agreed to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and enable a filing to perfect the security interest in said pledge to occur.

Investment of Funds; Transfer of Investment Income

Money in the Revenue Fund, the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund, the Third Lien Debt Service Fund, the Third Lien Debt Service Reserve Fund, and any debt service funds or debt service reserve funds established for Inferior Lien Obligations shall, at the option of the Authority, be invested in Permitted Investments or in any other investments authorized by State 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 Authority’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. Any obligation in which money is so invested shall be kept and held at an official depository of the Authority, except as otherwise permitted by the laws applicable to the Authority. 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 Authority, in common investments of the kind described above, or in a common pool of such investments maintained by the Authority or its designated agent, 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 any account of the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Reserve Fund, and the Third Lien Debt Service Reserve Fund shall remain in such funds to the extent necessary to accumulate the respective Debt Service Reserve Fund Requirement therefor 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 Supplemental Resolution authorizing the issuance of First Lien Obligations, Second Lien Obligations, or Third Lien Obligations shall remain in such construction fund for application in the manner provided in such applicable Supplemental Resolution.

To the extent not otherwise provided for in the Master Resolution (including Section 5.1(b) and Sections 5.12(b) and 5.12(c) of the Master Resolution) or specifically excluded from the definition of Gross Revenues, all interest and income derived from deposits and investments credited to the Revenue Fund, the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund, the Third Lien Debt Service Fund, and the Third Lien Debt Service Reserve Fund shall remain on deposit in such funds and be credited against future transfers to such funds, be transferred or credited semiannually to the Revenue Fund, or be transferred to such other Funds as may be required under federal tax law.

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 Obligations from being includable within the gross income of the owners thereof for federal income tax purposes.

Rate Covenant

The Authority covenants that it will at all times fix, charge, impose and collect tariffs, rentals, tolls, rates, fees and other charges for the use of Port Facilities, and revise the same as may be necessary or appropriate, in order that in each Fiscal Year, after the payment of all Operating and Maintenance Expenses for such Fiscal Year paid or to be paid from Gross Revenues, Net Revenues are at least equal to the greater of (a) or (b) below:

(a) All amounts required to be deposited in such Fiscal Year to the credit of the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund, the Third Lien Debt Service Fund, and the Third Lien Debt Service Reserve Fund; or

(b) An amount not less than one hundred twenty-five percent (125%) of the Annual Debt Service in such Fiscal Year on all Outstanding First Lien Obligations, Second Lien Obligations and Third Lien Obligations.

In making the calculations in (a) and (b) above, the Authority may take into consideration as a credit against Annual Debt Service any amounts received, or reasonably expected to be received, in the Fiscal Year from or as a result of any Supplemental Security the Authority has pledged for the benefit of Obligations to the extent the Authority is not under an obligation to repay the amounts received; provided, however, that if the pledge is not for the benefit of all Obligations, the amounts expected to be received may only be taken into account when making the calculation for the affected Obligations. Except as provided below, if the Net Revenues in any Fiscal Year are less than the amounts specified above, the Authority, promptly upon receipt of the annual audit for such Fiscal Year, shall undertake revisions of the Authority's tariffs, rentals, tolls, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Port Facilities in order to satisfy as quickly as practicable, subject to commercial, contractual, statutory and regulatory constraints, the foregoing requirements for each succeeding Fiscal Year subject to commercial, contractual, statutory and regulatory constraints. So long as the Authority can demonstrate compliance with such foregoing requirements within twenty-four (24) months of its receipt of the annual audit specifying that the Net Revenues in any Fiscal Year are less than those specified above, the Authority will not be deemed to have defaulted in the performance of its duties under this Section of the Master Resolution, so long as there is no other default hereunder. Notwithstanding the above, the Authority must at all times fix, charge, impose and collect tariffs, rentals, tolls, rates, fees and other changes sufficient to produce Net Revenues in each Fiscal Year in an amount not less than one hundred percent (100%) of the Annual Debt Service for such Fiscal Year on all Outstanding First Lien Obligations, Second Lien Obligations, and Third Lien Obligations. The Authority may make additions to the rate covenant established in Section 4.3 of the Master Resolution in order to accommodate the authorization of Inferior Lien Obligations.

Additional Covenants

Payment of Obligations. The Authority will punctually pay or cause to be paid the interest on, principal of, the Maturity Amount of and other amounts due on all Obligations 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 the Master Resolution and in any Supplemental Resolution.

Maintenance of Port Facilities. So long as any Obligations remain outstanding, the Authority covenants that it will at all times maintain and operate all material Port Facilities, or within the limits of its authority cause the same to be maintained and operated, in good and serviceable condition.

Sale or Encumbrance of Port Facilities. (a) Unless otherwise provided in this Section, except for (i) the use of the Port Facilities or services pertaining thereto in the normal course of business, (ii) a non-material part of the Port Facilities, or (iii) any Port Facilities sold, alienated or otherwise disposed of for “fair market value” or “reasonable market value” as determined by the Port Commission or an Authorized Representative (provided that the Port Commission or an Authorized Representative must first reasonably determine that such sale, alienation or other disposition for “fair market value” or “reasonable market value” will have no material adverse effect on the Gross Revenues of the Authority as determined at the time of such determination), no material part of the Port Facilities shall be sold, mortgaged, pledged, encumbered, alienated or otherwise disposed of until all Obligations have been paid in full, or unless provision has been made therefor in accordance with Section 6.7 of the Master Resolution, and the Authority shall not dispose of its title to a material part of the Port Facilities or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Port Facilities.

(b) Notwithstanding the foregoing, subject to the other provisions of this subsection (b), the Authority may and expressly reserves the right to:

(i) execute leases, franchises, licenses, easements or other agreements in connection with the ordinary operation of the Port Facilities by the Authority (so long as such leases, franchises, licenses, easements or other agreements do not, in the judgment of the Port Commission at the time of execution, restrict the operation of the Port Facilities or in the aggregate materially impair Net Revenues therefrom);

(ii) make pledges of and liens on (A) Gross Revenues for the payment of Operations and Maintenance Expenses and (B) Net Revenues for the payment of Obligations, and any other obligations pertaining to the Port Facilities, including, but not limited to, capital leases or other similar lease/purchase arrangements, which may be issued or incurred in accordance with the terms and conditions of the Master Resolution or outside of the Master Resolution if secured by revenues in the General Fund or other lawfully available funds other than Net Revenues or made on a subject to annual appropriations basis; provided, however, that if the payment of such obligations are secured by a lien on the Net Revenues on parity with First Lien Obligations, Second Lien Obligations, or Third Lien Obligations, respectively, such obligations shall be issued or entered into as First Lien Obligations, Second Lien Obligations, or Third Lien Obligations, respectively under the Master Resolution;

(iii) mortgage or encumber any personal property (including, for the avoidance of doubt, floating cranes, gantry cranes, ship-to-shore (“STS”) cranes and other cranes typically used by the Authority or its customers) or non-revenue producing property to be acquired or financed under a capital lease, lease/purchase or other similar arrangement in connection with the capital lease, lease/purchase, or other similar arrangement;

(iv) lease one or more Port Facilities to a private third party operator for operation as Port Facilities during the term of such lease if the Port Commission or an Authorized Representative determines at the time the Authority enters into such lease that the lease is in the financial interest of the Authority;

(v) terminate, alter, amend, extend and/or modify any leases or other agreements affecting Port Facilities or entered into hereafter; and

(vi) sell, exchange, lease, or otherwise dispose of any property constituting a part of the Port Facilities, which the Chairman of the Port Commission or an Authorized Representative certifies in good faith on behalf of the Authority (A) to be no longer useful in the construction or operation of the Port Facilities, or necessary for the efficient operation of the Port Facilities, or (B) to have been replaced by other property of at least equal value.

The net proceeds of the sale or disposition of any Port Facilities property pursuant to subsection (vi) shall be used for the construction, improvement, operation or maintenance of Port Facilities. No sale, lease, alienation or disposition of any Port Facilities, or early termination or amendment of any leases or other agreements, may be approved by the Authority unless the Authorized Representative determines such sale, lease, alienation or disposition of Port Facilities, or such early termination or amendment of any leases or other agreements, is reasonably expected by the Authority not to result in a violation of the Rate Covenant in the current fiscal year or a reasonably foreseeable Fiscal Year, as determined by the Authorized Representative at the time of such approval.

(c) Nothing in the Master Resolution shall prevent any transfer of all or a substantial part of the Port Facilities to another body corporate or politic (including, but not necessarily limited to a joint action agency) which assumes the Authority's obligations under the Master Resolution and under any Supplemental Resolution authorizing the issuance of Obligations, wholly or in part, if, a Port Management Consultant provides a written report setting forth projections indicating that the estimated Net Revenues of the entity assuming the Port's Obligations will be sufficient to meet the Rate Covenant following the transfer. In the event of any such transfer and assumption, nothing herein shall prevent the retention by the Authority of any facility of the Authority if the report of the Port Management Consultant indicates that, such retention will not prevent such other body's ability to comply with the requirements of the Rate Covenant.

Insurance. The Authority further covenants and agrees that it will keep the Port Facilities insured through self-insurance or, 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 operating similar properties, to the extent that such insurance is available at a commercially reasonable cost. The terms of all such commercially-provided insurance shall be on commercially reasonable terms and the costs of such insurance shall constitute an Operations and Maintenance Expense. 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 Port Facilities or shall be used to redeem or defease Obligations (or pledged as Supplemental Security for one or more Series of Obligations), except for proceeds of business interruption insurance, which shall be credited to the Revenue Fund. Notwithstanding the foregoing, the Authority reserves the right to not use self-insurance funds to repair or replace property that is damaged or destroyed, make other capital improvements to the Port Facilities, or redeem or defease Obligations (or pledge as Supplemental Security for one or more Series of Obligations) if the Port Commission or an Authorized Representative determines that not repairing or replacing the damaged or destroyed property will not have a material adverse effect on the operation of the Port Facilities or the Net Revenues of the Authority.

Accounts, Records, and Audits. So long as any Obligations remain outstanding, the Authority covenants and agrees that it will maintain a proper and complete system of all material records and accounts pertaining to the Gross Revenues and the operation of the Port Facilities 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 Port Facilities. The Authority shall, within 180 days after the close of each Fiscal Year 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 Annual Debt Service for such fiscal year (as such terms are herein defined) and shall set forth a calculation to demonstrate whether the Port has satisfied the Rate Covenant. Each year promptly after such reports are prepared, the Authority shall furnish copies thereof to any Owners of Obligations who shall request the same. The Authority may furnish such copies by posting the audit report on a publicly available Internet website. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Port Facilities.

Pledge and Encumbrance of Revenues. The Authority covenants and represents that it has the lawful power to create liens on and to pledge the Net Revenues and the other items pledged hereunder to secure the payment of the Obligations and has lawfully exercised such power under the Constitution and laws of the State. The Authority further covenants and represents that, other than to the payment of Operation and Maintenance Expenses (including

maintenance of the operating reserve) and the Obligations, 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 Authority, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Obligations.

Additional Obligations

Pursuant to the Resolution, the Authority may issue additional Obligations, which may be secured by and made payable equally and ratably on a parity with all Outstanding First Lien Obligations, provided the Authority meets the following conditions:

(i) **No Default.** The Authority shall certify that upon the issuance of such Series of Obligations and the delivery of such Credit Agreement (and any related Reimbursement Agreement), the Authority will not be in default under any term or provision of the Master Resolution, any Obligations then Outstanding, any Supplemental Resolution pursuant to which any of such Outstanding Obligations were issued, or any Credit Agreement or Hedge Agreement;

(ii) **Proper Fund Balances.** The Authority shall certify that, upon the issuance of such Series of Obligations, the First Lien Debt Service Fund, the Second Lien Debt Service Fund, the Third Lien Debt Service Fund and any debt service funds established for any Inferior Lien Obligations will have the amounts required by the Master Resolution and any Supplemental Resolution to be on deposit therein, if any, and the First Lien Debt Service Reserve Fund, Second Lien Debt Service Reserve Fund, Third Lien Debt Service Reserve Fund, and any debt service reserve fund established for any Inferior Lien Obligations will contain the applicable Debt Service Reserve Fund Requirement, if any, or so much thereof as is required to be funded at such time;

(iii) **Historical Coverage on Outstanding Obligations.** The Authority shall certify that for any consecutive 12 months out of the most recent 18 months (for the purposes of this Section, such a period is an "Annual Period") the Net Revenues of the Authority were equal to at least:

(A) 150% of the Annual Debt Service for such Annual Period on all Outstanding First Lien Obligations,

(B) 135% of the Annual Debt Service for such Annual Period on all Outstanding First Lien Obligations and Second Lien Obligations; and

(C) 125% of Annual Debt Service for such Annual Period on all Outstanding First Lien Obligations, Second Lien Obligations and Third Lien Obligations;

provided that the provisions described in (iii) above shall not apply to (a) the issuance of Obligations for the purpose of refunding Short Term Obligations or Balloon Obligations or Obligations issued under a commercial paper program or a direct purchase note program, or (b) the issuance of Completion Obligations in accordance with Section 3.5 of the Master Resolution; and provided further that additional coverage requirements for Inferior Lien Obligations may be added in a Supplemental Resolution;

(iv) **Coverage for Additional Obligations.** Either

(A) **Historical Coverage.** For any consecutive 12 months out of the most recent 18 months (for the purposes of this subsection, such a period is an "Annual Period") that the Net Revenues of the Authority were equal to at least:

(I) 150% of the maximum Projected Annual Debt Service on all First Lien Obligations for all future Fiscal Years in which both the Additional Obligations to be issued or delivered and all Outstanding Obligations are due to remain Outstanding,

(II) 135% of the maximum Projected Annual Debt Service on all First Lien Obligations and Second Lien Obligations for all future Fiscal Years in which both the Additional Obligations to be issued or delivered and all Outstanding Obligations are due to remain Outstanding, and

(III) 125% of the maximum Projected Annual Debt Service on all First Lien Obligations, Second Lien Obligations, and Third Obligations for all future Fiscal Years in which both the Additional Obligations to be issued or delivered and all Outstanding Obligations are due to remain Outstanding; and

in making such calculation, Net Revenues may be adjusted to give effect to any increase of tariffs, rentals, fees, rates, tolls and charges placed into effect at least 60 days prior to the adoption of the Supplemental Resolution authorizing the Additional Obligations to the same extent as if such increase of tariffs, rentals, fees, rates, tolls and charges had been placed into effect prior to the commencement of the consecutive 12 month period that is the basis of the calculation; provided, however, that the result of the calculation utilizing such an adjustment must be certified by an independent certified public accountant or firm of independent certified public accountants using the Accounting Principles; or

(B) **Projected Coverage.** A Port Management Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues of the Authority for each of the three consecutive Fiscal Years beginning with 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 Additional Obligations, based upon a certified written estimate of such completion date by the consulting engineer for such facility or facilities, or

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

are equal to at least 150% of the maximum Projected Annual Debt Service on all First Lien Obligations, 135% of the maximum Projected Annual Debt Service on all First Lien Obligations and Second Lien Obligations, and 125% of the maximum Projected Annual Debt Service on all First Lien Obligations, Second Lien Obligations and Third Lien Obligations, in each case for all Fiscal Years described in subsection (iv)(A) above;

(C) **Refunding Obligations:** if the Additional Obligations are being issued for the purpose of refunding previously issued Obligations which are then Outstanding, none of the certifications described in (iii) or (iv)(A) or (B), above, are required (except in the event First Lien Obligations are issued to refund Obligations other than First Lien Obligations, Second Lien Obligations are issued to refund Third Lien Obligations or Inferior Lien Obligations, or Third Lien Obligations are issued to refund Inferior Lien Obligations), so long as the Projected Annual Debt Service in no Fiscal Year after the issuance of such Obligations (after taking into account the redemption or defeasance of the Obligations being refunded) will exceed the scheduled Annual Debt Service in the same Fiscal Year prior to the issuance of such Obligations;

provided, however, that the provisions in (iv), above, shall not apply to (a) the issuance of Obligations for the purpose of refunding Short Term Obligations or Balloon Obligations or Obligations issued under a commercial paper program or a direct purchase note program or (b) the issuance of Completion Obligations in accordance with Section 3.5 of the Master Resolution; and provided further that additional coverage requirements for Inferior Lien Obligations may be added in a Supplemental Resolution; and

(v) **Supplemental Resolution Requirements.** Provision is made in the Supplemental Resolution authorizing the Series of Obligations proposed to be issued for:

(A) additional payments into the First Lien Debt Service Fund, Second Lien Debt Service Fund, Third Lien Debt Service Fund or debt service funds established for Inferior Lien Obligations (as the case may be) sufficient to provide for any principal and interest requirements resulting from the issuance of the Obligations, including, in the event that interest on the additional series of Obligations 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 First Lien Debt Service Fund, Second Lien Debt Service Fund, Third Lien Debt Service Fund, or debt service funds established for Inferior Lien Obligations (as the case may be) of amounts fully sufficient to pay interest on such series of Obligations during the period specified in the Supplemental Resolution; and

(B) satisfaction of any First Lien Debt Service Reserve Fund Requirement, the Second Lien Debt Service Reserve Fund Requirement, the Third Lien Debt Service Reserve Fund Requirement, or debt service reserve fund requirements established for Inferior Lien Obligations (as the case may be) by not later than the date required by any Supplemental Resolution authorizing Obligations then Outstanding.

(vi) **Special Provisions for Credit Agreements.** The Authority may enter into Credit Agreements with respect to any Obligations if (i) prior to entering into such Credit Agreement, the Authority, 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 and (ii) the conditions described in subsection (b) of this Section are satisfied for the Obligations to be incurred under the Credit Agreement. A Credit Provider may be entitled to be subrogated to the rights of the Owners of the Obligations to payments thereon made by advances under such Credit Agreement, and to the extent so provided in a Supplemental Resolution authorizing such Credit Agreement, the Authority's Credit Agreement Obligations may be secured by Net Revenues at the same lien priority as or a lien priority inferior to the Obligations to which the Credit Agreement relates.

Short-Term Obligations

In the Master Resolution the Authority reserves the right to issue, from time to time, one or more series of Obligations as "Short-Term Obligations;" provided, however, that no such Short-Term Obligations (other than those issued under a Supplemental Resolution adopted concurrently with the Master Resolution) may be issued without satisfying the applicable provisions of Section 3.2 of the Master Resolution.

Completion Obligations

In the Master Resolution the Authority reserves the right to issue (i) Obligations to pay the cost of completing any Financed Project (as defined in this Section below) for which Obligations have previously been issued to finance all or part of the Financed Project. Such Completion Obligations may be issued on parity with or subordinate to the Obligations that financed the costs of the Financed Project.

Prior to the issuance of any series of Completion Obligations the Authority must provide, in addition to satisfying all of the conditions of Section 3.2 of the Master Resolution (other than subsections 3.2(b)(iii) and (iv) of the Master Resolution), which shall not apply to Completion Obligations), the following documents:

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

(ii) a certificate of the Executive Director or Chairman of the Port Commission (A) stating that all amounts allocated to pay costs of the Financed Project from the proceeds of the most recent series of Obligations issued in connection with the Financed Project for which the Completion Obligations are being issued were used or are still available within a construction fund therefor to be used to pay costs of such Financed Project; (B) containing a calculation of the amount by which the aggregate cost of that Financed Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Financed 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 Financed Project plus any other moneys which the Authority has determined are available to pay such costs in any other fund; (C) certifying that, in the opinion of the Authority, the issuance of the Completion Obligations is necessary to provide funds for the completion of the Financed Project; and (D) certifying that at the time the most recent Series of Obligations were issued in connection with the Financed Project (other than pursuant to this Section), the Authority reasonably believed that such Series of Obligations would be sufficient, together with funds on hand dedicated to such purpose, to pay the costs of the Financed Project.

For purposes of the issuance of Completion Obligations, the term "Financed Project" shall mean any Project or portion thereof defined in a Supplemental Resolution authorizing the issuance of First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations for the purpose of financing such Project or portion thereof. Any such Supplemental Resolution may contain such further provisions as the Authority shall deem appropriate with regard to the use, completion, modification or abandonment of such Financed Project.

Inferior Lien Obligations

The Authority reserves the right to issue or incur, bonds, notes, commercial paper program 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 First Lien Obligations, the Second Lien Obligations, and the Third Lien Obligations. Such Inferior Lien Obligations may be further secured by any other source of payment lawfully available for such purposes and may be issued under the Master Resolution and a Supplemental Resolution of the Authority or a separate master resolution pertaining to the Inferior Lien Obligations. The Authority may establish additional funds accounts, and sub accounts within the flow of funds to provide for the issuance or incurrence of Inferior Lien Obligations.

Capital Leases

The Authority reserves the right to finance or acquire Port Facilities through capital leases or other similar lease/purchase arrangements in accordance with this Section. Unless such capital leases or lease purchase arrangements are entered into under a Supplemental Resolution designating the Authority's payment obligations thereunder as First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, any payment obligations of the Authority under such capital leases or other similar lease/purchase arrangements will be payable from Net Revenues available after making all deposits required in connection with Outstanding First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, under the Master Resolution and the Supplemental Resolution authorizing such Outstanding First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, or other lawfully available funds of the Authority that are not Gross Revenues, including without limitations from revenues on deposit in the General Fund. Capital leases or other similar lease/purchase arrangements may be secured by the mortgage or encumbrance of the Port Facility being financed under such arrangement, subject to Section 6.3 of the Master Resolution, and a pledge of any other source of payment lawfully available for such purposes, subject to Section 6.6 of the Master Resolution. Capital leases or other similar lease/purchase arrangements may be entered into under the Master Resolution or a separate resolution of the Authority. If the payment obligations of the Authority under a capital lease or other similar lease/purchase arrangement will be First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, the Authority must comply with the provisions of Section 3.2 of the Master Resolution. The Authority reserves the right to establish such other funds and accounts as may be necessary in connection with such capital lease or other similar lease/purchase arrangements in a Supplemental Resolution; provided, however, that no such funds or accounts shall be earlier in priority than the First Lien Debt Service Fund and any First Lien Debt Service Reserve Fund.

Special Facilities Obligations

The Authority reserves the right to issue, from time to time, in one or more series, Special Facilities Obligations 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 Obligations shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the Authority. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the Authority as security for the Obligations or for the construction, operation, maintenance or repair of Port Facilities be pledged to the payment of Special Facilities Obligations or to the payment of any expenses of maintenance and operation of Special Facilities.

Excluded Fee and Charge Revenue Obligations

In the Master Resolution, the Authority reserves the right to issue or incur, for any lawful Authority purpose, bonds, notes, commercial paper program 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, other than Gross Revenues (unless issued in accordance with other provisions of Article III of the Master Resolution). The Port Commission shall document Excluded Fee and Charge Revenues via resolution or order.

Springing First Lien Obligations

The Authority may, without complying with the historical coverage requirements or the coverage requirements for Additional Obligations, issue and deliver to the State or any agency thereof or the United States or any agency thereof a Second Lien Obligation or a Third Lien Obligation that, upon the occurrence of an event of default arising from a bankruptcy related event, will be deemed to be and will automatically become a First Lien Obligation in accordance with the provisions of the Supplemental Resolution authorizing such Second Lien Obligation or Third Lien Obligation. Such provisions may include, without limitation, allowances for such Obligations to benefit from First Lien Debt Service Reserve Funds upon becoming First Lien Obligations.

Credit Agreements and Hedge Agreements

In the Master Resolution, the Authority reserves the right to enter into Credit Agreements and Hedge Agreements with respect to First Lien Obligations. For additional information on Credit Agreements and Hedge Agreements, see “APPENDIX A – EXCERPTS FROM MASTER RESOLUTION.”

AMENDMENTS

Amendments of the Master Resolution

Alteration of Rights and Duties. The rights, duties, and obligations of the Authority and the Owners of Outstanding Obligations 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.

Amendment of Resolution Without Consent. The Authority may, without the consent of or notice to any of the Owners of the Obligations, amend the Master Resolution for any one or more of the following purposes:

(a) to cure any ambiguity, defect, omission or inconsistent provision in the Master Resolution or in the Obligations, or to comply with any applicable provision of law or regulation of State or federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Obligations;

(b) to change the terms or provisions of the Master Resolution to the extent necessary to prevent the interest on the Obligations (if they are issued as obligations the interest on which is excludable

from gross income of the Owners thereof for federal income tax purposes) from being includable within the gross income of the Owners thereof for federal income tax purposes;

(c) to make any changes or amendments requested by any Rating Agency, as a condition to the issuance or maintenance of a rating;

(d) to make such changes, modifications or amendments as may be necessary or desirable, in order, to the extent permitted by law, to facilitate the economic and practical utilization of Credit Agreements with respect to the Obligations including, without limitation, supplementing the definition of “Annual Debt Service” to address the amortization of payments due and owing under a Credit Agreement;

(e) to modify any of the provisions of the Master Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Obligations Outstanding at the date of the adoption of such modification shall cease to be Outstanding, and (ii) such modification shall be specifically referred to in the text of all Additional Obligations issued after the date of the adoption of such modification;

(f) to grant to or confer upon the Owners of the Obligations any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Obligations;

(g) to add to the covenants and agreements of the Authority contained in the Master Resolution other covenants and agreements of, or conditions or restrictions upon, the Authority or to surrender or eliminate any right or power reserved to or conferred upon the Authority in the Master Resolution;

(h) to subject additional revenues to the lien and pledge of the Master Resolution;

(i) to provide for the issuance of Inferior Lien Obligations;

(j) to provide for the establishment of additional reserve funds; or

(k) to amend any provisions of the Master Resolution if, prior to execution of any such amendment, there shall be delivered to the Port an opinion of nationally recognized bond counsel to the effect that such amendment will not have a material adverse effect on the security, remedies or rights of the Owners.

Amendments of Resolution Requiring Consent. The Authority may at any time adopt one or more resolutions amending, modifying, adding to or eliminating any of the provisions of the Master Resolution but, if such amendment is not of the character described in Section 8.2 of the Master Resolution (amendments without consent), only with the consent given in accordance with Section 8.4 of the Master Resolution of the Owner or Owners of not less than a majority in aggregate unpaid principal amount of the First Lien Obligations, Second Lien Obligations, and Third Lien Obligations 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 or interest or other amounts owed on any Obligations issued hereunder, or (b) a reduction in the principal amount of any Obligations or the rate of interest or other amounts owed on any Obligations, or (c) a reduction in the aggregate principal amount of the Obligations required for consent to such amendment, unless the Owner or Owners of 100% in the aggregate principal amount of the First Lien Obligations, Second Lien Obligations, and Third Lien Obligations Outstanding and affected by such amendment shall consent to the changes described in clauses (a) through (c). Before the Authority shall adopt an amendment authorized by this section, the Authority must receive an opinion from nationally recognized bond counsel to the effect that such amendment does not affect the exclusion from gross income for federal income tax purposes of interest on outstanding tax-exempt obligations.

Consent of Owners. Any consent required by Section 8.3 of the Master Resolution by any Owners 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 Obligations, if made in the following manner, shall be sufficient for any of the purposes of

the Master Resolution, and shall be conclusive in favor of the Authority with regard to any action taken, suffered or omitted to be taken by the Authority under such instrument, namely:

(a) 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

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

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

Consents required pursuant to Section 8.3 of the Master Resolution shall be valid only if given following the giving of notice by or on behalf of the Authority requesting such consent and setting forth the substance of the amendment of the Master Resolution in respect of which such consent is sought and stating that copies thereof are available at the office of the Authority for inspection. Such notice shall be given by certified mail to each Registered Owner of the First Lien Obligations, Second Lien Obligations, Third Lien Obligations or Inferior Lien Obligations affected at the address shown on the Register.

Revocation of Consent. Any consent by any Owner of an Obligation pursuant to the provisions of Article VIII of the Master Resolution shall be irrevocable for a period of up to six (6) months, which period shall be specified in the request for consent, from the date of mailing of the notice provided for in Article VIII of the Master Resolution, and shall be conclusive and binding upon all future Owners of the same Obligations and any Obligations delivered on transfer thereof or in exchange for or replacement thereof during such period. Such consent may be revoked at any time after six (6) 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 Obligations Outstanding as in the Master Resolution defined have, prior to the attempted revocation, consented to and approved the amendment.

Rights of Credit Provider or Credit Enhancer. The rights, if any, of a Credit Provider, the provider of a municipal bond insurance policy or the provider of a DSRF Security to make any consents under Article VIII of the Master Resolution, except those under Section 8.3(a), (b) and (c) of the Master Resolution, may be specified in the Supplemental Resolution authorizing the Credit Agreement, municipal bond insurance policy or DSRF Security.

Counterparties to Hedge Agreements not Owners. Unless otherwise provided in a Supplemental Resolution authorizing an Obligation, Counterparties to Hedge Agreements shall not be treated as Owners of the Obligations to which the Hedge Agreement relates for purposes of any voting rights to approve any amendments, unless such Counterparty is in fact the Owner of such Obligations.

BONDHOLDER REMEDIES

The Master Resolution constitutes a contract between the Authority and the Owners of the Obligations from time to time Outstanding and the Master Resolution shall be and remain irrevocable until the Obligations, the interest thereon and all other amounts due thereunder shall be fully paid or discharged or provision therefor shall have been made. In the event of a default in the payment of the principal of or interest on any of the Obligations or a default in the performance of any duty or covenant provided by law or in the Master Resolution, the Owner or Owners of any of the Obligations thereby affected may pursue all legal remedies afforded by the Constitution and laws of the State to compel the Authority to remedy such default and to prevent further default or defaults. As provided in Section 5007.006(i) of the Special District Local Laws Code, it is expressly provided that any Owner of any of the Obligations shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the Port Commission, as applicable, to observe and perform any specific covenant, condition, duties or obligations required to be performed by the Port Commission under the Master Resolution, including the imposition of reasonably required

rentals, tolls, fees, rates and charges for the use and services of the Port Facilities, the deposit of the Gross Revenues into the special funds herein provided, and the application of such Gross Revenues in the manner required in the Master Resolution.

Upon the happening of any event of default, then any Owner or an authorized representative thereof, may proceed against the Authority for the purpose of protecting and enforcing the rights of the Owners under the Resolution, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained therein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners thereunder or any combination of such remedies. The Resolution does not provide for acceleration of maturity of the Bonds, foreclosure on Net Revenues or possession of Net Revenues by a trustee or agent for Owners of the Bonds or operation of the Authority by an independent third party in the event of default.

No lien has been placed on any of the physical properties comprising the Authority to secure the payment of or interest on the Bonds. Moreover, in the event of default, the Owners of the Bonds have no right or claim under the laws of the State against the Authority or any property of the Authority other than their right to receive payment from Net Revenues and certain Funds maintained pursuant to the Resolution. Owners of the Bonds have no right to demand payment of principal of or interest or premium, if any, on the 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 Resolution.

The Resolution does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the Authority to perform in accordance with the terms of the Resolution or upon any other condition: accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the Authority, permits the Authority to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption “THE BONDS – Authority for Issuance”), the Authority has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the Authority’s sovereign immunity from a suit for money damages outside of Chapter 1371, Bondholders may not be able to bring such a suit against the Authority for breach of the Bonds or the Resolution. Accordingly, the only practical remedy in the event of a default may be a mandamus or mandatory injunction proceeding to compel the Authority to increase rates and charges reasonably required for the use and service of the Authority or perform its other obligations under the Resolution, including the deposit of the Gross Revenues into the special Funds provided in the Resolution and the application of such Gross Revenues and such special Funds in the manner required in the Resolution. Such remedy may need to be enforced on a periodic basis because maturity of the Bonds is not subject to acceleration. In addition, the Authority’s ability to comply with the Rate Covenant will be limited by contractual and competitive supply and demand constraints.

The enforcement of a claim for payment of principal of or interest on the Bonds and the Authority’s other obligations with respect to the 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.

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds involves investment risk and may not be suitable for all investors. Prospective purchasers of the Bonds are urged to read this Official Statement, including all Appendices, in its entirety. The factors set forth below, among others, may affect the security for the Bonds. However, the following does not purport to be an exhaustive listing of all considerations that may be relevant to investing in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of these considerations.

General

The Bonds are payable from the Net Revenues, which are derived from the Gross Revenues of the Authority. Future revenues and expenses of the Authority are subject to conditions that may change to an extent that cannot be predicted or determined at this time. No representation can be made or assurance given that the Authority will realize revenues in amounts sufficient to generate Net Revenues sufficient to allow the Authority to make payments of principal, interest and premium, if any, on the Bonds. Future revenues and expenses of the Authority are subject to a variety of economic and other factors and conditions, including without limitation (a) market and regulatory changes affecting the maritime cargo transportation industry and industries using those services, (b) unforeseen decreases in demand for the Port Facilities occasioned by increased or more effective competition from other ports, or pipeline, rail, trucking, or other transportation alternatives, or downturns in local, regional, national and/or international economies, (c) unanticipated increases in operating or administrative expenses, including increases attributable to unstable conditions in the global economy or to enhanced security necessitated by general commercial instability attributable to the acts or threatened acts of terrorists or terrorist groups, (d) potential closure, or restrictions on the use of maritime transportation and the Port Facilities due to acts of war, terrorism, epidemic or disease in foreign countries or in domestic locations that utilize the Port Facilities, and potential limitations on the importation or exportation of goods to or from such countries or locations, (e) potential work stoppages due to labor disputes or other causes or labor shortages, (f) the impact of international political conditions on maritime trade, including threats arising from piracy and terrorism, (g) the impact of weather-related events such as hurricanes or tropical storms, and (h) other possible general, national or local political or economic conditions, including inflation, deflation, general cost increases, international trade embargoes, the imposition of tariffs or other trade barriers, international trade deficits or imbalances, deterioration of international trade relations, and calls for a global reserve currency as an alternative to the U.S. Dollar, among other factors. The occurrence of any one or more of the foregoing adverse events, including events not enumerated herein or in other sections of this Official Statement, may adversely affect the revenues of the Authority, which would have a detrimental impact on the Authority's ability to satisfy its debt service obligations on the Bonds.

Infectious Disease Outbreak – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a strain of coronavirus identified in 2019, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness, mitigation, and phased reopening of the State and retains the right to impose additional restrictions on activities. Under executive orders in effect as of the date of this Official Statement, there are no COVID-19 related operating limits for any business or other establishment; however, the Governor has put limits in place on potential measures that government entities may employ to address the continued spread of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, the global supply chain, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide.

On March 18, 2020, the Authority identified its first cases of COVID-19 at one of its marine terminals. In response, the Authority closed its container terminals for 24 hours, disinfected workspaces, and established protocols

to continue to protect the health and safety of terminal workers. Other than this occasion, COVID-19 infections have not required material workday closures of Port Facilities.

Between April and August 2020, the Authority experienced a downturn in overall cargo volumes, largely due to the negative impact on global commerce created by the Pandemic, in parallel with the economic downturn affecting most of the nation. The Authority's operating revenues for fiscal year 2020 decreased less than one percent from operating revenues for 2019. Revenue tonnage in 2020 decreased approximately 3% from 2019. The Authority's container facilities handled over 3 million TEUs in 2020, an increase of 0.4% from the prior year, representing 27.7 million tons, a decrease of approximately 1% in tonnage. For fiscal year 2020, revenues at the Turning Basin Terminal, which consist primarily of breakbulk and general cargo wharves, were down approximately 10%, primarily related to a 44% decline in steel imports. Overall decreases in operating revenue and tonnage were primarily due to the effects of the Pandemic. See "THE AUTHORITY" for additional information regarding the revenues and operations of the Authority.

Beginning in September 2020, increased consumption combined with the needs of local retail importers to replenish depleted inventories resulted in an acceleration of container import volumes, which has extended through 2021. Through August 31, 2021, the Authority experienced an approximately 16% increase in container unit volumes over the same period in 2020. This increase in unit volumes resulted in an approximately 23% increase in container revenue through August 31, 2021 as compared to the same period in 2020. Additionally, for the period ending August 31, 2021, Turning Basin Terminal revenues have increased approximately 11% over the same period in 2020. The unaudited 2021 volumes and revenues are based on records of the Authority and are subject to change. There is no guarantee that such increased volumes and revenues will continue through the remainder of this fiscal year.

The Authority's total COVID-19-related expenditures through September 17, 2021 total approximately \$8.4 million, and the Authority plans to pursue the Federal Emergency Management Agency ("FEMA") reimbursement for its full expenditures. To date, the Authority has requested reimbursement from FEMA for \$3 million of the \$6.2 million COVID-19 related expenditures incurred in 2020; this reimbursement request is under FEMA review. There is no assurance if and when the Authority will obtain any COVID-19 expenditure reimbursements or the amounts of such reimbursements.

The Pandemic continues to affect both the global supply chain and local labor availability, including workers at Port Facilities, truckers and transportation workers that move containers and other cargo, and personnel providing other logistics services. See "- Workforce Availability" herein. Increased consumer demand and related traffic as well as disruptions to the supply chain have created bottle-necks that may result in increased costs to manufacturers and consumers and longer wait times for supplies, materials, equipment and finished goods. Increases in congestion and dwell times on containers and other cargo may lead to some vessels skipping scheduled calls at the Authority's docks and wharves. The Authority continues to address these circumstances as they relate to Authority operations through adjustments in working conditions and hiring practices.

The financial and operating data contained herein is as of the date and for the periods specified herein. Some of such information addresses time periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, such information may not be indicative of the full economic impact of the Pandemic on the Authority's financial condition.

Workforce Availability

Reductions in workforce availability, including Authority employees, and labor or members of organized labor to operate Port Facilities or vessels (operated by third parties), or an inability to develop or attract the workforce required to construct planned Port Facilities, could adversely affect the revenues of the Authority.

The Pandemic has negatively affected nationwide labor availability, including the continued availability of employees and third-party labor to operate Port Facilities, as well as local ancillary services such as truck transportation, and is expected to continue to have local effects in the near future. The Authority continues to address these circumstances through adjustments in working conditions and hiring practices.

Work stoppages by members of various local chapters of the International Longshoremen's Association ("ILA"), which provide services at Port Facilities, may result in labor-related work stoppages; however, since the Authority is not a party to the relevant collective-bargaining agreements, such work stoppages may be beyond the Authority's direct control. The Authority has not experienced a labor-related work stoppage at its facilities since 1986.

Competition From Other Ports

The Authority competes for market share with other ports along the United States Gulf Coast, as well as with ports in other parts of the United States and in Mexico. Factors such as costs, service reliability and efficiency, local customer base, access to markets, available distribution and transload facilities in the region, transit time, marine and intermodal facilities, and the ability to accommodate larger ships affect shipper and carrier decisions about which port(s) to use. Additionally, regional population size and trends, and concomitant proximity and access to the region's consumer base, drive import shipper gateway selection, while the availability of raw materials and infrastructure, as well as ease of access to international markets, drive export shipper port choices. Carriers also may form alliances and vessel sharing agreements that affect their decisions on port locations. These factors may be affected by developments outside the Authority's control. Action by other ports to improve or expand their marine facilities, or intermodal service improvements at other ports on the Gulf Coast or elsewhere in North America could impact the Authority's market share. The revenues of the Authority may be adversely impacted by increased competition, improvements or additions to marine or supporting facilities at other ports, and pricing decisions by other port facilities; the Authority cannot predict the scope of any such impact at this time.

There is significant competition for container traffic among North American ports. Success depends largely on the size of the local market and the efficiency of the port and inland transportation systems for non-local destinations. According to the American Association of Port Authorities, for the calendar year ended December 31, 2020, the top nine container ports in the nation in terms of container cargo were as follows: (1) Port of Los Angeles (9.3 million TEUs), (2) Port of Long Beach (8.1 million TEUs), (3) Ports of New York and New Jersey (7.6 million TEUs), (4) Georgia Ports Authority (4.7 million TEUs), (5) The Northwest Seaport Alliance (Ports of Seattle and Tacoma) (3.3 million TEUs), (6) Port of Houston (3 million TEUs), (7) Port of Virginia (2.8 million TEUs), (8) Port of Oakland (2.5 million TEUs), (9) South Carolina Ports (2.3 million TEUs), and (10) Port Miami (1.1 million TEUs).

General Shipping Industry Considerations

The Authority's revenues depend to a very large extent on shipping activity and particularly the container shipping industry. The shipping industry as a whole and the level of shipping traffic activity at the Authority specifically are dependent upon a variety of factors, including: (a) the available cargo base; (b) local, regional, national, and international economic and trade conditions; (c) international political conditions and hostilities; (d) cargo security concerns; (e) shipping industry economics, including the cost and availability of labor, fuel, vessels, containers, container chassis, and insurance; (f) competition among shipping companies and ports, including with respect to timing, routes, and pricing; (g) governmental regulation, including security regulations and taxes imposed on ships and cargo, as well as maintenance and environmental requirements; and (h) demand for shipments.

Alliances and Consolidation of the Container Shipping Industry

The financial health of the container shipping industry has experienced significant volatility and substantial stress has been placed on carriers because of a number of factors, including, among other things, the world financial crisis in 2008 and 2009, overcapacity of available ships, global supply and demand imbalances resulting in uneconomic freight rates, volatile fuel costs, and most recently the global Pandemic (though the container shipping industry has shown signs of recovery following its 2020 downturn).

In response to these challenges, among others, the container-shipping industry has seen the formation of strategic alliances among participants in the industry, and the merger of certain shipping lines. Because the industry is capital intensive, strategic alliances have emerged because they allow shipping lines to rationalize asset use through joint services, vessel sharing, and ship space chartering. These rationalization strategies have had a net positive impact on the overall financial health of the container shipping industry, with gains in operational efficiency, reductions in operating costs, including equipment and logistics costs, and increased productivity.

As of the date of this Official Statement, there are three main shipping alliances, the 2M +Zim Alliance, THE Alliance, and the OCEAN Alliance. In 2014, Maersk and Mediterranean Shipping Company established the 2M Alliance, a ten-year shipping agreement for Asia-Europe, trans-Atlantic, and trans-Pacific routes. In 2018, ZIM joined as a partner in the agreement. THE (Transport High Efficiency) Alliance, established in 2017, consists of Ocean Network Express (ONE) (which formed in April 2018 when NYK Line, MOL and “K” Line became one company), Yang Ming, and Hapag-Lloyd. HMM departed from the 2M+H+Z Alliance in April 2020 and joined ONE, Yang Ming and Hapag-Lloyd as a member of THE Alliance, as part of a 10-year agreement including Asia-Europe, Asia-Mediterranean, trans-Pacific to the United States west coast and east coast, trans-Atlantic, and Asia-Middle East routes. Finally, the OCEAN Alliance, established in 2017, consists of CMA-CGM, Evergreen, OOCL, and COSCO. According to the OCEAN Alliance, its term runs ten years and includes Asia-Europe, Asia Mediterranean, trans-Pacific to United States west coast and east coast, trans-Atlantic, Asia-Red Sea, and Asia-Middle East routes.

Additional alliances and mergers could occur in the future. Alliances and consolidation in the container-shipping industry could impact container traffic at the Authority and affect Net Revenues.

Expiration or Termination of Material Contracts

Although the Authority has no reason to believe that current customers, tenants, or other users of Port Facilities will prematurely terminate existing marine terminal service agreements, leases, or similar agreements entered into with the Authority or choose not to renew such agreements at their stated expiration dates, there can be no assurance that such sources of revenues to the Authority currently supported by or otherwise derived from such agreements will be available in future years, and a decrease or loss of such revenues could adversely impact the ability of the Authority to pay its debt service obligations on the Bonds. See “THE AUTHORITY – Authority Operations.”

Concentration of Customer Base

The majority of the Authority’s revenues are derived from throughput, dockage, wharfage, and related terminal service fees, and ground lease payments, which are in large part a function of regional trends in import and export cargo demand. However, the Authority’s customer base is also heavily concentrated among its major vessel lines paying these charges. The Authority’s top ten customers accounted for approximately 69% of its total operating revenues in 2020, and 68% of those revenues in 2019. The largest customer accounted for approximately 16% of the Authority’s total operating revenues in 2020 and 15% of those revenues in 2019. See “THE AUTHORITY – Table 8 – Top Ten Authority Customers (Ten-Year Comparison).”

Adverse developments in major customers’ businesses or general economic conditions or changes in the regulatory environment affecting the Authority’s major customers could result in changes in the makeup of this customer group or, additionally, reduce Net Revenues and adversely affect the Authority’s ability to satisfy the debt service obligations on the Bonds.

Concentration of Revenues from Business Lines

Revenues generated from the Authority’s container business lines contributed 79% of its total operating revenues in 2020 and 79% of such revenues in 2019, and the trade balance of import loaded container units to export loaded units was 51:49 in 2020 and 50:50 in 2019. See “THE AUTHORITY – Table 6 – Operating Revenues by Type.” During the first half of 2021, this balance shifted more heavily to import loads as the economy strengthened subsequent to the 2020 effects of the Pandemic, resulting in increased imports to satisfy rising consumer demand and inventory replenishment.

The wharves at Turning Basin terminals generated 13% of Authority operating revenues in 2020 and 14% of such revenues in 2019. See “THE AUTHORITY – Table 6 – Operating Revenues by Type.”

Marine Terminal Services Agreements

The Authority has entered into Marine Terminal Services Agreements (“MTSAs”) with eight container carriers, seven of which are among its top ten customers. The MTSAs include provisions that limit new tariffs

applicable to these customers to any new charges required or made necessary by law or circumstances reasonably beyond the control of the Authority and to changes in its current port security fee. In addition, the MTSA's limit annual tariff increases to the increase in the consumer price index. See "THE AUTHORITY – Authority Tariffs and Marine Terminal Services Agreements" for additional information.

Changing Demand for Petrochemical Products and Consumer Goods

Economic conditions, changing consumer preferences, decreases in consumption plastic use in the U.S., environmental regulations, and multiple other political and regulatory issues could impact the future volume of products moving through Authority terminals, including exported petrochemical products and imported consumer goods.

Customer Bankruptcy

In general, risks associated with bankruptcy of a customer of the Authority include risks of substantial delay in payment or of non-payment and the risk that the Authority may not be able to enforce any of its remedies under the agreements with a bankrupt customer.

In the event of a bankruptcy proceeding of a customer of the Authority, the debtor customer may not, absent a court order, make any payments to the Authority on account of services provided prior to the bankruptcy. Thus, the Authority's stream of payments from a debtor customer would be interrupted to the extent of pre-petition services, including accrued tariffs and rents. In addition, payments made by a customer within 90 days of filing a bankruptcy case could be deemed to be an "avoidable preference" under the Bankruptcy Code and thus subject to recapture by the debtor or its trustee in bankruptcy.

A customer that has an executory contract with the Authority and seeks protection under the U.S. bankruptcy laws must assume or reject its executory contracts prior to the confirmation of a plan of reorganization. In the event of assumption and/or assignment of any agreement to a third party, the customer would be required to cure any pre and post-petition monetary defaults and provide adequate assurance of future performance under the applicable preferential assignment agreement, lease or other agreements.

With respect to a customer in bankruptcy proceedings in a foreign country, the Authority is unable to predict what types of orders and/or relief could be issued by foreign bankruptcy tribunals, or the extent to which any such orders would be enforceable in the United States.

Changes in Law and Regulation

The Authority is subject to the other general requirements of federal and state laws, regulations, and permitting. Except as otherwise disclosed in this Official Statement, to the knowledge of the Authority, no legal or regulatory action has been taken or is threatened and no legal or regulatory approval is required or pending that would materially affect the Net Revenues or the ability of the Authority to complete any planned construction program. Nevertheless, federal or state adoption and enforcement of unforeseen laws or regulations could result in a reduction in Net Revenues, or the loss of the Authority's ability to operate all or a portion of the Port Facilities, and the likelihood of such action cannot be predicted. Any such developments could adversely impact the Authority's ability to satisfy its debt service obligations on the Bonds.

U.S. Shipping Act of 1984 and the Federal Maritime Commission

Operations between the United States and non-U.S. ports are subject to the provisions of the U.S. Shipping Act of 1984, as amended by the Ocean Shipping Reform Act of 1998 (the "Shipping Act"), which is administered by the Federal Maritime Commission (FMC). The Shipping Act regulates both common carriers in ocean transportation and marine terminal operators ("MTOs") serving those carriers and certain other water carriers. In summary, the Shipping Act requires MTOs such as the Authority to provide for just and reasonable regulations and practices, bars them from undue or unreasonable preferences, prejudices, advantages, and disadvantages, and prohibits their unreasonable refusal to deal or negotiate with customers.

In response to concerns regarding excessive or unjustified detention and demurrage charges voiced nationally by certain industry participants, following a two-year investigation, the FMC issued new guidance in April 2020 about how it would assess the reasonableness of detention and demurrage regulations and practices of ocean carriers and MTOs. Detention generally refers to charges levied for failing to return equipment to a designated terminal within the provided free time, while demurrage generally means the charges levied, after the expiration of free time, for container remaining at a terminal prior to loading or after vessel discharge.

In response to some of the same concerns, as well as recent increases in container terminal congestion, on August 10, 2021, the Ocean Shipping Reform Act of 2021 (H.R. 4996) was introduced in the U.S. House of Representatives. This legislation, which may be enacted in the maritime title of the next Coast Guard Authorization Act for fiscal year 2022-2023, would also regulate demurrage and detention practices, including information disclosure, certification requirements and record keeping, shift the burden of establishing the reasonableness of such charges, and institute further rulemaking activities.

Although the Authority has no reason to believe that its detention practices are a material source of Authority customer or user complaints and detention charges are not a material revenue source for the Authority, there can be no assurance that such legislation, if enacted, would not affect the Authority's practices and costs in future years with respect to these matters.

Recent State Legislation Related to Board of Pilot Commissioners and Vessel Sizes

The Board of Pilot Commissioners for Harris County Ports (the "Board") oversees the licensing and activities of state-licensed maritime pilots who assist with the guidance of ships transiting the Channel. During the 2019 legislative session, the Texas Legislature made several modifications to the governance and operations of the Board. The Legislature moved the governance of the organization to a new board composed of nine appointed pilot commissioners, with two members appointed by the City, two members appointed by the County, one member appointed by the City of Pasadena, one member appointed by the Harris County Mayors' and Councils' Association, and two members appointed by the Governor. The Board was previously governed by the Port Commission.

In 2019, the Texas Legislature also adopted legislation that sets the maximum vessel length for certain segments of the Ship Channel at 1,100 feet, unless – following the recommendation of the Houston Pilots – the Board determines that two-way traffic can be conducted efficiently with vessels of a longer length and adopts rules relating to the same. In June 2021 the Board approved a rule change permitting vessels of up to 1,160 feet in length overall to transit the Channel to Bayport and Barbours Cut Terminals, and meet all vessels currently permitted on the Channel, subject to existing navigation safety guidelines.

United States Trade Policy

The North American Free Trade Agreement ("NAFTA") went into effect in January 1994, and generally had a positive impact on cross-border trade. The United States-Mexico-Canada Agreement ("USMCA") succeeded NAFTA in July 2020. The Authority does not expect the USMCA to have a negative impact on Authority operations or Net Revenues.

In 2018, Section 232 Tariffs on steel and aluminum and Section 301 Tariffs on certain Chinese products were introduced, and the scope and levels of these tariffs have been adjusted many times since their initial imposition. The Authority believes that these tariffs and associated retaliatory tariffs by affected countries may have had some negative impact on volumes at the Authority, and particularly steel imports, among the other factors influencing trade volumes since that time.

Additionally, since taking office in January 2021, the Biden Administration has issued executive orders and has indicated its intent to implement additional executive orders, legislation, and regulations affecting federal policy in areas such as immigration, tariffs, and trade. As of the date of this Official Statement, there is insufficient information available about potential Federal actions to estimate the impacts, if any, of these actions on the operations of the Authority or Authority customers. However, the further imposition of tariffs could negatively impact cross-border trade, the use of the Port Facilities, and the revenues of the Authority.

Air Quality Standards

Air quality control measures required by the United States Environmental Protection Agency (“EPA”) and the Texas Commission on Environmental Quality (“TCEQ”) may curtail new industrial, commercial and residential development in the region where Port Facilities are located and the conduct of operations at such facilities. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight county Houston Galveston-Brazoria Area (the “HGB Area”) has been designated by the EPA as a non-attainment area under three separate federal ozone standards: the one-hour standards promulgated by the EPA in 1997 (the “1997 Ozone Standards”); the stricter, eight-hour ozone standard promulgated in 2008 (the “2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even more strict standard in 2015 (the “2015 Ozone Standard”). While the State has been able to demonstrate steady progress and improvements in air quality in the HGB Area, the HGB Area remains subject to certain CAA nonattainment requirements.

The HGB Area is no longer subject to control requirements associated with the 1997 Ozone Standards; however, the HGB Area is currently designated a “serious” ozone nonattainment area under the 2008 Ozone Standard, and had an attainment deadline of July 20, 2021. In March 2020, the TCEQ adopted a revision to the State Implementation Plan (“SIP”) that was required based on that reclassification. That SIP revision, which included an updated attainment demonstration for the 2008 Ozone Standard, was submitted to EPA in May 2020. A portion of the HGB Area is also currently designated as a “marginal” nonattainment area for the 2015 Ozone Standard, and that area’s attainment deadline under the more-stringent 2015 Ozone Standard was August 3, 2021. The HGB Area is facing redesignation under both the 2008 Ozone Standard and the 2015 Ozone Standard, based on monitored air quality from 2018-2020 that did not demonstrate compliance with the standards. Redesignation will result in new attainment deadlines under more-stringent nonattainment classifications and trigger an obligation for the State to submit an updated attainment designation SIP for the area. Since these air quality standards are applicable to the entire HGB Area and not specifically addressed by the Authority, the Authority is not directly capable of addressing these outcomes.

Under the CAA, the State is subject to ongoing obligations to make progress toward and eventually to reach compliance with the federal ozone standards in the HGB Area, based on monitored air quality. While the SIP for the HGB Area demonstrates progress toward attainment, including emission control requirements for ozone-causing pollutants emitted by the industrial sector, failure to attain an ozone standard could subject industrial sources in the HGB Area to more stringent controls on emissions. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels. Finally, SIP requirements that regulate the inspection and use of automobiles could negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation.

It is possible that additional controls will be necessary to allow the HGB Area to attain the ozone standards by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB Area’s economic growth and development.

Other constraints on economic growth and development include lawsuits filed under the CAA by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. Any successful court challenge to the currently effective SIP could result in the imposition of even more stringent air emission controls that could impact growth and development in the HGB Area.

In the course of planning for Project 11, the Authority learned of community concerns with the potential air-quality impacts of the work on Project 11. In October 2021, the Port Commission awarded the first Project 11 dredging contract for the construction of Segment 1A of Project 11 and associated improvements. In awarding the contract, the Port Commission chose a contracting option that will require the contractor to move a lower emissions dredge to the project site and retrofit an older dredge and other equipment with a technology known as selective catalytic reduction to reduce nitrogen oxide emissions. The selection of this contracting method will delay construction by approximately three months, but it is intended to address community concerns and reduce the impact of the project on the environment. See “THE AUTHORITY -- Environmental, Social and Governance” for a discussion of the Authority’s environmental, social and governance efforts.

Wetlands

The Authority's ability to develop, expand, or otherwise improve Port Facilities that comprise or are located in, at, upon, or adjacent to wetlands may be limited by federal law. Construction projects affecting wetlands (and waterways), such as new dock construction and channel slip dredging cannot proceed without a permit issued by the USACE. In some cases, issuance of a construction permit is dependent on satisfying mitigation requirements. The permitting process and cost of mitigation could result in or contribute to a decision not to construct one or more of the projects described in this Official Statement, which would have an adverse impact on the Authority's ability to satisfy its debt service obligations on the Bonds.

In 2015, the EPA and the USACE promulgated a rule aimed at defining the "waters of the United States" ("WOTUS") over which EPA and USACE have jurisdiction, particularly with regard to streams and wetlands that have a hydrological connection to traditional navigable waters. In October 2019, the EPA and the USACE published a final rule that repealed the 2015 definition of WOTUS. In April 2020, the EPA and USACE issued a revised regulation (the "2020 Rule") that narrowed the definition from the 2015 rule. Litigation was filed on the 2020 Rule, and the 2020 Rule was recently vacated by a federal District Court in Arizona. The EPA and the USACE have issued statements that they intend to treat the District Court's vacature as invalidating the 2020 Rule nationwide. Until the agencies are able to promulgate a new rule defining WOTUS, they will review permits and projects under the pre-2015 rules, initially promulgated in 1986, as modified by subsequent Supreme Court decisions. In June 2021, the EPA and the USACE issued a press release announcing their intent to revise the definition of WOTUS and the agencies have begun holding public hearings to solicit input for a revised regulation.

Given this rulemaking activity, there is significant uncertainty regarding the ultimate scope of WOTUS and EPA and USACE wetlands jurisdiction.

Climate Change and Sea Level Rise

Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events will become more frequent and more intense, as a result of increasing global temperatures attributable to atmospheric pollution. Port operations and infrastructure are vulnerable to effects of sea level rise, extreme climate conditions, and extreme weather events, and significant capital investments may need to be made to address these vulnerabilities. The Authority expects to be able to continue to manage its operations and construction activities to minimize the future effects of these occurrences and that it has the necessary capacity to adapt to these occurrences. However, no assurance can be given that the effects of sea level rise will not adversely affect the revenues of the Authority.

Other Environmental and Related Risks

Any owner or operator of real estate may be adversely impacted by legislative, regulatory, administrative, and enforcement action involving environmental laws and regulations. In addition, groups opposing industrial developments and infrastructure projects may seek to delay or prevent the construction of such developments or projects based on claims brought under environmental laws and regulations. In the past, such claims or lawsuits have targeted industrial developments of the types being developed by companies operating in the greater Port of Houston complex. Furthermore, users of the Port Facilities may transport hazardous materials through the Port Facilities, the handling of which may pose environmental threats. In recent years environmental regulations have placed greater scrutiny on all owners of property and, in future years, such regulations could be modified to include types of materials not currently identified as hazardous, all of which could result in additional expense to the Authority.

Operation of the Port Facilities is also subject to federal, state and local laws and regulations governing, among other things, discharge to waters and the generation, handling, storage, transportation, treatment and disposal of waste and other materials as well as laws relating to occupational health and safety.

The Authority intends that Port Facilities comply in all material respects with applicable environmental and health and safety laws and regulations, many of which impose substantial fines and criminal sanctions for violations. However, the ownership and operation of Port Facilities entails risks in these areas, and there can be no assurance that

the Authority will not incur material costs or liabilities in this regard. In addition, potentially significant expenditures could be required to comply with evolving environmental, health and safety laws, regulations and requirements that may be adopted or imposed in the future. The Authority may be forced to expend significant resources to comply with state and federal requirements, which expenses, to the extent that they exceed budgeted amounts, would decrease Net Revenues and have an adverse impact on the Authority's ability to satisfy its debt service obligations on the Bonds.

Prolonged Channel Closure

A prolonged closure of the Channel could reduce the amount of Net Revenues, which could have an adverse impact on the Authority's ability to meet its debt service obligations on the Bonds. Such a closure could occur as a result of an oil spill, chemical spill, or spill of other harmful or hazardous materials in the Channel, a ship collision, a weather-related event or other channel obstruction. The U.S. Coast Guard makes the determinations on Channel closures and re-openings.

Risk of Terrorist Attacks

The Maritime Transportation Security Act was signed into law on November 25, 2002, requiring sectors of the maritime industry to implement measures designed to protect ports and waterways of the United States from terrorist attacks. The act requires interagency teamwork within the Department of Homeland Security, including the U.S. Coast Guard, the Transportation Security Administration, the Bureau of Customs and Border Protection, and the Department of Transportation's Maritime Administration to develop security regulations. The security regulations focus on those sectors of the maritime industry that have a higher risk of involvement in a transportation security incident, including terminals, vessels, barges, offshore oil and gas platforms, and port facilities that handle certain kinds of dangerous cargo or service the vessels included in this list. These regulations require, among other things, that port and vessel owners assess their vulnerabilities and then develop plans that may include implementing vehicle, container and baggage screening procedures, accessing control measures and/or installing surveillance equipment.

The Authority has procedures in place for compliance with the Maritime Transportation Security Act, and has maintained and continually improves upon its working relationship with all federal, state and local law enforcement and regulatory agencies, as well as the numerous private industry security forces throughout the Authority's jurisdiction. The Authority was also the first port authority to receive the international security designation ISO 28000.

National and local law enforcement officials have warned that terrorist attacks upon key infrastructure and other targets in the United States are possible. The Authority and the surrounding waterways are visible infrastructure assets that could be the subject of future attempted terrorist attacks. A terrorist attack on the Authority, the greater Port of Houston, or the surrounding waterways could have a material adverse effect on Net Revenues needed to repay the Bonds.

Risk of Loss, Damage or Destruction

The Authority has covenanted in the Resolution that it will cause the Port Facilities at all times to be insured against such risks as are customarily insured against by political subdivisions of the State operating similar properties, to the extent such insurance is available at a reasonable cost. The Authority has further covenanted that it shall apply the proceeds of such insurance to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Port Facilities or shall be used to redeem obligations, subject to the limitations described in the Master Resolution. There can be no assurance that the proceeds of insurance or other sources of funds available to the Authority for purposes of replacing, repairing, rebuilding, or restoring all or any portion of the Port Facilities that may be damaged or destroyed will be sufficient for such replacement, repair, rebuilding or restoration, nor can there be any assurance that such proceeds or other sources of funds will be equal to or greater than the outstanding principal amount of the Bonds and other Senior Lien Obligations so as to allow the Authority to retire the outstanding principal amount of, interest and premium, if any, on the Bonds and other Senior Lien Obligations in the event that the Authority is unable to replace, repair, rebuild or restore the Port Facilities in the event of loss, damage or destruction of such facilities.

Information Technology/Cyber Security

The Authority depends upon information and computing technology to conduct general business operations. Computer networks and data transmission and collection are vital to the safe and efficient operation of the Authority. The Authority collects and stores sensitive data, including intellectual property, security information, proprietary business information, information regarding customers, suppliers and business partners, and personally identifiable information of customers, partners and employees. The secure processing, maintenance and transmission of this information is critical to industry operations. Despite security measures, information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions that could result in adverse consequences to the Authority's information and computing technology; thereby requiring a response action to mitigate the consequences. Any such breach could compromise networks and the information stored there could be disrupted, accessed, publicly disclosed, lost or stolen. Cybersecurity incidents could result from unintentional incidents, or from deliberate attacks by entities or individuals attempting to gain access to the Authority's computing technology for the purposes of misappropriating assets or information, damaging the Authority's reputation, or causing operational disruption or physical harm and damage. Any such disruption, access, disclosure or other loss of information could result in disruptions in the efficiency of commerce, legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, or disruptions in operations and the services provided, which could ultimately adversely affect the Authority's reputation and revenues.

To mitigate the risk of business operations impact and/or damage from cybersecurity incidents or cyber-attacks, the Authority's Technology Division invests in multiple forms of cybersecurity and operational safeguards. While the Authority's cybersecurity and operational safeguards are periodically tested, no assurances can be given by the Authority that such measures will prevent all cybersecurity threats and attacks. Furthermore, no assurance can be given that such measures will fully prevent potential business continuity or cybersecurity risks arising from incidents wholly or partially beyond the Authority's control, including electrical telecommunications outages, natural disasters, or cyber-attacks, or larger scale political events, including terrorist attacks. Any such occurrence could lead to decreased financial performance that insurance may not cover and may require the Authority to expend significant resources to correct the failure or disruption.

In August 2021, the Authority successfully defended itself against a cybersecurity attack. The Authority followed its Facilities Security Plan in doing so, as guided under the Maritime Transportation Security Act, and no operational data or systems were impacted as a result.

Risk of Weather-Related Catastrophe

The Port Facilities are located on the Gulf Coast of the United States. The Gulf Coast is an area that has in the past been periodically susceptible to damaging storms. The risk of hurricanes, tropical storms, winter storms or other major weather events affecting the Port Facilities and ship channels and interrupting the operations of the Authority is a risk over which the Authority has little or no control. To the extent that the Port Facilities are damaged, or the Authority's operations are interrupted for any material period of time or cargo is directed to other ports due to hurricane or other weather-related catastrophe, such damage or interruption could reduce the amount of Net Revenues available to the Authority, which would have an adverse impact on the Authority's ability to satisfy its debt service obligations on the Bonds.

PENDING LITIGATION AND CLAIMS

The following matters are considered by the Authority to be material for purposes of this Official Statement. Uncertainties are inherent in the final outcome of these matters, and it is presently impossible to determine their resolution and the costs that may ultimately be incurred in connection with such resolution. In addition to the matters specifically listed, the Authority is involved in other litigation and claims. While uncertainties are also inherent in the final outcome of such other matters and it is presently impossible to determine the costs in connection with them that may ultimately be incurred or their effect on the Authority, management believes that the resolution of such uncertainties and the incurrence of such costs, regarding such other matters, should not result in a material adverse effect on the Authority's financial position, results of operations or liquidity.

The Authority has been named in a charge presented to the Equal Employment Opportunity Commission (“EEOC”) by Robert Jones, and named as defendant in a parallel action filed in State district court. In both proceedings, Mr. Jones alleges that the Authority unlawfully terminated his employment in retaliation for making internal allegations about practices he believes to be unlawful and reporting information about the removal of emergency equipment to the Texas Department of Insurance and Texas Department of State Health Services. In the EEOC charge, Mr. Jones also alleges that the Authority unlawfully denied him a promotion in retaliation for having reported alleged harassment and violation of the Americans with Disabilities Act. Mr. Jones has indicated that he intends to add such allegations to his State district court action once he obtains a “right to sue” letter from the EEOC. In connection with the State district court action, Mr. Jones seeks a determination regarding an alleged violation of the Texas Whistleblower Act, and damages in an unspecified amount and/or equitable relief authorized under that act, including lost wages and benefits from termination until trial, court costs, reasonable attorney’s and expert fees, reinstatement or front pay, and compensatory damages for future pecuniary losses, and past and future emotional pain, suffering, inconvenience, mental anguish, loss of enjoyment of life and other past and future nonpecuniary losses. The Authority intends to vigorously contest these matters; however, it has not reached any judgment as to the likely outcomes or the ranges of potential loss with respect thereto.

The Authority is defending and indemnifying named Authority employee defendants in two actions brought by Stan Kozlowski, Jason Hall, Mike Stallings, Jason Roberts, Justin Meador, and Kyle Jordan (collectively, “Plaintiffs”). All of Plaintiffs’ claims were originally brought in federal court, but Plaintiffs later dismissed some of the claims and refiled the dismissed claims in state district court. In the federal action, Plaintiffs allege that they were unlawfully suspended and terminated from positions at the Authority in violation of Plaintiffs’ rights to free speech and free association under 42 U.S.C. §1983. In the state action, Plaintiffs allege that their suspensions and terminations were also in violation of Texas Labor Code §§101.001, 101.052, and 101.301 and Texas Government Code Chapter 614 and §617.004. Plaintiffs seek compensatory damages in an unspecified amount for past and future lost wages, reputational harm, mental and emotional distress, anxiety, and all other general damages, plus additional amounts for attorneys’ fees, expert witness fees, interest, costs, and punitive damages. Plaintiffs further seek a declaratory judgment regarding the alleged violations of law, and injunctive relief undoing the adverse actions taken against Plaintiffs. The Authority has filed an answer disputing Plaintiffs’ claims. The action is set for trial docket call on February 11, 2022. The Authority intends to vigorously contest this matter; however, it has not reached any judgment as to the likely outcome or the range of potential loss in this litigation.

Trans-Global Solutions, Inc. (“TGS”) has asserted claims against the Authority stemming from delays TGS claims to have incurred in connection with its December 2014 contract for the construction of a container yard at the Authority’s Bayport Container Terminal. As of February 2018, TGS has claimed damages in the amount of \$6,873,000. The Authority does not intend to pay the amount sought by TGS and intends to vigorously contest TGS’s claims; however, it has not reached any judgment as to the likely outcome or the range of potential loss in the event of litigation.

THE AUTHORITY

General

The Authority is a navigation district and independent political subdivision of the State, operating pursuant to Texas statutes, including Chapter 5007, Texas Special District Local Laws Code, as amended, and Texas Water Code Chapters 60, 61, and 62, as amended. Originally constituted in 1911 as the Harris County Houston Ship Channel Navigation District to sponsor deepening and widening of the Houston Ship Channel, the Authority began operating terminals along the Channel in 1922.

The Authority by statute operates independently of other governmental entities, except that the County Commissioners Court, upon request of the Authority, sets the Authority’s tax rate, levies the Authority’s tax and issues and authorizes the Authority’s general obligation bonds. By statute, the County Treasurer serves as the Treasurer of the Authority.

Responsibility for all other activities of the Authority is exercised by the Port Commission, which is composed of seven commissioners. Two members of the Port Commission are appointed by the County Judge and Commissioners Court; two by the Mayor and City Council of the City; one by the Mayor and City Council of the City

of Pasadena, Texas; and one by the Harris County Mayors' and Councils' Association. The Chairman of the Port Commission is jointly appointed by the governing bodies of the County and the City. Port Commissioners serve two-year terms without pay and may serve a maximum of 12 years.

The greater Port of Houston (which includes facilities not owned by the Authority) has been a deep draft port since 1914. The Channel, the center of that complex, extends 52 miles inland and links the City with the Gulf of Mexico. The greater Port of Houston consists not only of the Authority's public terminals and wharves, but also includes more than 200 privately-owned wharves, docks and other facilities. The greater Port of Houston is ranked first in the nation for total tonnage and foreign waterborne tonnage. A 2018 study by Martin Associates reported that greater Port of Houston-related businesses support the creation of approximately 1.35 million jobs throughout the State.

Business of the Authority

The Authority owns a diverse group of facilities designed to accommodate a variety of cargo, including general cargo, containers, automobiles, grain, coal, pet coke, dry and liquid bulk and project and heavy-lift cargo. In addition, the Authority leases land to others, provides railroad rights-of-way for the Port Terminal Railroad Association ("PTRA"), licenses pipeline crossings of its property, and owns and maintains areas for depositing dredged materials.

The Authority's operating revenues for fiscal year 2020 were \$390,732,000, a decrease of less than one percent from operating revenues for 2019. Revenue tonnage totaled 41.7 million tons in 2020, decreasing approximately 3% from 2019. The Authority's container facilities handled over 3 million TEUs, an increase of 0.4% from the prior year, representing 27.7 million tons, a decrease of approximately 1%. The decreases in operating revenue and tonnage are primarily due to the effects of the Pandemic. See "FINANCIAL DATA – Table 11 – Statement of Revenues, Expenses and Changes in Net Position."

Facilities owned by the Authority are either operated for hire on a first-come, first-served basis, or leased to private operators, and in some cases are subject to preferential or exclusive berthing arrangements. Other privately-owned wharves-for-hire located at the greater Port of Houston compete directly with the Authority's general cargo wharves. The Authority neither regulates the tariffs charged by, nor derives any revenues from, any of the privately-owned wharves, except for certain fees it may collect from private wharves located in the Bayport Industrial District in connection with their location on the Bayport Channel and Bayport Turning Basin. See "—Table 1 – Physical Characteristics of the Port Facilities of the Authority."

In addition, the Authority is the administrator of Foreign Trade Zone ("FTZ") #84 ("FTZ84"), which includes many privately owned and Authority-owned sites located throughout the City and the County. An FTZ is a designated area in which foreign and domestic merchandise is generally considered by the United States government as being outside United States Customs territory. Merchandise may be brought into an FTZ without a formal customs entry, import quotas and most other import restrictions. Duties and excise taxes are not assessed until the merchandise enters United States commerce, providing a competitive advantage to facilities within an FTZ. FTZ84 ranked first in the United States for total merchandise received with over \$3 billion in total value of shipments through FTZ84 in 2017.

As of December 31, 2020, the Authority had 682 regular employees. During fiscal year 2020, the Authority also contracted for casual labor from longshoremen union halls, equating to 442 full-time equivalent employees working 40 hours a week for 52 weeks per year.

Strategic Planning

With the objective of creating alignment among the Port Commission, management, and staff, around a clear vision and goals to achieve that vision, and as required by state law, the Authority conducts a strategic planning process every five years, including the last update in 2020. The strategic plan is developed by an internal cross-functional team in consultation with Port Commissioners, Authority senior management, staff, industry partners, Channel users and community stakeholders.

The 2020 strategic plan is organized under four strategic goals: People – “Be the Best Place to Work;” Infrastructure – “Optimize Infrastructure and Channel Capacity to Serve the Region;” Partnerships – “Develop and Strengthen External Partnerships;” and Stewardship – “Create Greater Value for the Region.”

Environmental, Social and Governance

The Authority is committed to conducting its operations with a focus on diversity, sustainability, and innovation. Ongoing investments in sustainable infrastructure and equipment have helped the Authority reduce its carbon footprint by 55% since 2016, and the Authority is targeting an increase in such reductions to 70% by 2035. The Authority was the first port authority to meet ISO 14001 standards for environmental excellence in 2002. In 2020, it was the first port authority to choose one hundred percent renewable electricity at all of its facilities, which is estimated to eliminate approximately 25,000 tons of CO₂ emissions per year.

The Authority recently launched a Business Equity Division to lead internal and external diversity, equity and inclusion efforts, including the development of inclusive leadership training and a newly established minority and woman-owned business enterprise procurement program. The Authority has also made a substantial commitment toward the support of small businesses, having awarded more than \$600 million in Authority contracts to small businesses contractors or subcontractors registered in the Authority’s small business program since inception of the program in 2002.

As part of its 2021 strategic initiatives, the Authority is in the process of developing a plan for environmental and social governance criteria that will help ensure long-term sustainability.

Management and Administration

Roger D. Guenther – Executive Director. Roger D. Guenther was named the Executive Director of the Authority in January 2014. Mr. Guenther has over 30 years of experience at the Authority, where he previously served as Deputy Executive Director of Operations and was responsible for all container and breakbulk cargo operations, management and construction of capital development projects, facility and asset maintenance, and real estate interests.

After joining the Authority in 1988, Mr. Guenther served in various capacities related to facilities management, including master planning of the Bayport Container Terminal, redevelopment of the existing Barbour’s Cut Terminal, and procurement of container handling cranes and equipment.

Mr. Guenther earned a Bachelor of Science degree in Mechanical Engineering from Texas A&M University and has an MBA in International Trade and Finance from the University of St. Thomas. Prior to joining the Authority, Mr. Guenther was an engineer with Emscor, Inc. in Atlanta, Georgia. Mr. Guenther currently serves on the Port Authority Advisory Committee to the Texas Department of Transportation.

Thomas J. Heidt – Chief Operating Officer. Thomas J. Heidt was named Chief Operating Officer for the Authority in June 2015. He has oversight responsibility for all operating areas, including Finance, Commercial, Port Operations, Infrastructure, Technology, and Port Security and Emergency Operations.

Mr. Heidt began his career at the Authority in the Accounting Department, including management positions in Payables, Customer Billing Services and Financial Accounting. From 1993 to 2005, he was the Market Development Manager in the Trade Development Division with responsibility for identifying opportunities and vulnerabilities in the Authority’s markets. In 2005, Mr. Heidt became the Planning Manager – Container Terminals, where he oversaw the operating and capital budgets of those terminals. In October 2009, he was named Director of Finance and Administration and in November 2012, Deputy Executive Director of Finance and Administration.

Mr. Heidt holds a bachelor’s degree in finance from Michigan State University. He has received certification in the Professional Port Management program from the American Association of Port Authorities, and belongs to numerous trade and traffic organizations.

Erik A. Eriksson – Chief Legal Officer. Erik A. Eriksson serves as Chief Legal Officer of the Authority, overseeing its Legal and Records Management functions. Prior to joining the Authority in 2005, Mr. Eriksson held successively more responsible legal and management positions at a multi-billion dollar publicly-listed holding company. A graduate of Columbia University and Harvard Law School, Mr. Eriksson is a member of the bars in Texas, California, and New York.

Tim Finley – Chief Financial Officer. Tim Finley was named Chief Financial Officer of the Authority in June 2015, with oversight responsibility for Accounting, Treasury, Financial Planning, Procurement Services, and Risk Management. He joined the Authority in 2010 as Assistant Controller and was named Controller in January 2013 responsible for the financial reporting and general accounting functions.

Prior to joining the Authority, Mr. Finley held various leadership roles in business finance over a 21-year period for the Hewlett-Packard Company (“HP”), including Finance Director for Americas Server and Storage business and Vice President, Finance for HP’s global commercial desktop and display division. Mr. Finley also served as the Business Ethics officer for HP’s Personal Computing business group for a 3-year period. Before joining HP, Mr. Finley was with Ernst & Young in the audit services group.

Mr. Finley earned a bachelor’s degree in accounting from Stephen F. Austin State University and holds a Certified Public Accountant license of the State, a Certified Public Finance Officer designation by the Government Finance Officers Association of the U.S. and Canada and the designation of County Investment Officer as issued by the Texas Association of Counties.

Mr. Finley serves on the boards of the Houston Minority Supplier Development Council and the Maritime Workers Emergency Medical Fund as Treasurer.

Maxine N. Buckles, Chief Audit Officer and Chief Business Equity Officer. Maxine N. Buckles was named Chief Business Equity Officer of the Authority in August 2021, heading the Business Equity Division, to lead internal and external Diversity, Equity and Inclusion efforts, with a focus on promoting equity and enhancing opportunity for all. Ms. Buckles also continues to serve as Chief Audit Officer, responsible for the planning and execution of operational, financial and compliance audits to evaluate the effectiveness of internal controls, as well as monitoring and coordination of all Authority audit activity.

Ms. Buckles’ prior experience includes three years as the Authority’s Controller with responsibility for financial accounting and reporting functions, including management and regulatory reporting, accounts receivable, accounts payable, payroll, and customer credit monitoring, as well as oversight of annual independent financial audits; five years as Senior Financial Consultant with Opportune LLP, an energy consulting firm; four years as Chief Financial Officer of the Electric Reliability Council of Texas (“ERCOT”) in Austin, Texas, where she oversaw all of ERCOT’s financial operations, including corporate finance, treasury, credit, accounting, purchasing and financial reporting; and five years as Chief Financial Officer and Treasurer of the Plantation Pipe Line Co. (an ExxonMobil/Kinder Morgan joint venture) in Atlanta, Georgia.

Ms. Buckles, a Certified Public Accountant, began her career in public accounting with a major firm, and has held a number of senior-level financial positions primarily within energy-related entities. She holds a Bachelor of Science degree in Accounting with honors from Xavier University of Louisiana and an MBA with emphasis in Accounting from Tulane University. She is also a member of several professional organizations, including the Institute of Internal Auditors and Financial Executives International.

Overview of Authority Properties and Port Facilities

The Authority owns approximately 3,557 acres of developed properties and 4,271 acres of undeveloped properties, including dredged material placement areas. The Authority also owns or manages over 12,750 acres of submerged lands in the County, which the Authority may lease to adjacent property owners.

The following is a general overview of the Channel and the primary terminal facilities owned by the Authority. The Port Facilities are generally described in order from the west to southeast along the Channel from the

Turning Basin Terminal to the Bayport Container Terminal. See the “Port of Houston Authority Properties” map for more detailed information on the locations of the Port Facilities described herein. See “—Authority Operations” for a more detailed description of the Authority’s lines of business.

Houston Ship Channel. The Channel is the center of the greater Port of Houston complex and extends 52 miles inland and links the City with the Gulf of Mexico. The Channel serves some of the largest petrochemical terminals and refineries in the world. In August 2005, the Authority and the USACE completed a Channel deepening and widening project, now known as Project 10, as it was arguably the tenth major improvement project to the waterway in its history. Portions of the Channel were deepened from 40 feet to 46.5 feet and widened from 400 feet to 530 feet as a part of Project 10. The Authority is currently working with the USACE on the further deepening and widening of the majority of the Houston Ship Channel. The Authority owns portions of the submerged lands beneath the Channel and within the County, and has certain other rights under law in connection with channel reaches under Galveston Bay. See “—Project 11 – Houston Ship Channel Expansion Channel Improvement Project” and “—Authority’s Capital Improvement Program.”

Turning Basin Terminal. The multipurpose Turning Basin Terminal in the upper Channel area includes 41 breakbulk and general cargo wharves and substantial dockside facilities including covered and open storage and rail service. Wharf 32 located within this terminal is specifically designed for handling project and heavy-lift cargoes and has 36 acres of heavy-duty paved marshalling area. Some of these dockside areas are subject to freight handling assignments, which provide selected stevedoring companies licensed by the Authority with preferential freight handling rights within those areas. Various cargo storage areas and a grain elevator located within the upper level of the terminal adjoining the wharves are subject to leases. East Industrial Park, a 315-acre industrial park adjacent to the Turning Basin Terminal, includes undeveloped Channel frontage and adjoins the terminal’s heavy-lift cargo wharf described above; much of this property is leased or rented to various private industries that independently maintain and operate these facilities. Several other sites on the south side of the Channel are subject to various term-length leases with bulk cargo operators. See also “—Authority’s Capital Improvement Program – Turning Basin.”

Woodhouse Terminal. Woodhouse Terminal is located on a 100-acre tract a short distance downstream from the Turning Basin Terminal. The terminal includes over 112,740 square feet of covered shed space, three general cargo wharves with rail access, and 25 acres of open storage, areas currently under lease through April 2023. In addition, the terminal includes a six-million-bushel capacity grain elevator and ancillary property, totaling approximately 26 acres, which is currently under lease through May 2022.

Bulk Materials Handling Plant. The Bulk Materials Handling Plant is a three-berth dry bulk terminal in the mid-Channel area. Berth 1 has a high-capacity loading crane supplied by a conveyor belt system. Berth 2 is used for lay berth only, and the third berth functions as a barge dock. The terminal is currently leased through June 2022. In addition, the Authority owns approximately 386 acres of unimproved land adjoining this facility, which is available for leasing and development.

Jacintoport Terminal. Jacintoport Terminal, located further downstream in the mid-Channel area, totals approximately 125-acres and consists of three wharves, various warehouse facilities and buildings, rail access, and four high-capacity automated loader cranes. Also available are refrigerated, frozen, and dry cargo facilities used for both cargo handling and storage. Portions of the terminal are currently under a month-to-month lease.

Care Terminal. Care Terminal is located near Jacintoport Terminal and consists of two wharves, 45,000 square feet of shed space, and 14 acres of paved marshaling area, with rail access. Care Terminal is leased through September 2040. The Authority also entered into a 30-year lease, expiring September 2043, for submerged property adjacent to this facility, for construction and operation of a liquid bulk dock.

Liquid Cargo Facilities. The Authority owns wharves used for bulk liquid cargo, one of which is located in the San Jacinto Bay area. Other wharves serve both ships and barges and are located in the Turning Basin Terminal area. Preferential, but not exclusive, berthing rights have been granted at a barge facility and two other facilities.

Barbours Cut Terminal. Barbours Cut Terminal provides special-purpose facilities for container ships. This terminal, which opened in 1977, is located 25 miles downstream from the Turning Basin near the point where the Channel enters Galveston Bay, three and a half hours sailing time from the Gulf of Mexico.

Barbours Cut Terminal's six berths provide 6,000 feet of continuous quay. Fifteen Ship-To-Shore ("STS") wharf cranes for handling of containers traverse the wharves to serve ships simultaneously or singly, as required; these cranes are operated under short-term arrangements by licensed stevedoring companies. The container yard areas, marshalling areas behind container berths served by 44 rubber-tired gantry ("RTG") cranes, are operated by the Authority to store containers, and transfer them to and from land carriers. This facility also includes gates operated by the Authority, and other paved areas, warehouse space, and rail facilities. Barbours Cut Terminal has current capacity for handling approximately 1.2 million to 2.0 million TEUs on an annual basis. The Authority is carrying out a comprehensive project to redevelop the terminal to higher operational standards to accommodate larger container vessels. See "—Authority's Capital Improvement Program – Barbours Cut Terminal."

Bayport Container Terminal. Bayport Container Terminal became operational in January 2007 and is located approximately 5 miles south of Barbours Cut Terminal. This terminal is located with the larger Bayport industrial complex in the southeast portion of the County, and is linked by the Bayport Channel to the Houston Ship Channel. Its proximity to Barbours Cut Terminal benefits the Bayport Container Terminal customers due to competitive rail and trucking charges and affordable ancillary services at Barbours Cut Terminal.

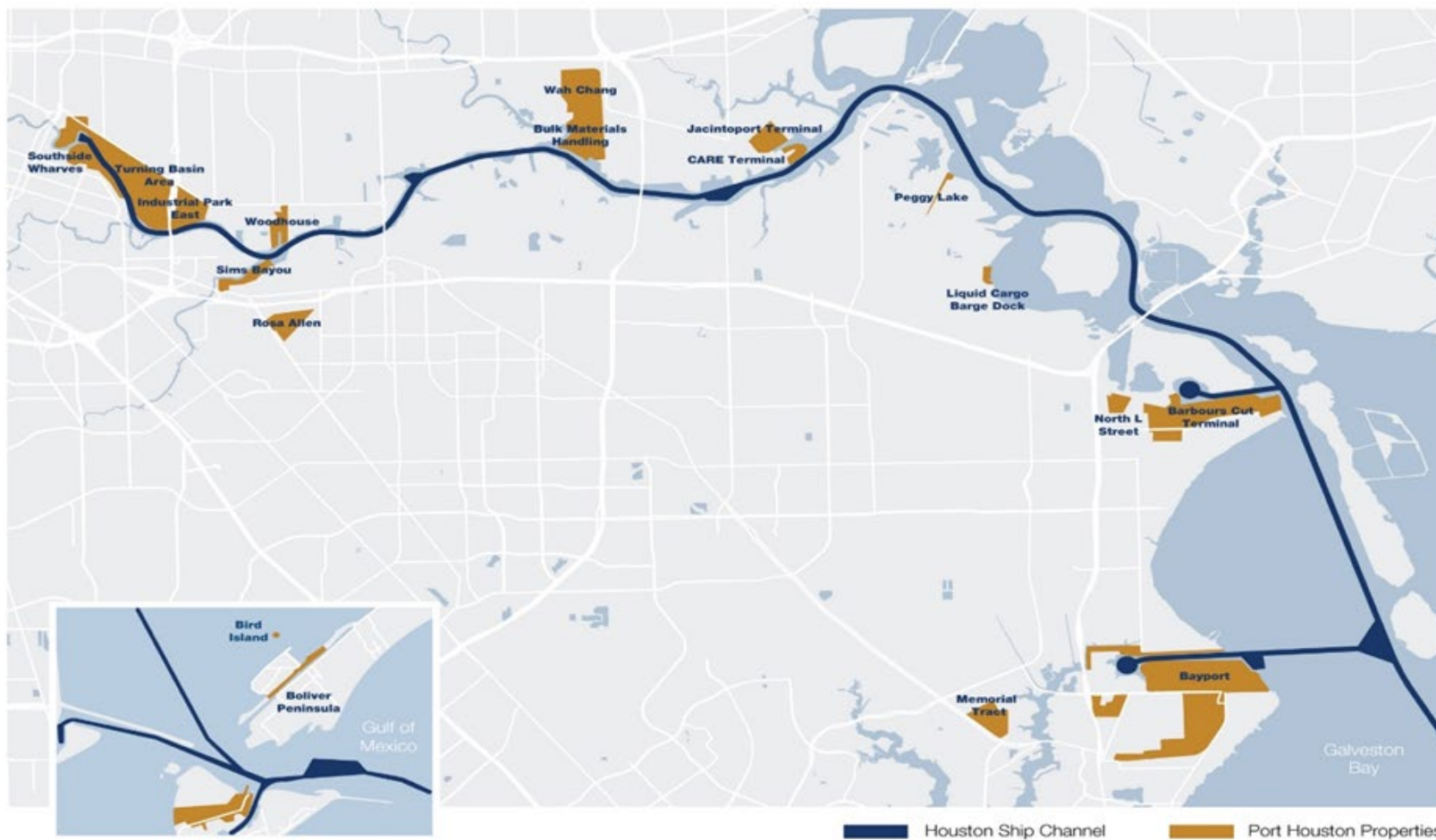
The terminal includes almost 4,000 feet of wharf, 165 acres of container yard, administration, maintenance and repair, marine emergency, and stevedore support buildings, 12 STS wharf cranes, 48 RTG cranes, and gate facilities. As at Barbours Cut Terminal, the STS cranes are operated by licensed stevedoring companies and the container yard and gates by the Authority. Work continues on additional expansion of the facility, which when completed is expected to have seven container berths and capacity for the annual handling of 2.3 million TEUs. See "—Authority's Capital Improvement Program – Bayport Container Terminal" for a description of the additional plans for expansion of the facility.

Bayport Auto Terminal. The Bayport Auto Terminal, with 1,000 feet of wharf, is adjacent to the Bayport Container Terminal and opened for business in November 2016. Originally used for cruise operations, it has been repurposed to accommodate roll-on/roll-off ("Ro/Ro") operations for new inbound vehicles for auto distribution within the immediate region.

Dredge Material Placement Areas and Submerged Land. As the non-federal sponsor of the Channel, the Authority has made available to USACE over 7,000 acres of land in the County and Galveston Bay as dredge material placement areas, and sponsors the development of approximately 3,000 acres of man-made marsh in Galveston Bay for which the Authority currently has perpetual maintenance responsibility. The Authority performs environmental management and operational oversight of its placement areas and bird sanctuaries through professional service and maintenance contracts. The Authority also owns or manages over 12,750 acres of submerged land in and adjoining the County. The Authority derives revenues from licenses, permits, and leases relating to dredge material placement areas and submerged land. The map that follows does not depict these properties.

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Port of Houston Authority Properties



Physical Characteristics of the Port Facilities of the Authority

Below in Table 1 are the physical characteristics of the Port Facilities along with information regarding equipment at certain sites. Such information is updated as of the Authority's most recent financial statements through December 31, 2020, included in the Statistical Section (unaudited), except for updated information relating to the Covered Storage at the Barbours Cut Terminal.

Table 1 – Physical Characteristics of the Port Facilities of the Authority

	Berth Lengths (Feet)	Water Depth Below Mean Tide (Feet)	Paved Marshalling Areas (Acres)	Covered Storage (Sq. Ft.)
Turning Basin Terminal^(b)				
36 general cargo wharves	376-624	28.5-37.5 ^(a)	36	1,150,000
5 liquid bulk wharves	226-570	34.5-37.5 ^(a)	-	-
Wharf – 32 Project Cargo	806	37.5 ^(a)	20	-
Woodhouse Terminal^(c)				
Wharf 1	660	40.5 ^(a)	2	-
Wharves 2 and 3	1,250	36.5	-	112,740
Grain Dock	600	43.5	-	-
Bulk Materials Handling Plant				
Wharf 1	800	43.5	-	-
Wharf 2	400	43.5	-	-
Jacintoport Terminal				
Wharves 1 — 3	1,830	41.5	8	82,500
Care Terminal				
Wharf 1	500	38.5	10	45,000
Wharf 2	618	40.5	4	-
Sims Bayou Liquid Bulk Facility				
Berths	320	35.5-41.5	-	-
San Jacinto Barge Terminal				
Berths	200-700	17.5 ^(a)	-	-
Barbours Cut Terminal^(d)				
Container Berths 1 — 6	6,000	46.5	190	
Bayport^(e)				
Container Berths 2 - 5	3,964	46.5	165	-
Bayport Auto Terminal	1,000	34.5	-	-

^(a) The maximum depth allowable in this area due to federally authorized channel project depths.

^(b) Privately-owned mobile cranes and additional cargo handling equipment are available for hire on an hourly basis.

^(c) Woodhouse Terminal is the location of Houston Public Grain Elevator No. 2, a 6,000,000-bushel capacity grain elevator having an average loading capacity of 80,000 bushels per hour.

^(d) On site equipment consists of 15 STS wharf cranes (seven Super-Post-Panamax, three Post-Panamax, five Panamax, and one training crane), 50 RTG container yard cranes, 12 pencil/side-pick cranes for handling empty containers, three top-loading container-handling machines, 44 heavy-duty tractors, and 100 heavy-duty yard chassis are available for rent from the Authority.

^(e) On site equipment consists of 12 STS wharf cranes (six Super-Post-Panamax and six Post-Panamax), 48 RTG container yard cranes, 28 heavy duty terminal tractors, two top-loading container-handling machine and 92 heavy-duty yard chassis.

Source: The Authority.

Other Facilities of the Authority

In addition to its wharves, the Authority owns numerous miles of railroad track and rights-of-way and has ample storage yard capacity for railroad cars near all its facilities. These yards are located on property made available to the PTRA, an association of mainline railroads serving the port region and the Authority.

The Authority owns a four-story office building located in the Turning Basin Terminal which houses the Authority's executive offices and much of the Authority's administrative staff.

Project 11 - Houston Ship Channel Expansion Channel Improvement Project

Background

The Authority is the non-federal sponsor of the Channel. Since 2010, the Authority, in coordination with Congress, the USACE and Channel stakeholders has planned a major Channel improvement project. As part of this planning process, the USACE completed a five-year project feasibility study (completed in 2019) that considered the economic benefits and environmental impacts of various proposed channel improvements through the entire 52-mile waterway. During the study period, it was noted that the growth in U.S. energy production, manufacturing, and exports as well as the increased size of ships has created significant demand and pressure on the Channel and regional infrastructure, thereby increasing the urgency for these improvements. Safety is also a primary driver for an expanded Channel. Widening the Galveston Bay segment, in particular, is critical in maintaining safe two-way traffic on the busiest waterway in the nation with 20,000 annual ship transits and 200,000 barge movements annually, as tabulated by the USACE.

The Houston Ship Channel Expansion Channel Improvement Project has internally been labeled and is referred to in this Official Statement as "Project 11" as it is arguably the eleventh major improvement project to the waterway in its history.

Project 11 is a long-term initiative to deepen and widen the Houston Ship Channel to facilitate safer and more efficient transit and ensure that it continues to accommodate growth of commerce along the Channel and in the region. When completed, Project 11 will widen the Channel by 170 feet along its Galveston Bay reach, from 530 feet to 700 feet. It will also deepen upstream segments of the Channel up to 46.5 feet, make safety and efficiency improvements, and craft new environmental features. Expected benefits of Project 11 include providing for safer two-way traffic, reducing daylight restrictions for large vessels, enabling the transit of larger container vessels and supporting larger and deeper draft vessel passage in the upper reaches of the Channel. Project 11 is also expected to provide long-term environmental benefits to wildlife, water quality and regional air quality. Because the Project 11 channel improvements can provide immediate benefits, the Authority is working with the USACE and industry partners to expedite the design and construction of Project 11, with the expectation that these accelerated efforts will enable a wider, deeper, and safer Channel in less than five years.

In April 2020, the USACE Chief of Engineers signed the final Chief's Report for Project 11, and the locally preferred plan ("LPP") for Project 11 was authorized by Public Law 116-260, Section 401(1) of the Water Resources Development Act (WRDA) of 2020, which authorizes port, waterway, flood protection improvement and other water resources critical to the nation's economic growth, health and competitiveness. In January 2021, the Authority was notified by the USACE that it had been awarded a "new start" designation and \$19.5 million in federal funds to begin construction of Project 11.

In July 2021, the Authority and the USACE entered into a Project Partnership Agreement (the "PPA") for the development of Project 11. As described in the PPA, Project 11 is composed of components constituting the national economic development plan (the "NED Plan") and an additional component that is part of the LPP option. Major components of the approved Project 11 include the following:

- Four bend easings on the main Houston Ship Channel, with associated relocation of barge lanes;
- Widening of the Houston Ship Channel main channel between Bolivar Roads and Barbours Cut Channel from the existing 530-foot width to 700 feet, with associated relocation of barge lanes;

- Widening of the Bayport Ship Channel on the north side of the channel to 455 feet;
- Widening of the Barbours Cut Channel on the north side of the channel to 455 feet;
- Widening of the Barbours Cut Channel flare on the north and south side to create an 1,800-foot diameter turning basin;
- Deepening of the Houston Ship Channel main channel from Boggy Bayou to the Hunting Turning Basin up to 46.5 feet;
- Improving the Brady Island Turning Basin to a 900-foot diameter;
- Inclusion of the Greens Bayou Channel, a 1.6-mile long channel with a combination of 41.5-foot depth and 16.5-foot depth, into the federal project;
- Inclusion of the Jacintoport Channel, measuring 0.76-mile long by 41.5 feet deep, into the federal project;
- Dredging of approximately 350 million cubic yards of material for both new work and additional operation and maintenance activities;
- Providing dredged material placement facilities required for construction, operation, and maintenance of the project;
- Mitigation of approximately 377 acres of oyster habitat and 72 acres of wetland; and
- Mitigation of anticipated air quality impacts.

The NED Plan includes segments 1A, 2, 3, 4, 5, and 6, as generally described in “- Project 11 Segments” below. Segment 1B is not included in the NED Plan, and the Authority will be responsible for one hundred percent of the costs associated with Segment 1B; however, the Authority expects to receive work in-kind credit toward the required cost-share obligations for the design and construction of a portion of Segment 1B. The PPA also excludes Segment 1C as the Authority pursues separate approval for that portion of Project 11, pursuant to Section 204(f) of the Water Resources Development Act of 1986, as amended (33 U.S.C. § 2232(f)), which would facilitate the federal assumption of maintenance obligations. The Authority intends to address the construction and funding of Segment 1C outside of the PPA.

Section 101 of the Water Resources Development Act of 1986, Public Law 99-662, as amended (33 U.S.C. § 221), specifies the cost-sharing requirements applicable to Project 11 based on cost estimates included in the feasibility study concluded in 2019. As estimated on a project feasibility basis at that time, the costs of constructing Project 11 segments included in the PPA totaled approximately \$815,507,000, with NED Plan costs estimated to be \$735,754,000 and the incremental costs of the LPP estimated to be \$79,753,000. The PPA also includes the cost, again estimated on a project feasibility basis, of the Authority’s share of the total cost of the project. That share was estimated to be approximately \$320,737,000.

The average annual costs for operation and maintenance activities for portions of Project 11 included in the NED Plan will be the responsibility of the federal government. These annual federal costs were projected in the PPA to be approximately \$16,983,000. The Authority will be responsible for the costs of operation and maintenance of Project 11 that exceed federal cost for the NED plan, which costs are estimated by the Authority to be approximately \$3,100,000 per year. The Authority will also be responsible for the costs of the operation and maintenance of the additional capacity at dredged material placement facilities, which average annual operation and maintenance costs were projected in the PPA to be \$110,000. The Authority has incorporated the estimated cost of these operation and maintenance activities in its liquidity planning associated with the issuance of obligations for Project 11.

The costs of designing and constructing Segment 1C will be the responsibility of the Authority and were estimated on a project feasibility basis to be approximately \$162,000,000. The Authority will also incur additional costs for the relocation of utilities required to accommodate a Channel depth in excess of 45 feet. When the costs of constructing Segment 1C are added to the construction costs included in the PPA, the total estimated cost (federal and local) of Project 11 based on the 2019 project feasibility is approximately \$1.02 billion.

Notwithstanding the cost shares provided in the PPA that are summarized above, along with its execution of design and construction activities the Authority is also endeavoring to accelerate the completion of Project 11. This acceleration would increase the total local share of funding as described in the schedule below. Funding amounts provided by the Authority in excess of its traditional cost share responsibility are expected to be considered by the USACE for “credit” against future channel construction cost share responsibilities. With an accelerated schedule, the Authority estimates that Project 11 could be completed by December 2025. Under a traditional contracting schedule,

the construction of Project 11 could extend to 2030 or later. The projected amounts identified below are based on the most recent aggregate design and construction cost estimates (and thus differ from the project feasibility numbers that were the basis for the PPA) and are presented to illustrate the potential increase in the local share of the project costs. The costs presented in this Official Statement are expected to change as Project 11 moves through the design and construction phases. Funding sources and costs may increase or decrease materially from the table below and from project feasibility estimates, and these projected amounts are not intended to be construed as the final financial responsibilities of the federal government or the Authority.

Project 11 Costs Funding Sources
(Dollar amounts in thousands)

Funding Source		Amount ^(a)
Federal share ^(b)		\$ 248,328
Local share (design and construction) ^(c)	\$ 590,276	
Local share (pipeline removal and relocation) ^(d)	74,708	664,984
Total		\$ 913,312

^(a) Costs are based on current design and construction cost estimates and an accelerated schedule for the completion of Project 11.

^(b) Payable from periodic Congressional appropriations.

^(c) Local share includes payments by the Authority and from other possible sources.

^(d) Industry pipeline owners and the Authority are each responsible for one-half of pipeline removal and relocation costs; the pipeline owners' portions are not included in the PPA or in this funding summary.

The federal government's share of the total project cost must be appropriated by Congress, and the Authority cannot make any representations or predictions concerning the timing or staging of future federal appropriations for Project 11 beyond the initial \$19.5 million appropriated in connection with the "new start" designation. The Authority is committed to advocating for Project 11 and continuing efforts to receive necessary federal funding for the project.

The Authority is also analyzing several options for funding the local share of the Project 11 costs. This includes exploring the feasibility of obtaining a portion of the local share from port or harbor dues levied by the Authority pursuant to 33 U.S.C. § 2236 on vessels using the Channel; however, the Authority cannot make any representations or predictions regarding the availability of such funding.

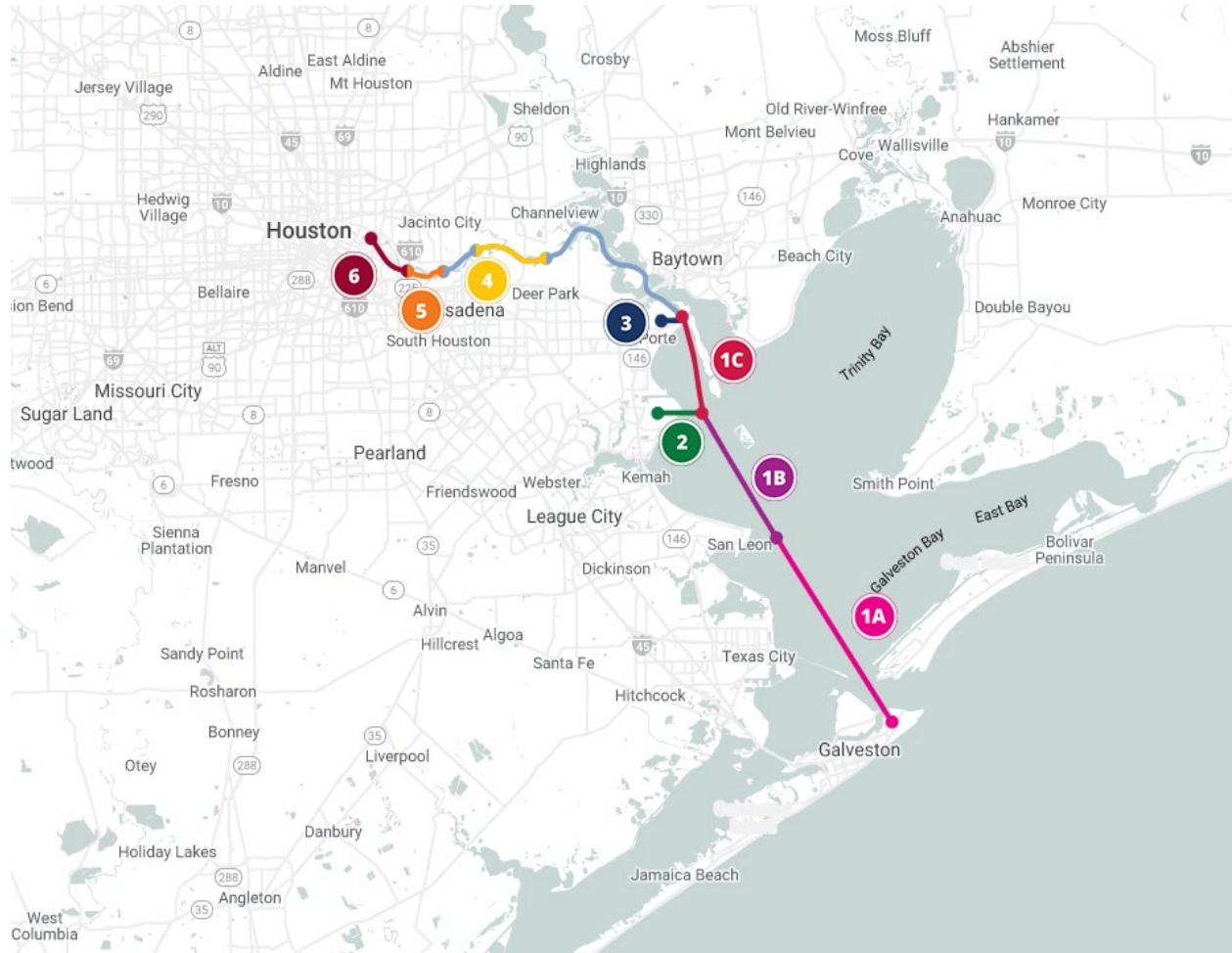
On October 12, 2021, the Port Commission of the Authority awarded the first Project 11 dredging contract for construction of Segment 1A and associated improvements. Subject to the availability of port or harbor dues that may be collected in the future, the cost of this contract is expected to (i) exceed the Segment 1A construction costs as estimated on a project feasibility basis in the PPA, and (ii) be incurred by the Authority notwithstanding the cost-sharing requirements of the PPA.

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Project 11 Segments

Project 11 is composed of eight segments (i.e., 1A, 1B, 1C, 2, 3, 4, 5, and 6) of the Channel, as generally described below.

Project 11 Segment Map



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Segment 1 – Bolivar Roads to Boggy Bayou

- Widen the Channel from 530 feet to 700 feet with associated barge lane relocation from
 - Segment 1A – Bolivar Roads to Redfish Reef
 - Approximately 11.5 miles in length
 - Segment 1B – Redfish Reef to Bayport Ship Channel (BSC), LPP Feature
 - Approximately 8.3 miles in length
 - Currently not in the proposed federal plan; must be constructed by local interests
 - Segment 1C – BSC to Barbours Channel (BCC), LPP Feature
 - Approximately 5 miles in length
 - Currently not in the proposed federal plan; must be constructed by local interests
- Construct new bird islands in Galveston Bay
- Construct new marshes
- Mitigate for oyster habitat loss
- Four Channel bend easings with associated barge lane relocation

Segment 2 – Bayport Ship Channel (BSC)

- Approximately 4 miles in length
- Construct marshes and new bird islands in Galveston Bay
- Widen BSC on the north side from existing 350 to 455 feet in land-cut and 400 feet to 455 feet in water
- BSC inclusion in the federal project
- Mitigate for oyster habitat loss
- Modify channel entrance to reduce shoaling

Segment 3 – Barbours Cut Channel (BCC)

- Widen BCC on the north side from existing 300 feet to 455 feet
- BCC Combined Flare and Turning Basin
- BCC inclusion in the federal project
- Construct additional marshes on Atkinson Island
- Modify entrance channel

Segment 4 – Boggy Bayou to Sims Bayou

- Deepen the Channel from 41.5 feet to 46.5 feet from Boggy Bayou to Hunting Turning Basin
- Widen the Channel from 400 feet up to 530 feet from Boggy to Greens Bayou
- Hunting Turning Basin Improvements
- Inclusion in the federal project of the Jacintoport Channel, measuring 0.76-mile long by 41.5 feet deep
- Inclusion in the federal project of the Greens Bayou Channel, a 1.6-mile-long combination 41.5- feet and 16.5 feet deep channel

Segment 5 – Sims Bayou to I-610 Bridge

- Deepen the Channel from 37.5 feet up to 41.5 feet from Sims Bayou to I-610 Bridge

Segment 6 – I-610 Bridge to Main Turning Basin

- Deepen the Channel from 37.5 feet up to 41.5 feet from I-610 Bridge to Main Turning Basin
- Improve Brady Island turning basin to 900-foot diameter

Authority Operations

Container Cargo Operations. In Fiscal Year 2020, the Authority handled approximately 69% of the United States Gulf Coast container traffic and maintained a 96% market share among Texas ports in container traffic. On a national level, the Authority was ranked sixth among United States container ports in terms of total TEUs. The Authority’s container trade reaches across the globe and covers both imports and exports. See “—Table 2 – Container Geographic Trade Lanes – Fiscal Year 2020” and “—Table 3 – Volumes of Containerized Import and Export Commodities – Fiscal Year 2020 (in TEUs).” Import cargoes are primarily consumer goods and export cargoes are

primarily plastic resins. For the twelve months ended December 31, 2020, the Authority derived approximately 79% of its revenue from its containerized cargo operations, located at Barbour's Cut Terminal and Bayport Container Terminal. See "—Table 6 – Operating Revenues by Type."

Table 2 – Container Geographic Trade Lanes – Fiscal Year 2020

	<u>Imports</u>	<u>Exports</u>
Asia	47%	26%
Europe	18%	18%
Americas	14%	25%
India Subcontinent	6%	5%
Africa / Middle East	4%	16%
Mediterranean	10%	7%
Other	1%	3%

Source: The Authority.

Table 3 – Volumes of Containerized Import and Export Commodities – Fiscal Year 2020 (in TEUs)

	<u>Imports</u>		<u>Exports</u>
Hardware & Construction Materials	211,771	Resins & Plastics	519,873
Food & Drink	187,239	Chemicals & Minerals	234,241
Machinery, Appliances & Electronics	155,314	Automotive	95,358
Retail Consumer Goods	152,779	Food & Drink	73,999
Furniture	129,892	Machinery, Appliances & Electronics	59,852
Steel & Metals	97,405	Fabrics including Raw Cotton	50,234
Chemicals & Minerals	82,166	Steel & Metals	43,909
Resins & Plastics	78,882	Retail Consumer Goods	37,002
Automotive	68,734	Apparel & Accessories	29,203
Apparel & Accessories	33,711	Hardware & Construction Materials	16,816
Fabrics including Raw Cotton	26,212	Furniture	4,386
Other	65,560	Other	32,237

Source: The Authority.

Multi-Purpose, Breakbulk, and Project Cargo Operations. The Authority is a national leader for breakbulk cargo in part due to the large laydown areas located adjacent to its general cargo and heavy lift docks. The Authority's multi-purpose cargo terminals are generally located from the Turning Basin to the mid-channel area downstream, to include the Turning Basin Terminal, the Bulk Materials Handling Plant, Care Terminal, and Jacintoport Terminal. The Bayport Auto Terminal adjoining Bayport Container Terminal alongside Galveston Bay exclusively handles Ro/Ro operations. See "—Overview of Authority Properties and Port Facilities."

For the twelve months ended December 31, 2020, the Authority derived approximately 14% of its revenues from multipurpose, breakbulk and project cargo operations. The revenues are primarily under short-term use arrangements under Authority tariffs, or leases of varying terms. See "—Table 6 – Operating Revenues by Type."

Property Agreements. In connection with the management of its properties, the Authority enters into various property agreements, which convey the right to use, rent, or lease Authority property, including leased premises, easements, pipeline licenses, permits, dredge materials placement and railroad rights-of-way. In cases where the Authority operates as a landlord through various lease agreements, tenants pay rental fees, tariff charges and other fees to the Authority. Leases generally include cost-of-living or percentage rent escalation arrangements, and certain term leases require the rent escalation based on updated appraisals of the value of such properties. Certain leases also

have minimum annual Port Facility cargo guarantees to assist in amortizing the Authority's costs incurred to improve properties, and provide additional revenues. For the 12 months ended December 31, 2020, revenues from these property agreements account for approximately 13.1% of the Authority's operating revenues. For financial reporting purposes, revenues from these agreements are reflected in each of the revenue categories in Table 6 based on the physical location of the leased property. See "—Table 6 – Operating Revenues by Type" and "—Table 10 – Top Ten Authority Tenants."

Rail Facilities and the Port Terminal Railroad Association. The Authority owns approximately 165 miles of railroad track with operating rights on an additional 10 miles of track and 734 acres of rights-of-way with storage yard capacity for railroad cars near its facilities. These railyards are made available to the PTRA, an association of mainline railroads that serve the Authority, and which in return provide the Authority a revenue stream comprised of a flat monthly fee plus a per car-load fee.

The Authority's terminals are served by three class I railroads: Union Pacific, Burlington Northern Santa Fe, and Kansas City Southern. Cargo can transfer via rail to and from the wharves for all facilities with the exception of Bayport Container Terminal. An Intermodal Container Transfer Facility (ICTF) and rail ramp are part of the Bayport Master Development Plan.

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Revenue Tonnage

The global economic downturn resulting from the Pandemic adversely impacted the global supply chains and the energy sector. While the Authority's 2020 container volume in TEUs surpassed 2019, overall tonnage decreased slightly. The majority of steel products handled in the Authority's general cargo business is in the form of steel drilling pipe; as the price of oil dropped in 2020, so did demand for drilling pipe.

The following table provides a summary of the type and volume of cargo handled at the Authority for the past five Fiscal Years. "Revenue tonnage" represents tonnage from which Authority revenues are derived either directly in the container operations; through wharfage and dockage charges for vessels utilizing the public wharves, or through lease revenues for facilities owned by the Authority but operated by third parties under leasehold arrangements.

Table 4 – Revenue Tonnage
(in short tons)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Container Cargo					
Barbours Cut	12,307,526	11,226,819	10,737,680	9,811,047	9,470,902
Bayport Container Terminal	15,385,083	16,603,071	14,605,339	13,026,783	10,854,617
General Cargo					
Turning Basin/Bayport Auto					
Autos import	85,344	117,531	127,448	119,081	161,246
Autos export	385	2,058	1,089	3,396	4,744
Steel imports	902,460	2,030,908	2,744,586	2,988,636	1,823,357
All other	447,881	513,023	375,924	474,629	492,551
	<u>1,436,070</u>	<u>2,663,520</u>	<u>3,249,047</u>	<u>3,585,742</u>	<u>2,481,898</u>
Jacintoport	1,225,999	1,466,353	1,553,325	1,737,072	1,883,785
Care Terminal	309,542	731,216	738,480	603,271	457,294
Woodhouse	1,043,911	1,382,598	768,830	113,888	77,299
Total General Cargo	<u>31,708,131</u>	<u>34,073,577</u>	<u>31,652,701</u>	<u>28,877,803</u>	<u>25,225,795</u>
Bulk Cargo					
Jacintoport	1,511	1,465	1,635	9,758	692
Care Terminal	13,802	12,340	112,975	162,014	130,545
Woodhouse	-	-	7,081	20,224	12,981
Sims Bayou	1,355,034	1,157,376	1,199,628	1,157,368	624,280
S.J.B. Liquid Facility	399,012	379,141	560,342	522,019	552,752
Turning Basin	2,881,677	2,157,920	2,157,461	2,154,936	2,097,919
	<u>4,651,036</u>	<u>3,708,242</u>	<u>4,039,122</u>	<u>4,026,319</u>	<u>3,419,169</u>
Bulk Materials Hdlg. Plant	2,562,328	3,056,749	3,796,229	3,230,116	3,329,834
Public Grain Elevator #2	2,766,115	2,298,347	1,375,234	2,139,655	2,871,965
Total Bulk Cargo	<u>9,979,479</u>	<u>9,063,338</u>	<u>9,210,585</u>	<u>9,396,090</u>	<u>9,620,968</u>
Grand Total	<u>41,687,610</u>	<u>43,136,915</u>	<u>40,863,286</u>	<u>38,273,893</u>	<u>34,846,763</u>

Source: The Authority.

Vessel Arrivals

The following table shows the types and number of vessel arrivals at the Port Facilities over the past five Fiscal Years.

Table 5 – Vessel Arrivals

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Authority Public Wharves					
Turning Basin					
Ships	677	699	779	839	864
Barges	878	890	1,182	1,063	935
Bulk Plant, Jacintoport, Care, and Woodhouse					
Ships	508	534	435	433	517
Barges	560	568	547	443	504
Sims Bayou and San Jacinto Barge Terminal					
Ships	75	12	23	15	24
Barges	730	742	890	771	641
Barbours Cut					
Ships	571	554	527	500	560
Barges	5	35	54	33	36
Bayport Container Terminal					
Ships	437	450	420	420	423
Barges	62	111	172	164	175
Bayport Auto Terminal^(a)					
Ships	85	73	56	43	67
Barges	-	-	-	-	-
Total Authority Arrivals					
Ships	2,353	2,322	2,240	2,250	2,455
Barges	2,235	2,346	2,845	2,474	2,291

(a) The Authority's cruise terminal operations at this site ended in 2016; subsequent activity has generally been vehicle imports.
Source: The Authority.

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Stevedoring and Cargo Handling

The Authority requires that any company providing stevedore services (loading and unloading cargo to and from ships) at its publicly-available wharves hold an approved stevedore license. Licenses are issued for an annual term following Port Commission approval. License holders must be financially and legally responsible and competent to perform stevedoring services, taking into account the management, ownership, and control of the license holder.

Companies holding valid stevedore licenses may also apply for non-exclusive freight handling assignments at certain areas within Turning Basin facilities and certain other public terminals. Freight handling is the handling, loading, and unloading of cargo to and from land-side transportation. Assignments are made following Port Commission action, based on a determination that the applicant is able to meet minimum tonnage and revenue generation requirements, and is fit and able to operate in a safe and financially and legally responsible manner within the assigned area. Additionally, the Authority may take into consideration relevant information, including the method of operation of the applicant, and its safety record, financial responsibility, and record of adherence to legal requirements.

Tenants may separately provide or obtain non-licensed stevedoring and freight handling services at leased facilities, with the exception of certain wharves adjoining leased areas that remain publicly accessible and subject to tariff provisions.

At the container terminals, stevedoring services are provided by stevedores licensed as described above, where freight handling services are performed by the Authority.

Labor Relations

Members of various locals of the ILA provide services at Port Facilities, supporting both private stevedoring companies and Authority operations. Although the Authority is not a party to any collective-bargaining agreements, the Authority generally observes similar work rules and conditions as established by agreements entered into by the ILA with the U.S. Maritime Alliance (“USMX”). The Authority endeavors to maintain good relations with organized labor and has not experienced a labor-related work stoppage at its facilities since 1986.

Authority Tariffs and Marine Terminal Services Agreements

The Port Commission has jurisdiction over and control of the use of the Houston Ship Channel from its beginning in Galveston Bay to the Turning Basin and all navigable streams tributary thereto in the County. It also has jurisdiction over and control of the use of all wharves, sheds, warehouses, grain elevators, freight handling machinery and equipment, and all other property, equipment, and facilities owned and operated by the Authority and has the power to regulate and fix charges for the use of such waterways and facilities. The tariffs currently in place are Port of Houston Tariff No. 8 (Rates, Rules and Regulations Governing the Houston Ship Channel and public-Owned Wharves), Tariff No. 14 (Additional Rates, Rules and Regulations Governing the Fentress Bracewell Barbour's Cut Container Terminal), and Tariff No. 15 (Additional Rates, Rules and regulations Governing the Bayport Container Terminal). Copies of the tariffs are available at <https://porthouston.com/tariffs/>. Reference to the website is made for informational purposes only.

The Port Commission controls and determines its tariff structure. In establishing that structure, it seeks to maintain reasonable, uniform terminal rates, charges, classifications, rules and regulations for the handling and movement of domestic and foreign waterborne cargo. Tariff provisions cover rates and provisions for vessel dockage, wharfage, wharf storage, wharf demurrage and other miscellaneous terminal charges necessary for the orderly movement of cargo. The tariffs also contain rules and regulations for the use of Authority facilities. The use of the waterways and facilities under jurisdiction of the Authority constitute a consent to the terms and conditions of the tariffs.

As described above (see “CERTAIN INVESTMENT CONSIDERATIONS – Marine Terminal Services Agreements”), the Authority has entered into MTSAs with eight container carriers as described below. The MTSAs each have ten year terms, and include a semiannual mechanism affording carriers discounts from certain tariff charges

based on cargo volume during the prior period. The MTSA's also include provisions that limit new tariffs applicable to these carriers to those required or made necessary by law or circumstances reasonably beyond the control of the Authority, and to changes in its current port security fee. In addition, the MTSA's limit annual tariff increases to increases in the consumer price index. Although the MTSA's do not provide for extensions under the terms of the agreements, the Authority anticipates periodic renewal of the MTSA's to continue.

In consideration for these provisions, carriers are obligated to meet commitments to deliver regional cargo to Authority terminals and achieve certain cargo volume amounts, and pay shortfall amounts or refund tariff discounts in case those commitments are not met.

Marine Terminal Services Agreements

<u>Party</u>	<u>Effective Date</u>	<u>FMC Agreement No.</u>
CMA CGM S.A.	August 29, 2018	201270
Cosco Container Liners Americas, Inc. Amended and restated by agreement with Cosco Container Liners Americas, Inc., and Orient Overseas Container Line, Ltd.	April 27, 2012	201213 201213-001
Evergreen Line	May 17, 2018	201255
Hapag-Lloyd AG	January 18, 2018	201253
Maersk Agency, USA, Inc., as Agent for Maersk Line A/S Amended and restated by agreement with Maersk Line A/S Further amended and restated by agreement with Maersk Line A/S	June 11, 2015	201229 201229-001 201229-002
Mediterranean Shipping Co. S.A.	May 15, 2018	201252
Ocean Network Express Pte. Ltd.	August 1, 2020	201352
Zim Integrated Shipping Services Ltd.	May 10, 2018	201250

Source: The Authority.

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Operating Performance

As discussed under “– Authority Operations” and “– Authority Tariffs and Marine Terminal Services Agreements,” the Authority derives revenue from tariffs assessed on shipping activities (primarily wharfage and dockage), and from leases and rentals. The following table summarizes the sources of the Authority’s operating revenues by type for the past five Fiscal Years based on the lines of business described above.

Table 6 – Operating Revenues by Type^(a)
(Dollar amounts in thousands; rounding differences may occur)

	2020	2019	2018	2017	2016
Container Terminals	\$ 307,796	\$ 305,607	\$ 281,813	\$ 248,860	\$ 209,884
Turning Basin Terminals	49,606	54,928	59,015	56,238	50,093
Bulk	5,174	5,704	5,313	4,906	5,140
Leases	11,623	12,519	12,037	10,639	10,875
Other ^(b)	16,533	12,679	11,138	12,230	13,797
Total Operating revenues	\$ 390,732	\$ 391,437	\$ 369,316	\$ 332,873	\$ 289,789
Change from previous year	(0.2%)	6%	11%	15%	(1.0%)

^(a) Revenue categories are aligned with internal management reporting.

^(b) Other revenues include submerged lands leases, PTRAs revenues, and harbor fees associated with fire protection services.

Source: The Authority.

The following table summarizes the Authority’s revenue producing cargo by type for the past five Fiscal Years.

Table 7 – Revenue Cargo by Type^(a)

	2020	2019	2018	2017	2016
Revenue cargo statistics:					
Container TEUs	3,001	2,990	2,702	2,456	2,183
General cargo (short tons) ^(a)	31,708	34,074	31,653	28,878	25,226
Bulk cargo (short tons)	9,980	9,063	9,210	9,396	9,621
Total Revenue tonnage	41,688	43,137	40,863	38,274	34,847

^(a) Includes container tonnage; short tons equal 2,000 pounds.

Source: The Authority

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Top Ten Vessel and Cargo Customers-

The following table provides a comparison of the top ten vessel and cargo customers of the Authority for Fiscal Year 2020 and Fiscal Year 2011 and the percentage of vessel and cargo revenue associated with each vessel and cargo customer for such Fiscal Years.

Table 8 – Top Ten Authority Customers (Ten-Year Comparison)
(Dollar amounts in thousands)

Customer	2020			2011		
	Revenue	Rank	% Operating Revenue	Revenue	Rank	% Operating Revenue
Mediterranean Shipping Co. (USA)	\$ 61,212	1	16%	\$ 30,806	1	15%
Maersk S/A	48,075	2	12%			
CMA-CGM (America), Inc.	42,623	3	11%	17,226	3	8%
Hapag-Lloyd AG	35,850	4	9%	21,610	2	11%
Houston Terminal LLC	25,286	5	6%	6,755	6	3%
COSCO Shipping Lines (North America) Inc.	17,103	6	4%			
Cooper/Ports America, LLC	10,181	7	3%			
Terminal Link Texas, LLC	10,135	8	3%			
Evergreen Shipping Agency	9,157	9	2%			
TSS	8,507	10	2%			
Hamburg Sud North America/Alianca Line				8,344	4	4%
Battleground Oil Specialty Terminal Co.				6,799	5	3%
Shippers Stevedoring Company				5,331	7	3%
Compania Libra De Navegacion Uruguay SA				5,297	8	3%
Maersk, Inc – Lease				5,258	9	3%
Ceres Gulf, Inc.				4,966	10	2%
Total Revenue for Top Ten Customers	<u>\$268,129</u>		<u>69%</u>	<u>\$112,392</u>		<u>55%</u>
Total Operating Revenue	<u>\$390,732</u>			<u>\$204,736</u>		

Source: The Authority.

The Authority's top ten customers accounted for approximately 69% and 68% of its total operating revenues in 2020 and 2019, respectively. The largest customer accounted for approximately 16% and 15% of the Authority's total operating revenues in 2020 and 2019, respectively. See "CERTAIN INVESTMENT CONSIDERATIONS – Concentration of Customer Base" and "CERTAIN INVESTMENT CONSIDERATIONS – Concentration of Revenues from Business Lines."

Top Ten Authority Exporters and Importers

The following table sets forth the top ten Authority exporters and importers for Fiscal Year 2020.

Table 9 – Top Ten Authority Exporters and Importers

<u>Exporters</u>	<u>TEUs</u>
ExxonMobil	46,858
Dow	19,737
Montachem International	18,914
Vinmar	17,910
Shintech Inc.	16,861
Muehistein International	15,381
Sasol Chemical	14,856
Olam Cotton	10,908
Allenberg Cotton	9,134
World Food Programme	8,997

<u>Importers</u>	<u>TEUs</u>
Walmart	17,407
Red Bull North America	13,306
Ikea	9,823
Rooms To Go	9,043
Anheuser Busch	7,443
Vestas	6,760
Heineken	6,615
Tramontina USA	6,418
Samsung	5,000
Igloo Products	4,391

Source: The Authority.

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Top Ten Authority Tenants

The following table sets forth gross rental revenue amounts paid to the Authority by its top ten tenants for Fiscal Year 2020.

Table 10 – Top Ten Authority Tenants
(Dollar amounts in thousands)

<u>Tenant ^(a)</u>	<u>Revenue</u>	<u>% Lease Revenue</u>
Enterprise Products Operating LLC	\$ 7,287	14%
Richardson Steel Yard, Inc.	5,788	11%
Kinder Morgan	4,239	8%
Jacintoport International	4,007	8%
Cooper/Ports America, LLC	3,941	8%
TPC Group LLC	2,486	5%
Volkswagen of America	2,369	5%
Houston Terminal LLC	2,112	4%
CB&I LLC	2,000	4%
Frontier Logistics	1,024	2%
Total Revenue for Top Ten Tenants	<u>\$35,253</u>	<u>69%</u>
Total Lease Revenue ^(b)	\$51,114	

^(a) Revenues reported under the tenant names referenced may include affiliate tenant lease revenues.

^(b) In “—Table 6 – Operating Revenues by Type,” these revenues are included within the categories Container Terminals, Turning Basin Terminals, Bulk, and Other and in “FINANCIAL DATA – Table 11 - Statement of Revenues, Expenses and Changes in Net Position,” these lease revenues are included within the categories of Vessel and Cargo Services, Bulk Materials, and Other.

Source: The Authority.

Authority’s Capital Improvement Program

General. The Authority is committed to developing, expanding, and renewing Port Facilities and making appropriate infrastructure investments that contribute to the economic health of the region and generate and sustain jobs.

Many of these opportunities continue to result from expansion of the Panama Canal, which was completed in June 2016 and provides improved supply-chain reliability and economies of scale, reducing the cost of maritime trade between the Pacific Rim and regions in the Western Hemisphere. By increasing the waterway’s capacity to meet shippers’ growing demand for larger Super-Post-Panamax size vessels, known as “Neo-Panamax class” (15,000 TEUs nominal capacity), the resulting economies of scale have reduced the per-unit cost of shipping containers between the Atlantic and Gulf of Mexico ports, and Asia (primarily East Asia), the west coast of South America, and the southern ports of Central America. The U.S. East Coast and Gulf Coast markets, including the Houston region, have benefited from this more efficient trade link.

More particularly, the expansion of the Panama Canal has helped support a significant increase in the Authority’s containerized cargo volumes, and the Authority is continuing to add capacity at Bayport Container Terminal and is redeveloping Barbour’s Cut Terminal to accommodate this demand. Additionally, shipping lines are currently working with the Authority to bring in larger container vessels to Port Facilities. Since 2011, Authority terminals have received ships with capacities to carry over 8,000 TEUs, but the future growth of Neo-Panamax vessels continues to require significant terminal and waterway improvements, including Project 11.

For the Fiscal Year ended December 31, 2020, the Authority had approximately \$238.5 million in unrestricted cash on hand and approximately \$211.0 million of restricted and reserved cash on hand. As of August 31, 2021, the Authority had approximately \$208.6 million of unrestricted cash on hand and \$283.1 million of restricted and reserved cash on hand. During 2020, the Authority expended approximately \$213.8 million of available cash on capital improvements. Such improvements were funded primarily from the Authority’s general fund.

The following information generally describes the Authority’s Capital Improvement Program and major initiatives at its Port Facilities.

Projected Capital Spending Plan
(Dollar amounts in thousands)

	Authority Fiscal Year		
	2021	2022	2023
Bayport Container Terminal	\$ 161,917	\$ 182,583	\$ 65,700
Barbours Cut Container Terminal	23,055	122,252	160,084
Channel Development	22,037	33,847	10,213
Turning Basin Terminals	12,491	28,500	11,785
Real Estate	6,869	19,736	55,100
Maintenance	10,664	2,688	4,530
Other	5,366	15,968	12,818
Subtotal Operating Capital	<u>242,399</u>	<u>405,575</u>	<u>320,229</u>
Project 11	126,460	460,095	50,312
Total New Capital Investment	<u>\$ 368,860</u>	<u>\$ 865,670</u>	<u>\$ 370,541</u>

Source: The Authority, as shown in the Capital Improvement Project Five-Year forecast as of June 30, 2021. Numbers may not tie due to rounding.

The following schedule generally describes the anticipated timing of the Authority’s expenditures for its capital improvement program as well as the anticipated sources of funds for such expenditures. The Authority currently forecasts using unrestricted cash to minimize borrowing while retaining sufficient capacity to execute its capital improvement plan. The schedule does not anticipate the use of any ad valorem tax supported debt in connection with the funding of the capital improvement program. The projections contained below are forward-looking statements. Readers should not place undue reliance on forward-looking statements. This information is based on information available to the Authority on the date hereof, and the Authority assumes no obligation to update any such forward-looking statements. The actual results of the Authority could differ materially from those in such forward-looking statements. See “FORWARD-LOOKING STATEMENTS.”

Sources and Uses
(Dollar amounts in thousands)

	2021	2022	2023	2024	2025	5-year 2021-25
Sources^(a)						
Port Houston PAYGO ^(b)	\$ 162,065	\$ 284,887	\$ 380,772	\$ 242,543	\$ 38,556	\$ 1,108,823
Grant funding ^(c)	10,920	10,920	1,615	8,739	12,573	44,767
Revenue bond proceeds ^{(d)(e)}	<u>30,000</u>	<u>200,000</u>	<u>235,000</u>	<u>150,000</u>	<u>135,000</u>	<u>750,000</u>
Subtotal Sources	<u>\$ 202,985</u>	<u>\$ 495,807</u>	<u>\$ 617,387</u>	<u>\$ 401,282</u>	<u>\$ 186,129</u>	<u>\$ 1,903,590</u>
Uses						
Port Houston CIP expenditures	\$ 172,895	\$ 293,697	\$ 383,996	\$ 250,570	\$ 145,514	\$ 1,246,672
Project 11 expenditures	<u>30,090</u>	<u>202,110</u>	<u>233,391</u>	<u>150,712</u>	<u>40,615</u>	<u>656,918</u>
Subtotal Uses	<u>\$ 202,985</u>	<u>\$ 495,807</u>	<u>\$ 617,387</u>	<u>\$ 401,282</u>	<u>\$ 186,129</u>	<u>\$ 1,903,590</u>

^(a) The Authority has a \$100 million Third Lien Note Program available for additional liquidity. As of the date of this Official Statement, no notes are outstanding under the Third Lien Note Program, and the Authority is not forecasting the use of the Third Lien Note Program in the schedule.

^(b) Pay as you go sources include cash generated by Net Revenues and unrestricted cash.

^(c) Grant funds are reimbursement based, thus actual timing of inflow is tied to the execution of the underlying capital project schedule.

^(d) Includes the issuance of the Bonds to finance a portion of the Authority’s share of costs associated with Project 11. The schedule shows estimated expenditures revenue bond proceeds.

^(e) This schedule forecasts the issuance of an additional \$350 million in revenue bonds in 2023 to support accelerated container capacity additions at Authority facilities.

Source: The Authority.

Turning Basin. To add to the economic value of the Authority’s Turning Basin operations, construction is underway to repurpose older facilities and to expand capacity. Assessments of docks at the multi-purpose cargo facilities are central to determinations as to whether repairs are necessary and if potential improvements would provide an economic return for the Authority.

The Authority anticipates capital expenditures of approximately \$25 million in 2021 for rehabilitation of the wharves, replacement of a transit shed roof, construction of restrooms, and other infrastructure projects at the Turning Basin.

Barbours Cut Terminal. The Authority has completed the reconstruction and rehabilitation of Wharf 3 and Container Yards 1 and 2 North at Barbours Cut Terminal. The reconstruction of wharves accommodates the use of larger 100-foot gauge STS wharf cranes. Proper phasing of the Barbours Cut redevelopment helps the terminal maintain current operating capacity during construction activities.

Barbours Cut Terminal now includes seven Super-Post-Panamax STS wharf cranes, three 50-foot gauge Post-Panamax cranes, and five 50-foot gauge Panamax cranes, for a total of 15. Three 100-foot gauge Post-Panamax wharf cranes are expected to be delivered to Barbours Cut Terminal from Bayport Container Terminal before the end of 2021, which will increase the fleet size of 100-gauge cranes to ten. These Super-Post-Panamax wharf cranes, similar to the configuration of the seven already in operation at Barbours Cut Terminal, are a major component in the revitalization of the terminal and provide the capability to service the growing vessel size of the industry.

Reconstruction of Container Yards 1 and 2 North began in 2019 and was completed in 2020. The former project redeveloped over 15 acres of the most utilized container yard at Barbours Cut Terminal, increasing the density of its footprint as well as adding bypass lanes to increase velocity and safety. Reconstruction of Wharf 3 was completed in the first quarter of 2021.

Construction of the new Barbours Cut Terminal Entry Gate Facility began in 2019. When complete, this redesigned gate will consist of 29 entry lanes with “weigh-in-motion” technology to increase cargo velocity supporting the expected growth of the facility. This will also transition the entry gate from a two-stage complex into one stage, mirroring the processing found at Bayport Container Terminal today. Completion of phase one is currently slated for the third quarter of 2021, with the final phase coming online in early 2022.

Repurposing warehouse and freight handling areas for container stacking and rebuilding aging infrastructure to support higher cargo velocities is expected to expand Barbours Cut Terminal’s capacity to as much as 2.5 million TEUs annually.

The Authority expects to complete redevelopment of Container Yard 3 North at Barbours Cut Terminal and the rebuilding of the Maintenance Facility over the next several years. The Authority also anticipates the completion of the remaining 2,600 feet of wharf and an additional 87 acres of container yard on the west end of the facility, using grant funding in part. This next series of redevelopment is expected to be completed by April 2027, with capital improvements totaling over \$409 million.

Bayport Container Terminal. The Authority continues development of the Bayport Container Terminal to accommodate the expanding needs of existing and new customers. The Bayport Container Terminal is currently home to six Super-Post-Panamax STS wharf cranes and six Post-Panamax wharf cranes, and the RTG fleet size numbers 48. The Authority’s three recently-acquired Super-Post-Panamax wharf cranes are the largest on the Gulf Coast. The expansion of Container Yard 7 was completed in 2020 and consists of 50 acres of grounded and wheeled container storage and marshalling areas.

In 2021, the Authority expects the continued expansion of container storage and marshalling area at Container Yard 2 South, which consists of approximately 17.5 acres with a footprint similar to that of Container Yard 7. Container Yard 2 South is expected to begin operations by the end of the third quarter of 2021. In addition, a 25-acre empty-yard site has been improved by its current tenant; with completion of that work, the approximately 19-acre premises previously leased to it was returned to the Authority.

Redevelopment of Wharf 5 began in the second quarter of 2020 to accommodate three additional Super-Post-Panamax wharf cranes under construction and set for delivery in the fourth quarter of 2021. Upon their delivery and commissioning, three on-site Post-Panamax cranes will be relocated from Bayport Container Terminal to Barbours Cut Terminal.

The entry road into the Bayport Container Terminal Complex was expanded in 2020 from one lane to two lanes to accommodate increasing container volumes. Construction of Port Road Phase 3 also began, and south of Port Road the “Bayport South” Rail Spur Project continued construction throughout 2020, with an anticipated completion date in the fourth quarter of 2021. Pre-development work on the Bayport South area has also begun on more than 180 acres of land for future container terminal support. This additional land is expected to be dedicated to tenant-leased property that could be used for warehousing, intermodal opportunities, and maintenance and repair facilities.

Other work at the terminal includes a recent pipeline relocation, as well as the addition of nine RTG cranes at Container Yard 7. The total investments for these projects were \$12.5 million and \$18.8 million, respectively. The additional nine hybrid RTGs will increase the total fleet size to 57 when fully commissioned.

For 2020, the Authority allocated approximately \$81 million towards construction of Container Yard 2 South, purchase of nine RTG cranes, improvements of Wharves 4 and 5, construction of Port Road Phase 3, and other projects, and another \$2 million for the Bayport South Rail Spur Projects. For 2021, the Authority expects to allocate approximately \$121 million towards construction of Wharf 6, purchase of three STS wharf cranes, and other projects, and another \$2 million for the Bayport South Rail Spur Project. Over the next five years, capital improvements are anticipated to total over \$342 million.

The cost of the entire Bayport Container Terminal project, to be completed over an estimated 15-to-20-year period as required by market demand, is currently estimated to total approximately \$1.9 billion. At completion of its northern face, the Bayport Container Terminal is planned to include 7,500 feet of berth, 445 acres of container yard, additional acreage for buildings, equipment, cranes, and an intermodal rail yard. At capacity, the facility is expected to be able to move 3.6 million TEUs annually.

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FINANCIAL DATA

The following table presents the Authority's Statement of Revenues, Expenses and Changes in Net Position for Fiscal Years 2016-2020 as published in the Authority's Annual Comprehensive Financial Report.

Table 11 – Statement of Revenues, Expenses and Changes in Net Position
(Dollar amounts in thousands; rounding differences may occur)

	2020	2019	2018	2017	2016
Operating revenues					
Vessel and cargo services	\$ 357,386	\$ 365,086	\$ 344,272	\$ 309,058	\$ 266,703
Rental of equipment and facilities	21,865	18,065	18,079	15,976	15,869
Grain elevator	1,263	1,439	1,182	902	1,199
Bulk materials	3,911	4,265	4,131	4,004	3,941
Other	6,507	2,582	1,652	2,933	2,514
Total operating revenues	<u>390,732</u>	<u>391,437</u>	<u>369,316</u>	<u>332,873</u>	<u>290,226</u>
Operating expenses					
Maintenance and operations of facilities	178,606	177,121	157,524	147,185	141,102
General and administrative	46,225	50,420	49,608	39,102	44,286
Depreciation and amortization	77,829	74,020	72,027	66,487	64,601
Impairment and Capital Assets	-	-	-	-	15,114
Total operating expenses	<u>302,660</u>	<u>301,561</u>	<u>279,159</u>	<u>252,774</u>	<u>265,103</u>
Operating income	88,072	89,876	90,157	80,099	25,123
Nonoperating revenues (expenses)					
Investment income	9,810	13,017	9,319	4,553	4,896
Contributions to state and local agencies	(235)	(4,327)	(2,095)	(4,243)	(2,127)
Loss on disposal of assets	(126)	(4)	(1)	(33)	2,976
Other, net	833	1,175	(1,095)	(484)	1,657
Total nonoperating revenues	<u>10,282</u>	<u>9,861</u>	<u>6,128</u>	<u>(207)</u>	<u>7,402</u>
Income before nonoperating revenues (expenses) related to property taxes	98,354	99,737	96,285	79,892	32,525
Nonoperating revenues (expenses) related to property taxes					
Property taxes, net of estimated uncollectible amounts	48,965	51,060	50,951	53,842	55,749
Investment income on bond proceeds	349	967	721	264	119
Interest expense on unlimited tax bonds	(23,526)	(24,451)	(28,927)	(30,010)	(31,548)
Property tax collection expense	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)
Other, net	(384)	(410)	(420)	(400)	(303)
Total nonoperating revenues related to property taxes	<u>24,304</u>	<u>26,066</u>	<u>21,225</u>	<u>22,596</u>	<u>22,917</u>
Income before capital contributions	122,658	125,803	117,510	102,488	55,442
Capital contributions from federal agencies	5,188	1,772	5,219	8,896	2,453
Change in net position	127,846	127,575	122,729	111,384	57,895
Net position, January 1	1,638,933	1,511,358	1,388,629	1,277,245	1,219,350
Net position, December 31	<u>\$ 1,766,779</u>	<u>\$ 1,638,933</u>	<u>\$ 1,511,358</u>	<u>\$ 1,388,629</u>	<u>\$ 1,277,245</u>

Source: The audited financial statements of the Authority.

Financial Statements

APPENDIX C to this Official Statement contains the audited financial statements of the Authority for the Fiscal Years ended December 31, 2020 and December 31, 2019. The financial statements of the Authority as of and for the Fiscal Years ended December 31, 2020 and December 31, 2019, included in this Official Statement have been audited by BKD, LLP for 2020 and Grant Thornton LLP for 2019, independent auditors, as stated in their reports appearing herein. Neither Grant Thornton LLP nor BKD, LLP, the Authority's current independent auditor, has reviewed, commented on, or approved, and such firms are not associated with, this Official Statement. The report of BKD, LLP relating to the Authority's financial statements for the Fiscal Year ended December 31, 2020 and Grant Thornton LLP for the Fiscal Year ended December 31, 2019 are included in this Official Statement in APPENDIX C; however, BKD, LLP and Grant Thornton LLP, have not performed any procedures on such financial statements since the date of such reports, and have not performed any procedures on any other financial information of the Authority, including without limitation any of the information contained in this Official Statement.

Accounting and Annual Budget

The Authority's Fiscal Year begins on January 1 and ends on December 31 of each year. An annual operating budget and one-year capital plan is developed by Authority staff and presented to the Port Commission for approval. By statute, the Port Commission must adopt an annual budget and one-year capital plan. In addition, Authority staff prepares a mid-range (five-year) plan that is presented to the Port Commission. The calendar year 2022 operating budget, one-year capital plan and five-year capital plan will be presented to the Port Commission in November of 2021.

Retirement Plans and Other Post-Employment Benefits

Defined Benefits Plan. The Authority sponsors the Port of Houston Authority Restated Retirement Plan (the "Plan"), a single employer defined benefit plan covering eligible employees hired prior to August 1, 2012. Employees hired on or after that date are covered by the Port of Houston Authority Defined Contribution Plan described below. The Plan is a governmental plan not subject to the federal Employee Retirement Income Security Act of 1974 ("ERISA"), and contributions are solely made by the Authority. The Port Commission maintains the authority to amend the Plan and the Plan's investment policy. BBVA USA (formerly Compass Bank) serves as trustee of the Plan. The Plan issues a standalone financial report that is available on the Authority's website (www.porthouston.com). The Authority's payroll for employees covered by the Plan for the fiscal years ended July 31, 2020 and 2019 was \$29,688,379 and \$30,401,742, respectively.

Plan participants vested after completing five (5) years of employment. Vested employees are eligible to receive benefits upon Normal Retirement, Early Retirement, or Late Retirement (capitalized terms in this paragraph are from the Plan documents). The Plan also provides for disability and survivor death benefits. The Normal Retirement Benefit (equal to 2.3% of the Average Monthly Compensation multiplied by the years of benefit service not to exceed 30.435 years) is payable monthly for a minimum of five years certain and for life thereafter, with other payment options available, if an employee retires on the Normal Retirement Date after attaining age 65. The Early Retirement Benefit is available upon completion of 30 years or more of vesting service, attainment of age 62, or when the sum of the employee's age and years of service equals 85 or more and the employee has attained the age of 55 or more. Late Retirement commences when an employee works beyond the Normal Retirement Date. Benefits are adjusted for both Early Retirement and Late Retirement. Vested employees whose employment ends for reasons other than for retirement, disability, or death, receive a pension benefit upon reaching the Normal Retirement Date or Early Retirement Date.

The Authority's funding policy is to make cash contributions to the Plan in amounts computed by the Plan's independent actuary using the entry age normal cost method and includes amortization of the unfunded accrued liability over a 30-year period. The Authority contributed \$10,625,000 and \$4,658,000 during the Plan's fiscal years ending July 31, 2020 and 2019, respectively. At the time of an actuarial valuation dated August 1, 2020, the funded ratio of the Plan was 93.4%. For additional information on the Plan, actuarial assumptions and contributions, see "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, Note 8."

Defined Contribution Plan. In July of 2012, the Port Commission authorized creation of the Port of Houston Authority Defined Contribution Plan (the “DC Plan”), a contributory benefit plan covering all permanent, full-time employees hired on or after August 1, 2012. The Authority manages the operation and administration of the DC Plan and the Authority’s Chief Operating Officer serves as trustee. The Port Commission maintains and has recently exercised its authority to amend the DC Plan provisions, including revisions in contribution requirements and investment alternatives offered to employees.

The DC Plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code and all contributions are tax-deferred until time of withdrawal. Under the provisions of the DC Plan, employees do not contribute to the DC Plan and are not permitted to rollover any distributions from other qualified plans or individual retirement accounts to the DC Plan. The Authority, as Plan Sponsor, may make Employer Contributions to the DC Plan at its discretion. Contributions from the Authority to an employee’s account are based on a percentage of salary. The Authority contributed \$1,229,263.42 and \$771,272.86 during the DC Plan’s fiscal years ended July 31, 2020 and 2019, respectively. For additional information on the DC Plan, see “APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, Note 8.”

Other Post-Employment Benefits. In January of 2019, the Port Commission formally approved a policy to provide certain post-employment health and welfare benefits (“OPEB”) to eligible retired employees and their dependents (“OPEB Plan”). There were 319 retirees eligible for these benefits as of the two-year period ending December 31, 2019. The Authority funded all of the premiums for retiree life insurance and the majority of the health insurance premiums from the inception of the OPEB Plan through July 31, 2020. Continuation of these benefits and the Authority’s contributions to the trust are dependent on periodic authorization by the Port Commission.

The health insurance benefits provided to pre-Medicare retirees are the same as those offered to active employees. In addition, Medicare-eligible retirees have the option of enrolling in Medicare Advantage plans offered by the Authority or securing their own insurance and receiving a monthly reimbursement from the Authority for a portion of the cost. The supplied benefits include hospital, doctor, and prescription drug charges.

Basic life insurance coverage provided to retirees is based upon the retirees’ annual compensation at retirement and, effective January 1, 2020, is valued at a flat \$15,000. Retiree life-benefit costs for 2020 and 2019 were \$114,000 and \$139,000, respectively.

Effective January 1, 2010, new hires became eligible for postemployment benefits after completion of 12 years of employment and upon retirement from the Authority. Employees hired prior to that date who reach their Early or Normal Retirement date and retire from the Authority are eligible for Postemployment Benefits. An eligible employee may elect coverage for his or her dependents. Disabled employees are covered, for a period of up to 40 weeks, in the Port of Houston Authority Group Health Plan from the date of disability. The widow/widower of a retiree who has health care coverage through the Authority may continue coverage upon the death of the retiree.

During 2011, the Authority entered a multiple-employer pooled account trust designed to prefund postemployment benefits for the Authority’s eligible retired employees and their eligible dependents. The PEB Trust Board of Trustees served as the trustee for the trust assets. In February 2015, the Authority established a new, standalone trust for OPEB assets and transferred all holdings from the multiple employer pooled account with PEB Trust of Texas into the new trust, with BBVA USA acting as trustee.

Prior to August 1, 2020, the Authority’s additional contribution to the OPEB Plan was based on a projected pay-as-you-go basis. For the years ended December 31, 2020 and 2019, the cost of retiree health benefits, recorded on a pay-as-you-go basis, was \$1,218,000 and \$2,265,000, respectively. These costs were paid on a pay-as-you-go basis funded by the Authority’s general fund.

Beginning August 2020, OPEB costs are paid from the OPEB Plan assets. These benefit cost payments are currently based on an Actuarially Determined Contribution (“ADC”).

In addition to the Authority’s pay-as-you-go payments referenced above for benefit costs incurred through July 31, 2020, the Authority has contributed \$65,250,000 to the trust from inception of the OPEB Plan through

December 31, 2020. Through the first half of 2021, the Authority contributed \$1,600,000 to the Plan and expects to contribute an additional \$1,027,000 through the second half of 2021. The total contribution in 2021, of approximately \$2,627,000, is expected to equal the ADC for the year.

At December 31, 2020, the OPEB Plan maintained a fiduciary net position as a percent of total OPEB liability of 145.26%. For additional information on the annual OPEB cost and net OPEB obligation, actuarial assumptions and contributions, see “APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, Note 9.”

INVESTMENTS

The Authority may invest its funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the Authority or obligations under a lease, installment sale, or other agreement of the Authority), subject to investment, in such investments as are authorized by State law, and in accordance with written investment policies approved by the Port Commission of the Authority. Both State law and the Authority’s investment policies are subject to change.

The Director, Treasury of the Authority serves as Investment Officer responsible for investment of all funds of the Authority. The Authority and the County have separate investment portfolios that are not commingled into a single pool of investments. Hilltop Securities Asset Management, LLC has been engaged to provide investment advisory services to the Authority, which may include advice on the Authority’s written investment policies and investment of bond proceeds associated with these Bonds.

Legal Investments

Available Authority funds are invested as authorized by Texas law and in accordance with investment policies approved by the Authority. Both Texas law and the Authority’s investment policies are subject to change. In accordance with the Public Funds Investment Act, Texas Government Code, Chapter 2256 (the “PFIA”), the Authority is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by Subdivision (7) if: (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by Paragraph (A) arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity’s account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity’s custodian of the banking deposits issued for the entity’s account: (i) the depository institution selected as described by Paragraph (A); (ii) an entity described by Section 2257.041(d); or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that has either its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in accordance with Chapter 2257, Texas Government Code or in any other manner and amount provided by law for Authority deposits or, (ii) where (a) the funds are invested by the Authority through (I) a broker that has its main office or a branch office

in the State and is selected from a list adopted by the Authority as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the Authority; (b) the broker or the depository institution selected by the Authority arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Authority; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Authority appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Authority with respect to the certificates of deposit issued for the account of the Authority; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph require the securities being purchased by the Authority or cash held by the Authority to be pledged to the Authority, held in the Authority's name, and deposited at the time the investment is made with the Authority or with a third party selected and approved by the Authority, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, that will be, in accordance with their terms, liquidated in full at maturity; that are eligible for collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A 1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.), and comply with federal Securities and Exchange Commission Rule 2a-7; and (14) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; and either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below; and is pledged to the Authority and deposited with the Authority or with a third party selected and approved by the Authority.

A political subdivision such as the Authority may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the Authority, held in the Authority's name and deposited at the time the investment is made with the Authority or a third party designated by the Authority; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The Authority may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service if the governing body of the Authority authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The Authority may also contract with an investment management firm registered (x) under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or (y) with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the

Authority retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Authority must do so by order, ordinance, or resolution.

The Authority is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal, (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest, (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years, and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Additional Provisions

Under Texas law, the Authority is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for Authority funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All Authority funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment.

Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield. Under Texas law, Authority investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the Authority submit an investment report detailing: (1) the investment position of the Authority, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value and the ending market value and fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest Authority funds without express written authority from the Port Commission.

Under Texas law the Authority is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Port Commission; (4) require the registered principal of firms seeking to sell securities to the Authority to: (a) receive and review the Authority's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Authority's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 15% of the Authority's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt services, and to invest no portion of bond proceeds, reserves and funds held for debt service in mutual funds; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Authority.

Current Investment Distribution

At August 31, 2021, the market value of the Authority's investment portfolio was approximately \$530.9 million. The following percentages of the Authority's funds subject to investment were invested in the following categories of investments. The average remaining maturity of such investments was 170 days based on par value. The Authority's investments in U.S. Government Agencies securities are callable.

Table 12 – Current Investment Distribution^(a)

Interest Bearing Bank Deposits ^(b)	6%
Local Government Investment Pools	52%
U.S. Government Agencies Securities	9%
Municipal Bonds	23%
Commercial Paper	10%
TOTAL	<hr/> 100%

^(a) Unaudited information as reported by the Authority as of August 31, 2021.

^(b) Collateralized in accordance with the Public Funds Collateral Act, Chapter 2257, Texas Government Code.

Source: The Authority.

Insurance

The Authority is exposed to risk of financial loss from property and casualty exposures. Property exposures include potential losses due to fire, windstorm, and other perils that could damage or destroy assets and result in loss of revenue should specific assets be shut down for an extended period of time. Casualty exposures include potential losses resulting from third-party claims for bodily injury and/or property damage arising from the Authority's operations and/or ownership of its assets, as well as workers' compensation claims. These potential exposures are managed by both commercial and self-insurance.

Effective March 1, 2010, the Authority began self-insuring certain risks. The Authority's current self-insured retention limit is \$350,000 for liability claims, \$500,000 for worker's compensation claims, and \$750,000 for police and fire. The Authority has unlimited excess coverage for any worker's compensation claim that exceeds its self-insured retention. See "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, Note 10" for additional information on Risk Management.

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DEBT INFORMATION

Debt Service Schedule

The Bonds are the first issuance of First Lien Obligations under the Master Resolution. The following table sets forth the debt service requirements for the Bonds.

Table 13 – Debt Service Schedule

Fiscal Year	The Bonds		Total Debt Service
	Principal	Interest	
2022	\$ 5,330,000	\$ 11,985,586	\$ 17,315,586
2023	5,365,000	14,510,250	19,875,250
2024	5,635,000	14,242,000	19,877,000
2025	5,915,000	13,960,250	19,875,250
2026	6,210,000	13,664,500	19,874,500
2027	6,520,000	13,354,000	19,874,000
2028	6,845,000	13,028,000	19,873,000
2029	7,190,000	12,685,750	19,875,750
2030	7,550,000	12,326,250	19,876,250
2031	7,925,000	11,948,750	19,873,750
2032	8,320,000	11,552,500	19,872,500
2033	8,740,000	11,136,500	19,876,500
2034	9,175,000	10,699,500	19,874,500
2035	9,635,000	10,240,750	19,875,750
2036	10,020,000	9,855,350	19,875,350
2037	10,420,000	9,454,550	19,874,550
2038	10,835,000	9,037,750	19,872,750
2039	11,270,000	8,604,350	19,874,350
2040	11,720,000	8,153,550	19,873,550
2041	12,190,000	7,684,750	19,874,750
2042	12,800,000	7,075,250	19,875,250
2043	13,310,000	6,563,250	19,873,250
2044	13,845,000	6,030,850	19,875,850
2045	14,395,000	5,477,050	19,872,050
2046	14,975,000	4,901,250	19,876,250
2047	15,570,000	4,302,250	19,872,250
2048	16,350,000	3,523,750	19,873,750
2049	17,170,000	2,706,250	19,876,250
2050	18,025,000	1,847,750	19,872,750
2051	18,930,000	946,500	19,876,500
	<u>\$ 322,180,000</u>	<u>\$ 271,499,036</u>	<u>\$ 593,679,036</u>

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First Lien Debt Service Coverage

The following table provides a summary of the Net Revenues available to pay debt service for the Fiscal Years 2016 through 2020. The Authority did not have any revenue debt outstanding during the Fiscal Years 2016 through 2020.

Table 14 – Historical Net Revenue Available for Debt Service
(Dollar amounts in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues^(a)					
Container Terminals	\$ 307,796	\$ 310,042	\$ 285,460	\$ 252,405	\$ 209,884
Turning Basin Terminals	49,606	54,928	59,015	56,238	50,093
Bulk	5,174	5,704	5,313	4,906	5,140
Leases	11,623	8,084	8,390	7,094	7,362
Other	16,533	12,679	11,138	12,230	13,797
Total	<u>390,732</u>	<u>391,437</u>	<u>369,316</u>	<u>332,873</u>	<u>289,789</u>
Less:					
Operating Expenses	178,605	177,121	153,724	152,166	141,583
G&A Expenses	<u>46,225</u>	<u>50,420</u>	<u>49,608</u>	<u>42,423</u>	<u>44,286</u>
Total Operations and Maintenance Expenses	224,831	227,541	203,332	194,589	185,869
Net Operating Revenue	165,901	163,896	165,984	138,284	103,920
Nonoperating Revenues	<u>10,327</u>	<u>8,756</u>	<u>5,377</u>	<u>1,076</u>	<u>3,694</u>
Net Revenues Available For Debt Service on Revenue Obligations	<u>\$ 176,228</u>	<u>\$ 172,652</u>	<u>\$ 171,361</u>	<u>\$ 139,360</u>	<u>\$ 107,614</u>

^(a) Revenue categories are aligned with internal management reporting.
Source: The Authority.

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Projected Operating Results and Debt Service Coverage

The following table presents the Authority’s projected Gross Revenues, Maintenance and Operating Expenses, Revenues Available for Debt Service and Debt Service Coverage for the Fiscal Years 2021-2025. The projections contained below are forward-looking statements. Readers should not place undue reliance on forward-looking statements. This information is based on information available to the Authority on the date hereof, and the Authority assumes no obligation to update any such forward-looking statements. The actual results of the Authority could differ materially from those in such forward-looking statements. See “FORWARD-LOOKING STATEMENTS.”

Table 15 – Projected Operating Results and First Lien Debt Service Coverage
(Dollar amounts in thousands)

Fiscal Year	Gross Revenues ^(a)	Operation and Maintenance Expenses ^(b)	Net Revenues Available for Debt Service ^(c)	Debt Service Requirements		Projected First Lien Debt Service Coverage	
				The Bonds	Additional Bonds ^(d)		Total First Lien Debt Service Requirements ^(d)
2021	\$449,886	\$250,651	\$199,235	\$ -	\$ -	\$ -	-
2022	459,563	266,250	193,313	17,316	-	17,316	11.2x
2023	488,373	279,191	209,181	19,875	-	19,875	10.5x
2024	502,842	286,863	215,979	19,877	19,722	39,599	5.5x
2025	514,028	294,229	219,799	19,875	19,730	39,605	5.5x

^(a) Gross Revenues represent all projected revenues, income and receipts, including interest income, and any other revenues as defined in the Resolution. Fiscal Year 2021 Gross Revenues reflect current forecast for the fiscal year, including unaudited actual Gross Revenue through July, led by operating revenue growth, which is projected at 14%, reflecting strength in import loaded containers. Fiscal Year 2023 Gross Revenues anticipate growth in operating revenues tied to an increase in export loaded containers as incremental resin production and packaging capacity is reported to come on-line in that time frame. All other years reflect a growth rate of 2 -3%. The overall operating revenue compounded annual growth rate (“CAGR”) from 2021 to 2025 is projected to be 3.6%. For the underlying businesses, container revenue growth assumes a 6% unit growth in 2022 (import loads) and in 2023 (export loads - resins) down to under 3% in 2024 and 2025. Turning Basin Terminals growth projected at 1.5% annually.

^(b) Operation and Maintenance Expenses represent projected Operation and Maintenance Expenses as defined in the Resolution. Expense profiles generally follow the operating revenue profile, as approximately 80% of expenses are linked with operations. G&A overhead stabilizes at a 4% growth rate assumption from Fiscal Years 2022 through 2025.

^(c) Net Revenues Available for Debt Service illustrate a 2.5% CAGR over this time horizon.

^(d) Assumes the issuance of Additional First Lien Obligations in Fiscal Year 2023 to fund \$350 million of capital costs, including a portion of Project 11 and other additional capital projects, including docks and wharves. Debt service is based on an issuance with a true interest cost of 3.75%.

Third Lien Revenue Note Program

In October, 2021, the Authority entered into a five-year \$100 million third lien variable rate revolving note program with Truist Bank and BB&T Community Holdings Co. (the “Third Lien Note Program”). The Third Lien Note Program provides liquidity for additional opportunities or requirements for capital infrastructure or investments. Under the Third Lien Note Program, the Authority may issue either taxable or tax-exempt variable rate notes (the “Notes”) in an aggregate principal amount not to exceed \$100,000,000. To provide security for payment of principal of and interest on the Notes, the Authority has pledged (i) proceeds from (a) the sale or exchange of other Notes issued for the purposes of refunding, refinancing, renewing replacing or redeeming the Notes and (b) the sale of one or more series of Obligations by the Authority for the purposes of refunding, refinancing, renewing replacing or redeeming the Notes, and (ii) a third lien on the Net Revenues of the Authority as provided in the Master Resolution and First Supplemental Resolution. There are no Notes currently outstanding under the Third Lien Note Program. The Authority currently expects that permanent financing for any notes issued under the Third Lien Note Program will be provided through the refunding of such notes with First Lien Obligations.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Tax Counsel (“Tax Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Tax Counsel is set forth in APPENDIX E hereto.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Tax Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Tax Counsel is expected to express no opinion.

The opinion of Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Tax Counsel’s judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Tax Counsel’s engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Tax Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit

examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments; are investment securities governed by Chapter 8, Texas Business and Commerce Code; and are legal and authorized investments for insurance companies, fiduciaries, and Paying Agent/Registrars, and for the sinking fund of municipalities or other political subdivisions or public agencies of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in the State which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. No review by the Authority has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

The Authority has made no investigation of any other laws, rules, regulations, or investment criteria that might affect the suitability of the 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 Bonds.

LEGAL MATTERS

The delivery of the Bonds is subject to the approving opinions of the Attorney General of Texas and the legal opinions of Orrick, Herrington & Sutcliffe LLP, Houston, Texas, and West & Associates, L.L.P., Houston, Texas, Co-Bond Counsel, as to the validity of the Bonds under the Constitution and laws of the State, and an opinion of Orrick, Herrington & Sutcliffe LLP, Tax Counsel, as to the excludability of interest on the Bonds from the gross income of the owners thereof for federal tax purposes. The forms of opinions of Co-Bond Counsel and Tax Counsel are set forth in APPENDIX E. The opinions of Co-Bond Counsel and Tax Counsel will be based upon an examination of a transcript of certain proceedings taken by the Authority incident to the issuance and delivery of the Bonds. The fees of Co-Bond Counsel for their services with respect to the Bonds are contingent upon the issuance and delivery of the Bonds.

Though they represent the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Co-Bond Counsel have been engaged by and only represent the Authority in connection with the issuance of the Bonds. In their capacities as Co-Bond Counsel, such firms have reviewed the information appearing under captions or subcaptions, "INTRODUCTION – Plan of Financing," "THE BONDS," "SECURITY AND SOURCE OF PAYMENT," "AMENDMENTS," "BONDHOLDERS REMEDIES," "CONTINUING DISCLOSURE OF INFORMATION," "APPENDIX A – EXCERPTS FROM MASTER RESOLUTION," and "APPENDIX B – EXCERPTS FROM SECOND SUPPLEMENTAL RESOLUTION," and such firms are of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Resolution; further, such firms have reviewed the information appearing under the captions and subcaptions "LEGAL MATTERS" (except for the last two sentences thereof), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "REGISTRATION, SALE AND DISTRIBUTION" and such firms are of the opinion that legal matters contained under such captions and subcaptions are accurate and fair descriptions of the laws and legal issues addressed therein. Tax Counsel has reviewed the information appearing under the caption "TAX MATTERS," and Tax Counsel is of the opinion that legal matters contained under such caption are accurate and fair descriptions of the laws and legal issues addressed therein.

Certain legal matters will be passed upon for the Authority by Bracewell LLP and Hardwick Law Firm, LLC, Co-Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Haynes and Boone, LLP, Houston, Texas and Bratton & Associates, Houston, Texas. The legal fees of such firms are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the 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 the expression of professional judgment, of the transaction opined upon, or of 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, the Authority made the following agreements for the benefit of the holders and beneficial owners of the Bonds. The Authority is required to observe these agreements for so long as it remains obligated to advance funds to pay the Bonds. Under the Resolution, the Authority will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”).

Annual Reports

The Authority annually will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement under tables listed in APPENDIX F and the portions of the audited financial statements of the Authority appended to this Official Statement in APPENDIX C but for the most recently concluded Fiscal Year. Any financial statements to be provided will be (i) prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the Authority may be required to employ from time to time pursuant to State law or regulation, and (ii) audited if the Authority commissions an audit and the audit is completed by the required time. If audited financial statements are not available by the required time, the Authority will provide audited financial statements when and if they become available, but if such audited financial statements are unavailable, the Authority will provide such financial statements on an unaudited basis and any additional financial information required within this Official Statement within the required time. The Authority will update and provide this information within six months after the end of each fiscal year ending in or after 2021.

The Authority may provide updated information in full text, or may incorporate by reference other publicly available documents, or in such other form consistent with the agreement, as permitted by SEC Rule 15c2-12 (the “Rule”).

The Authority’s current fiscal year-end is the last day of December. Accordingly, the Authority must provide updated information by the last day in June in each year, unless the Authority changes its fiscal year. If the Authority changes its fiscal year, it will notify the MSRB of the change (and the date of the new fiscal year end) prior to the next date by which the Authority otherwise would be required to provide financial information and operating data as described under “—Annual Reports,” provided that the period between the existing filing date and the new filing date shall not exceed one year.

Certain Event Notices

The Authority will provide to the MSRB timely notice, not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (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 Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Authority; (13) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, 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; (14) appointment of successor or additional paying agent/registrars or the change of name of a

paying agent/registrar, if material; (15) incurrence of a Financial Obligation of the Authority, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Authority, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Authority, any of which reflect financial difficulties.

For these purposes, (A) any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States 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 Authority, 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 Authority, (B) as used in (15) and (16), “Financial Obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule, and (C) the Authority intends the words used in paragraphs (15) and (16) and the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further or written guidance provided by the SEC or its staff with respect to the amendments to the Rule effected by the 2018 Release.

The Authority will notify the MSRB through EMMA, in a timely manner, of any failure by the Authority to provide the required annual financial information described above under “- Annual Reports” in accordance with the Ordinance by the time required.

Availability of Information

The Authority has agreed to provide the foregoing information only to the MSRB. Such information will be available from the MSRB via the EMMA system at www.emma.msrb.org.

Limitations and Amendments

The Authority has agreed to update information and to provide notices of certain events only as described above. The Authority 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 has been provided except as described above. The Authority makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Authority 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 Bonds may seek a writ of mandamus to compel the Authority to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the Authority’s duties under federal or state securities laws.

The Authority may amend a 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 Authority, if the agreement, as amended, would have permitted an underwriter to purchase or sell the particular series of Bonds to which the agreement relates in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds of the particular series of Bonds to which the agreement relates, consents or any qualified person unaffiliated with the Authority (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds of the particular series to which the agreement relates. The Authority may also amend or repeal an 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 Authority may amend an 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 an underwriter from the Authority from purchasing such Bonds in the offering described herein in compliance with the Rule. If the

Authority amends an 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 operating data so provided. See “APPENDIX F — SUMMARY OF TABLES RELATED TO CONTINUING DISCLOSURE OF INFORMATION.”

REGISTRATION, SALE, AND DISTRIBUTION

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The Authority assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

UNDERWRITING

The Bonds are being purchased pursuant to a Bond Purchase Agreement between the Authority and Siebert Williams Shank & Co., LLC (“SWS”), on its own behalf and as representative (the “Representative”) of the several underwriters named on the cover page (collectively, the “Underwriters”).

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Authority at a price of \$401,102,002.71, which is the principal amount of the Bonds plus a premium of \$80,157,308.55 and less the Underwriters’ discount of \$1,235,305.84.

The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds covered by the Bond Purchase Agreement, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices, or yields higher than the yields, stated on page i hereof. The offering prices and yields may be changed from time to time by the Underwriters.

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

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, 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 investment banking services for the Authority for which they received or will receive customary fees and expenses.

SWS Capital Management, LLC, an SWS affiliate (“Affiliate”), which is a registered investment advisor, has three sub-advisory agreements with PFM Asset Management LLC, which is an investment advisor affiliate of PFM Financial Advisors LLC. The sub-advisory agreements do not relate to the Authority. Affiliate’s business is separate from SWS’ business, and the employees of SWS who cover the Authority are not involved in the activities of Affiliate.

Morgan Stanley & Co. LLC, one of the Underwriters of the Bonds, has entered into a retail distribution arrangement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute securities to retail investors through the financial network of Morgan Stanley Smith

Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its underwriting efforts with respect to the Bonds.

RATINGS

The rating agencies of Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings, a division of Standard & Poor's Financial Services, LLC ("S&P") have assigned their municipal bond ratings of "Aa3" and "AA+," respectively, to the Bonds as the Authority's underlying long-term ratings.

Ratings reflect only the views of the rating companies at the time each rating is assigned, and an explanation of the significance of such ratings may be obtained from such rating agencies. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or more of the rating companies, if in the sole judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The Authority will undertake no responsibility to notify Owners of any such revision or withdrawal of ratings; however, the Authority must comply with the continuing disclosure requirements related to rating changes. See "CONTINUING DISCLOSURE OF INFORMATION — Certain Event Notices."

Due to the ongoing uncertainty regarding the economy of the United States of America including, without limitation, matters such as the future political uncertainty regarding the United States debt limit, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default, other financial crisis or budgetary reductions should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds.

FINANCIAL ADVISOR

In connection with the issuance of the Bonds, PFM Financial Advisors LLC (the "Financial Advisor") has assisted the Authority in the preparation of Bond-related documents. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor or an affiliate may from time to time provide other services to the Authority for a fee, such as assistance with arbitrage rebate calculations. All fees and other remuneration received for the provision of investment advisory services to the Authority or other ancillary services are separate and distinct from the fees associated with this Bond issue and are not contingent upon the sale and issuance of the Bonds.

Although the Financial Advisor has read and participated in the preparation of this Official Statement, it has not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the Authority's records and from other sources that are believed to be reliable, including financial records of the Authority, reports of consultants 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, therefore, is entitled to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the Authority, that are not purely historical are forward-looking statements, including statements regarding 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 Authority on the date thereof, and the Authority assumes no obligation to update any such forward-looking statements. It is important to note that the actual results of the Authority could differ materially from those in such forward-looking statements.

The forward-looking statements in this Official Statement 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 omitted 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 Authority. 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.

MISCELLANEOUS

All information contained in this Official Statement is subject in all respects to the complete information contained in the original sources thereof. No opinions, estimates or assumptions, whether or not expressly identified as such, should be considered statements of fact. Statements made herein regarding the Bonds are qualified in their entirety by reference to the forms thereof included in the Resolution and the information with respect thereto included in the Resolution.

Distribution of this Official Statement was approved by the Port Commission.

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APPENDIX A

EXCERPTS FROM MASTER RESOLUTION

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**MASTER RESOLUTION ESTABLISHING A FINANCING SYSTEM;
AUTHORIZING THE ISSUANCE OF PORT OF HOUSTON AUTHORITY
FIRST LIEN OBLIGATIONS, SECOND LIEN OBLIGATIONS, THIRD
LIEN OBLIGATIONS AND INFERIOR LIEN OBLIGATIONS;
PROVIDING FOR CREDIT AGREEMENTS AND HEDGE
AGREEMENTS; GRANTING SECURITY AND ESTABLISHING FUNDS
AND ACCOUNTS FOR THE PAYMENT OF OBLIGATIONS; AND
MAKING OTHER PROVISIONS REGARDING SUCH OBLIGATIONS
AND MATTERS INCIDENT THERETO**

IT IS HEREBY RESOLVED BY THE PORT COMMISSION OF PORT OF HOUSTON
AUTHORITY OF HARRIS COUNTY, TEXAS THAT:

ARTICLE I

FINDINGS AND DETERMINATIONS

Section 1.1. Findings and Determinations.

(a) The Port of Houston Authority of Harris County, Texas (the “Authority”), was created for the purpose of the development of deep water navigation and the improvement of rivers, bays, creeks, streams, and canals within or adjacent to the Authority, including the Houston Ship Channel and dredge material management areas, and to construct and maintain canals or waterways to permit navigation or in aid thereof and for the purpose of and with the authority to acquire, purchase, undertake, construct, maintain, operate, develop, and regulate wharves, docks, warehouses, grain elevators, bunkering facilities, belt railroads, railroads, floating plants, lighterage, lands, dredge material management areas, towing facilities, and all other facilities or aids incident to or necessary to or useful in the operation or development of ports or waterways within the Authority, including the Houston Ship Channel and dredge material management areas, or in aid of navigation and commerce thereon.

(b) The Port Commission (the “Port Commission”) of the Authority has determined that it is in the best interests of the Authority to establish a Financing System (as defined herein) in order to issue first lien, second lien, third lien, and inferior lien obligations from time to time, to create commercial paper programs and direct purchase note programs, and to enter into credit agreements and hedge agreements to the extent permitted by this Master Resolution (as defined herein), Supplemental Resolutions (as defined herein) and applicable law.

(c) The Port Commission previously adopted a Master Resolution Establishing a Financing System; Authorizing the Issuance of Port of Houston Senior Lien Obligations and Junior Lien Obligations; providing for Credit Agreements and Hedge Agreements; Granting Security and Establishing Funds and Accounts for the Payment of Obligations and making Other Provisions Regarding such Obligations and Matters Incident thereto, dated as of November 13, 2018 (the “Prior Master Resolution”). There are no Obligations

currently outstanding under the Prior Master Resolution. The Port Commission now wishes to rescind and repeal the Prior Master Resolution and any supplemental resolutions adopted thereunder and to close the liens created thereby, with such repeal, rescission and closure to become effective concurrently with the earlier to occur of the closing of the first direct purchase note program established or the first Obligations (as defined herein) issued under this Master Resolution.

(d) Obligations to be issued under this Master Resolution and any Supplemental Resolution are being authorized and issued pursuant to the Constitution and laws of the State, including particularly Chapter 5007, Texas Special District Local Laws Code, as amended, Chapter 60, Texas Water Code, as amended, Chapter 62, Texas Water Code, as amended, Chapter 1207, Texas Government Code, as amended, and Chapter 1371, Texas Government Code, as amended and other applicable law.

(e) The Authority is a conservation and reclamation district of the State of Texas operating as a navigation district under Article XVI, Section 59 of the Texas Constitution and therefore is an “Issuer” as defined by Chapter, 1371.001(4)(E), Texas Government Code.

ARTICLE II

DEFINITIONS AND INTERPRETATIONS

Section 2.1. Definitions. As used herein, the following terms shall have the meanings specified, unless the context clearly indicates otherwise:

“Accounting Principles” shall mean the “Generally Accepted Accounting Principles” for governmental entities in the United States, which include the enterprise fund accounting and reporting requirements and standards as issued by the Governmental Accounting Standards Board and, when applicable, such other accounting principles as the Authority may be required to employ from time to time, or pursuant to State law or regulation.

“Act” shall mean Article XVI, Section 59 of the Texas Constitution, Chapter 5007, Texas Special District Local Laws Code, as amended, Chapter 60, Texas Water Code, as amended, Chapter 62, Texas Water Code, as amended, Chapter 1207, Texas Government Code, as amended and Chapter 1371, Texas Government Code, as amended.

“Additional First Lien Obligations” shall mean all additional Obligations of any kind or class, including, without limitation, bonds, notes, bond anticipation notes, commercial paper and other obligations, issued or incurred as First Lien Obligations in accordance with this Master Resolution and any Supplemental Resolution.

“Additional Obligations” shall mean “Additional First Lien Obligations,” “Additional Second Lien Obligations,” “Additional Third Lien Obligations,” and additional Obligations issued or incurred as Inferior Lien Obligations under and in accordance with this Master Resolution, as authorized from time-to-time under this Master Resolution and any Supplemental Resolution.

“Additional Second Lien Obligations” shall mean all additional Obligations of any kind or class, including, without limitation, bonds, notes, bond anticipation notes, commercial paper and other obligations issued or incurred as Second Lien Obligations under and in accordance with this Master Resolution and any Supplemental Resolution.

“Additional Third Lien Obligations” shall mean all additional Obligations of any kind or class, including, without limitation, bonds, notes, bond anticipation notes, commercial paper and other obligations issued or incurred as Third Lien Obligations under and in accordance with this Master Resolution and any Supplemental Resolution.

“Annual Debt Service” shall mean, for any Annual Period with respect to all Outstanding Obligations, a particular Series of Obligations, or all First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, respectively, (i) the principal amount and interest paid (except at the option of the Authority) or payable or Maturity Amount paid (except at the option of the Authority) or payable with respect to such Obligations in the Annual Period, plus (ii) Credit Agreement Obligations paid or payable in such Annual Period, plus (iii) the net amount (which may be negative) of (x) any amounts paid or payable by the Authority in such Annual Period as Hedge Agreement Payment Obligations, less (y) amounts paid or payable to the Authority in such Annual Period with respect to Hedge Agreements (excluding collateral postings, termination payments and similar payments), minus (iv) all amounts that are deposited to the credit of a debt service fund or account for the payment of capitalized interest or the payment of principal and interest or Maturity Amount due in the Annual Period on all Outstanding Obligations or on such particular Series of Obligations or all First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, as the case may be, in each case from original proceeds from the sale of such Obligations or from any other lawfully available source (other than the Revenue Fund), and that are used or scheduled to be used to pay interest on such Obligations during any Annual Period, and minus (v) any portion or all of the interest on or principal of the Obligations that has been irrevocably committed by the Authority to be paid from funds on hand other than Gross Revenues, including without limitation, Supplemental Security. The following shall be used to calculate the Annual Debt Service for any Annual Period:

(a) Except as otherwise provided below, in determining the principal amount or Maturity Amount paid or payable with respect to Obligations or Credit Agreement Obligations in each Annual Period, payment shall be deemed to be made in accordance with any amortization schedule established for such Obligations to which the Authority is legally committed, including amounts paid or payable pursuant to any mandatory redemption schedule for such Obligations;

(b) If any of the Obligations constitute Balloon Obligations or Short-Term Obligations, then such amounts shall be treated as if such Obligations are refunded through the issuance of Long-Term Obligations on the date of the earliest permitted exercise of the put feature, stepped-up interest rate and call feature or similar obligation or right and incentive to refund as further set forth in the Supplemental Resolution authorizing a series of Balloon Obligations or the final maturity date of such Balloon Obligations, as the case may be, and, in the case of Short-Term Obligations at the maturity thereof, with such Long-Term Obligations assumed to be amortized in such a manner that the Annual Debt Service shall reflect substantially equal installments of principal and interest, or Maturity

Amount, over a period of thirty years, and assumed to bear interest at a fixed interest rate estimated by the Authority's Financial Advisor or underwriter to be the average rate of interest for a series of Long-Term Obligations issued to accomplish such refunding if issued on such terms on the date of such estimate; provided, however that during the Annual Period preceding the final maturity date of such Balloon Obligations and, in the case of Short-Term Obligations in each Annual Period, all of the principal or Maturity Amount thereof shall be considered to be due on the maturity or due date of such Balloon Obligations or Short-Term Obligations unless the Authority obtains a certificate from the Authority's Financial Advisor, which certificate may be provided by the Authority's Financial Advisor at any time prior to the beginning of such Annual Period, certifying that, in its judgment, the Authority will be able to refund such Balloon Obligations or Short-Term Obligations through the issuance of Long-Term Obligations, in which event the Balloon Obligations or Short-Term Obligations shall be amortized over the term of such proposed refunding Obligations and shall be deemed to bear the interest rate specified in the certificate of the Financial Advisor;

(c) Notwithstanding subsections (b) or (f) of this Section, to the extent required by a Supplemental Resolution, if any of the Obligations are authorized to be issued under a direct purchase note program, Annual Debt Service shall be computed on the assumption that all of the Obligations committed to be purchased under such program are outstanding on the date of calculation and shall be continuously refinanced under such note purchase agreement until the termination date of the commitment to purchase notes under the note purchase agreement unless a shorter period shall be specified in a certificate from the Authority's Financial Advisor, at which time it shall be assumed that the commitment shall be amortized in the manner set forth in subsection (b), above;

(d) Notwithstanding subsections (b) or (f) of this Section, to the extent required by a Supplemental Resolution, if any of the Obligations are authorized to be issued pursuant to a commercial paper program, Annual Debt Service shall be computed on the assumption that the principal amount of such Obligations outstanding under such program on the date of calculation shall remain outstanding and continuously be refinanced under such program until the termination date of the Credit Agreement supporting such commercial paper program, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount shall be amortized in the manner provided in subsection (b), above.

(e) As to any Annual Period prior to the date of any calculation, such requirements shall be calculated solely on the basis of Obligations that were Outstanding in such period; and as to any future Annual Period such requirements shall be calculated solely on the basis of Obligations Outstanding as of the date of calculation plus any Obligations then proposed to be issued;

(f) If any of the Obligations or proposed Obligations constitute Variable Rate Obligations, then, if the actual rate of interest borne thereby in any future Annual Period cannot be ascertained at the time of the calculation and subject to subsection (b) of this definition and the following proviso, interest in future Annual Periods shall be assumed to be the Assumed Variable Rate; provided, however, if the Authority has entered into a

Hedge Agreement with respect to a Series of Obligations constituting Variable Rate Obligations that provides for the Authority to pay a fixed interest rate thereunder and to receive a variable rate that is expected to approximate the rate of such Variable Rate Obligations during any future period, the fixed interest rate payable by the Authority under the Hedge Agreement during such future period shall be assumed to be the interest rate on such Variable Rate Obligations if the notional amount under the Hedge Agreement is equal to or greater than the Outstanding principal amount or Maturity Amount of the Variable Rate Obligations and reduces in the amounts and on the dates that the Obligations mature; and

(g) Collateral postings and termination or similar payments under a Hedge Agreement shall not be taken into account in any calculation of Annual Debt Service.

“Annual Period” shall mean a Fiscal Year or any other consecutive twelve-month period, except in the case of Sections 3.2(b)(iii) and 3.2(b)(iv)(A) of this Master Resolution, where it shall mean the most recently concluded Fiscal Year or any other consecutive 12 months that in either case is or are wholly contained in the most recent 18 months.

“Assumed Variable Rate” shall mean in the case of:

(a) Outstanding Variable Rate Obligations, the higher of:

(i) the average interest rate on such Variable Rate Obligations for the most recently completed twenty-four (24) month period or the period such Variable Rate Obligations have been Outstanding if it is less than twenty-four (24) months, or

(ii) the rate to be determined pursuant to clause (b) below assuming the Outstanding Variable Rate Obligations were being issued on the date of the calculation; and

(b) proposed Variable Rate Obligations, the interest rate estimated by the Authority’s Financial Advisor to be the average rate of interest such Variable Rate Obligations will bear during the period or periods for which Annual Debt Service is being calculated, assuming the Outstanding Variable Rate Obligations were being issued on the date of calculation.

Notwithstanding the foregoing, in no event shall the Assumed Variable Rate be in excess of the lesser of the Maximum Lawful Rate or the highest interest rate allowed by the documents pursuant to which the Variable Rate Obligations were issued.

“Attorney General” shall mean the Attorney General of the State.

“Authority,” “Issuer” and “Port” shall mean the Port of Houston Authority of Harris County, Texas and, where appropriate, the Port Commission thereof, and any successor thereto.

“Authorized Denomination” shall mean any amount specified as an Authorized Denomination in an applicable Supplemental Resolution.

“Authorized Representative” shall mean the individual with the duties of the Chairman of the Port Commission, Executive Director of the Authority, the Chief Operating Officer of the Authority, the Director, Treasury of the Authority, the Chief Financial Officer of the Authority or any other employee or officer of the Authority or member of the Port Commission designated to serve as an Authorized Representative or authorized to perform specific acts or duties under a resolution, including a Supplemental Resolution, duly adopted by the Port Commission. A Supplemental Resolution may provide for the designation and the manner of the designation by the Authorized Representative of an appointee to carry out the duties of the Authorized Representative if the Authorized Representative is unavailable to carry out his duties.

“Balloon Obligations” shall mean Long-Term Obligations of a particular issue or Series of Obligations of which 25% or more of the principal or Maturity Amount of the same issue or Series matures in the same Annual Period and is not required by the applicable Supplemental Resolution to be amortized below such percentage by payment or redemption prior to that Annual Period. A Supplemental Resolution shall designate the Obligations that will constitute Balloon Obligations. Long-Term Obligations that include a put feature, a stepped-up interest rate and call right, or other similar obligation or right and incentive to refund may be treated as Balloon Obligations maturing in the year of the put, stepped interest rate, or other incentive if such Obligations are designated as Balloon Obligations in the Supplemental Resolution authorizing such Long-Term Obligations.

“Bond Counsel” shall mean any attorney or firm of attorneys of nationally recognized standing on the subject of municipal bonds acceptable to the Port Commission.

“Business Day” shall mean any day other than a (i) Saturday or Sunday, (ii) day on which banking institutions generally in New York, New York, the State, or the principal offices of any Paying Agent are authorized or obligated by law or executive order to be closed for business, or (iii) day on which the New York Stock Exchange is closed.

“Capital Appreciation Bonds” shall mean Obligations on which interest accretes from the Issuance Date to the maturity date or prior redemption but is not payable prior to the maturity date or prior redemption. The term Capital Appreciation Bonds includes Obligations that convert to current interest bonds prior to maturity as may be further specified in a Supplemental Resolution.

“Code” shall mean means the Internal Revenue Code of 1986, as amended, and, with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding provision of any subsequent Internal Revenue Code and (d) the regulations promulgated under the provisions described in (b) and (c).

“Completion Obligations” shall mean bonds, notes or other obligations issued in accordance with this Master Resolution and any Supplemental Resolution for the purpose of completing any project financed with Obligations.

“Compounded Amount” shall mean, with respect to a Capital Appreciation Bond, as of any particular date, the original principal amount thereof plus all interest accreted and compounded to such date, as determined in the Supplemental Resolution authorizing the Capital Appreciation Bond.

“Counterparty” shall mean a counterparty to a Hedge Agreement.

“County” shall mean Harris County, Texas and, where appropriate, its Commissioners Court.

“Credit Agreement” shall mean any letter of credit, line of credit, standby letter of credit or agreement to purchase a debt obligation or any similar extension of credit, credit enhancement or liquidity support obtained by the Authority from a Credit Provider or such other agreement as may be described as a “credit agreement” in Chapter 1371, Texas Government Code, as amended, or other applicable law (but excluding agreements defined herein as a Hedge Agreement), obligating the Credit Provider to purchase, to provide for or to secure payment of the principal and purchase price of, and/or interest on or Maturity Amount of Obligations pursuant to the provisions of a Supplemental Resolution under which such Obligations are issued. The term includes a note purchase agreement or similar agreement between the Authority and a purchaser of notes under a commercial paper program, direct purchase note program or other similar program, if so specified in the Supplemental Resolution authorizing the same. The use of such definition is not intended to preclude the Authority from providing the credit or liquidity support with respect to Obligations directly rather than through a Credit Provider.

“Credit Agreement Obligation” shall mean the obligation of the Authority pursuant to a Reimbursement Agreement to repay any amounts drawn under a Credit Agreement and to pay interest on such drawn amounts pursuant to such Reimbursement Agreement or to pay other amounts owed under a Credit Agreement or Reimbursement Agreement as further specified in the Supplemental Resolution approving such Credit Agreement, which Credit Agreement Obligation is secured by the Net Revenues on a parity with or subordinate to the First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations to the extent provided in the Supplemental Resolution.

“Credit Provider” shall mean any party providing a Credit Agreement with respect to Obligations.

“Debt Service Reserve Fund” shall mean the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Reserve Fund, the Third Lien Debt Service Reserve Fund and/or a debt service reserve fund established for Inferior Lien Obligations.

“Debt Service Reserve Fund Participants” shall mean (a) any Series of First Lien Obligations designated in a Supplemental Resolution as a “First Lien Debt Service Reserve Fund Participant,” (b) any Series of Second Lien Obligations designated in a Supplemental Resolution as a “Second Lien Debt Service Reserve Fund Participant,” or (c) any Series of Third Lien Obligations designated in a Supplemental Resolution as a “Third Lien Debt Service Reserve Fund Participant.”

“Debt Service Reserve Fund Requirement” shall mean the First Lien Debt Service Reserve Fund Requirement, the Second Lien Debt Service Reserve Fund Requirement, the Third Lien Debt Service Reserve Fund Requirement, and/or a debt service reserve fund requirement established for Inferior Lien Obligations, as applicable, as established in a Supplemental Resolution authorizing a Series of Obligations, if any.

“Defeased Obligation” shall mean Obligations deemed to be paid, retired and no longer Outstanding pursuant to the provisions of Section 6.7.

“DSRF” shall mean Debt Service Reserve Fund.

“DSRF Security” shall mean a First Lien DSRF Security, a Second Lien DSRF Security, a Third Lien DSRF Security, or any DSRF Security relating to a particular Series of Obligations (including, without limitation, Inferior Lien Obligations) per the applicable Supplemental Resolution.

“Excluded Facilities” shall mean all properties, improvements and facilities now owned or hereafter acquired by the Authority located outside of the boundaries of the Authority, including any such properties or facilities located at or on Pelican Island, Galveston County, Texas.

“Excluded Fee and Charge Revenues” shall mean all income and revenues derived from fees and charges imposed by the Authority after the date hereof (excluding increases in fees and charges for services now provided by the Authority) and declared in the official action of the Port Commission approving such fees and charges to constitute fees and charges of the kind that will generate Excluded Fee and Charge Revenues. 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 Authority or improvement of a channel.

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

“Financial Advisor” shall mean the financial advisory firm or firms engaged by the Authority from time to time.

“Financed Project” shall have the meaning ascribed thereto in Section 3.5.

“Financing System” shall mean the Port of Houston Authority Financing System established in Section 3.1.

“First Lien Debt Service Fund” shall mean the fund so designated and created in Section 5.1 and Section 5.4.

“First Lien Debt Service Reserve Fund” shall mean the fund so designated, created and secured in Section 5.1 and Section 5.5.

“First Lien Debt Service Reserve Fund Participant Account” shall mean the account described and so named in Section 5.1.

“First Lien Debt Service Reserve Requirement” shall mean the amount, if any, specified in any Supplemental Resolution authorizing First Lien Obligations as the First Lien Debt Service Reserve Requirement or, if not so specified in any such Supplemental Resolution, \$0.

“First Lien DSRF Security” shall have the meaning given to such term in Section 5.5.

“First Lien Hedge Agreement” shall mean a Hedge Agreement, the Hedge Agreement Payment Obligations under which are First Lien Obligations.

“First Lien Obligations” shall mean all Obligations of any kind or class, including bonds, notes, bond anticipation notes, commercial paper and other obligations, issued or incurred and described as First Lien Obligations under and in accordance with this Master Resolution and any Supplemental Resolution, and includes all obligations of the Authority on Obligations, including Credit Agreement Obligations and Hedge Agreement Payment Obligations, that are secured by a pledge of and lien on Net Revenues on parity with other First Lien Obligations.

“Fiscal Year” shall mean the Authority’s fiscal year as from time to time designated by the Authority, which is currently the twelve month period beginning January 1 of a calendar year and ending December 31 of the same calendar year, and such period may be designated with the number of the calendar year in which such period ends.

“Fund” or “Funds” shall mean any one or more, as the case may be, of the separate funds created and established in this Master Resolution or in a Supplemental Resolution.

“General Fund” shall mean the fund of the Authority established in Section 5.1 hereof and further described in Section 5.10 hereof.

“Gross Revenues” means all income, tariffs, revenues, tolls, rents, lease money, returns and charges derived directly or indirectly by the Authority from the operation and use of and otherwise pertaining to the Port Facilities, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Port Facilities, exercise of the Authority’s regulatory authority, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the Authority from the Port Facilities, including, without limitation, all income, proceeds, tariffs, tolls, rents, lease moneys, returns, rates, fees and other charges from vessel and cargo services, grain elevator operations and bulk materials handling plant operations, for the use of the Port Facilities, or for any service rendered by the Authority in the operation thereof, and interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to this Master Resolution or any other Supplemental Resolution authorizing the issuance of Obligations. The aforementioned sources of revenues shall merely serve as types of revenue that the Authority may collect; the Authority is not enjoined from or mandated to collect all such revenues. Gross Revenues expressly exclude:

(a) proceeds of any Obligations;

(b) interest or other investment income derived from Obligation 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 a debt service fund, a Debt Service 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 Supplemental Resolution authorizing any Series of Obligations;

- (c) all gross revenue, income, proceeds, tolls, rents, lease moneys, returns and charges derived by the Authority from the operation of Excluded Facilities;
 - (d) any monies received as grants, appropriations, or gifts, unless they are designated by official action of the Port Commission at the time of receipt as being part of Gross Revenues;
 - (e) any revenues derived from any Special Facilities that are pledged to the payment of Special Facilities Obligations;
 - (f) insurance proceeds other than loss of use or business interruption insurance proceeds;
 - (g) deposits, option fees and other funds collected by the Authority to which a third party holds a contractually-based reversionary interest or other legal or equitable ownership interest;
 - (h) the proceeds of any user charge as may hereafter be collected by the Authority on behalf of, and that is payable to, the State, the United States, or any other governmental entities;
 - (i) the proceeds of any charge as may hereafter be collected by the Authority that are statutorily restricted to a specific purpose to the extent utilized for such statutorily restricted purpose, unless they are designated by official action of the Port Commission at the time of receipt as being part of Gross Revenues;
 - (j) sales and other taxes collected by the Authority, on behalf of, and that are payable to, the State or any other taxing entities;
 - (k) Federal Payments, unless the Authority first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not adversely affect the excludability of the interest on any Obligations the interest on which is otherwise excludable from gross income for federal income tax purposes;
 - (l) subject to Section 6.3, the net proceeds received by the Authority from the disposition of any Port Facilities or property owned by the Authority to the extent used to construct, improve, operate or maintain Port Facilities;
 - (m) Excluded Fee and Charge Revenue;
 - (n) Supplemental Security and revenue received under a Hedge Agreement;
- and
- (o) any revenues derived from ad valorem taxes levied and collected by the Authority or by the County on behalf of the Authority.

“Hedge Agreement” shall mean any agreement entered into by the Authority to manage the Authority’s interest rate exposure. For example, a Hedge Agreement may be, without limitation, an interest rate swap, an interest rate cap, a futures contract, a forward contract, an option or any other agreement or transaction defined as an “interest rate management agreement” by Chapter 1371, Texas Government Code, as amended. To the extent permitted by law, the Authority may enter into one or more Hedge Agreements in anticipation of, simultaneously with, or subsequent to the authorization and issuance of any Obligations benefiting from such Hedge Agreements.

“Hedge Agreement Payment Obligation” shall mean the obligation of the Authority pursuant to a Hedge Agreement to make payments to a Counterparty under the Hedge Agreement that are secured by the Net Revenues on a parity with First Lien Obligations, Second Lien Obligations, or Third Lien Obligations, as appropriate. The term does not include collateral postings, termination payments or similar payments and does not include fees or expenses under the Hedge Agreement.

“Inferior Lien Obligations” shall mean all Obligations of any kind or class, including, without limitation, bonds, notes, bond anticipation notes, commercial paper, Credit Agreements and other obligations issued or incurred by the Authority under and in accordance with this Master Resolution and any Supplemental Resolution or other resolution of the Authority, that are junior and subordinate to the lien on Net Operating Revenues securing the payment of First Lien Obligations, Second Lien Obligations, and Third Lien Obligations.

“Interest Payment Date” shall mean each date defined as such in any Supplemental Resolution under which the Obligations are issued. However, in each case, if such date specified above is not a Business Day then the Interest Payment Date shall be the Business Day next succeeding such date.

“Issuance Date” shall mean with respect to any Obligations, the date of delivery of such Obligations to the initial purchasers thereof against payment therefor.

“Long-Term Obligations” shall mean all Obligations that are not Short-Term Obligations.

“Master Resolution” shall mean this Master Resolution, as the same may be amended or supplemented from time to time as permitted hereby.

“Maturity Amount” shall mean the Compounded Amount of a Capital Appreciation Bond due on its maturity.

“Maximum Lawful Rate” shall mean the lesser of (a) the maximum rate of interest allowed by Chapter 1204, Texas Government Code, or any successor provision, (b) the maximum nonusurious rate of interest permitted to be charged by applicable federal or Texas law from time to time in effect, or (c) for a particular Series or Credit Agreement, the maximum nonusurious rate of interest designated in the applicable Supplemental Resolution.

“Net Revenues” shall mean the Gross Revenues received each month or during any period after the payment or set aside of the portion thereof required to pay Operation and Maintenance Expenses due in such month or period.

“Obligation” or “Obligations” shall mean all indebtedness of the Authority payable from Net Revenues incurred or assumed by the Authority for borrowed money (including Credit Agreement Obligations) and all other financing obligations of the Authority related to the Authority the instruments or other documents evidencing or creating which are authenticated and delivered under and pursuant to this Master Resolution and any Supplemental Resolution. The term does not include any obligations of the Authority secured by ad valorem taxes or secured by payments from the General Fund if not entered into under this Master Resolution.

“Operation and Maintenance Expenses” shall mean all reasonable and necessary current expenses of the Authority, as determined by the Accounting Principles, of operating, maintaining and repairing the Port Facilities and the administration of the Authority, including, without limitation, 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 Authority; costs of contractual and professional services, labor, materials and supplies for current operations; fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative and general expenses, but excluding:

- (a) any allowance for depreciation;
- (b) costs of capital improvements;
- (c) any allowance for redemption of, or payment of principal, interest or premium on, Obligations or ad valorem tax supported obligations of the Authority;
- (d) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities;
- (e) any charges or obligations incurred in connection with any lawful Authority purpose, provided that such charges are payable from money on deposit in a specified fund or account created pursuant to the provisions of this Master Resolution and any Supplemental Resolution;
- (f) liabilities based upon the Authority’s negligence or other grounds not based on contract;
- (g) 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 to the extent that the Federal Payments are used to pay such expenses;
- (h) so long as monies received as grants, appropriations or gifts are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to such grants, appropriations or gifts to the extent that they are used to pay such expenses; and

(i) so long as monies received as proceeds of a charge collected by the Authority that are statutorily restricted to a specific purpose are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to such proceeds to the extent they are utilized to pay such expenses.

“Outstanding,” when used with reference to any Obligations, shall mean, as of a particular date, all Obligations theretofore and thereupon delivered pursuant to this Master Resolution except: (a) any Obligations canceled by or on behalf of the Authority at or before such date in accordance with their terms or the terms of the Supplemental Resolution authorizing such Obligations; (b) any Obligations defeased pursuant to the defeasance provisions of this Master Resolution or the Supplemental Resolution authorizing such Obligations with the consequence that they are no longer payable from or secured by Net Revenues; and (c) any Obligations in lieu of or in substitution for which a replacement Obligation shall have been delivered pursuant to and in accordance with this Master Resolution.

“Owner” or “Registered Owner,” when used with respect to any Obligations, 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 Obligations of the applicable Series or lien priority then Outstanding under the Master Resolution.

“Paying Agent/Registrar” shall mean a bank, trust company, or other entity designated pursuant to a Supplemental Resolution as the agent of the Authority to receive and disburse to bondholders the principal and premium, if any, and interest on the Obligations.

“Permitted Investments” shall mean any security or obligation or combination thereof permitted under the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, or its successor, and the Authority’s duly approved Investment Policy.

“Person” shall mean any individual, public or private corporation or limited liability company, district, authority, municipality, political subdivision or other agency or entity of the State or the United States of America, and any incorporated city, town or village, whether operating under general or special law or under its home rule charter, and any partnership, association, firm, trust, estate, or any other entity whatsoever.

“Port Commission” shall mean the Port Commission of the Authority.

“Port Facilities” shall mean the real improved property, navigation improvements and facilities, channels and turning basins, dock and wharf facilities, warehouses, grain elevators, bunkering facilities, belt railroads and related facilities, floating plants, lighterage, towing facilities, bulk handling facilities, and appurtenances to all the above described facilities used in the present or future operations of the Authority, including the Houston Ship Channel, and all other facilities, equipment or aids incidental to or useful in the operation of the Authority’s ports and waterways or in aid of navigation and commerce in such ports and on such waterways, or any interest therein, now or from time to time hereafter owned, operated or controlled by the Authority, together with all properties, facilities and services thereof operated or controlled by the Authority,

and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the Authority in connection therewith, but expressly excluding the Excluded Facilities, the Special Facilities and all undeveloped real property not used for Authority operations or presently leased by the Authority as lessor.

“Port 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 ports of approximately the same size as the properties constituting the Port Facilities.

“Principal Office” shall mean, 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 Authority.

“Prior Master Resolution” means the Master Resolution Establishing a Financing System; Authorizing the Issuance of Port of Houston Senior Lien Obligations and Junior Lien Obligations; providing for Credit Agreements and Hedge Agreements; Granting Security and Establishing Funds and Accounts for the Payment of Obligations and making Other Provisions Regarding such Obligations and Matters Incident thereto, dated as of November 13, 2018, which was repealed by this Master Resolution.

“Project” means any project authorized by the Act or other applicable law that is financed or refinanced with Obligations of the Authority.

“Projected Annual Debt Service” as of any date shall mean, when applied to one Series or all Series of First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, or all Obligations, as the case may be, for any Annual Period, an amount equal to the sum of (a) the amount of Annual Debt Service in such Annual Period on such First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, or all Obligations, as the case may be, then Outstanding plus (b) the Annual Debt Service in such Annual Period on any additional Obligations at such lien level then proposed to be issued; provided that, in making such calculation, the Authority may take into consideration any amounts received, or reasonably expected to be received, by the Authority from or as a result of Supplemental Security that the Authority has pledged for the benefit of the Obligations for which such calculation is being made.

“Rate Covenant” shall mean the covenant of the Authority set forth in Section 4.3 of this Master Resolution.

“Rating Agency” shall mean any nationally recognized securities rating agency which has assigned, at the request of the Authority, a rating to the Obligations.

“Rebate Fund” shall mean the fund so designated, created and secured in Section 5.1 and Section 5.3.

“Register” shall mean the registration books maintained by a Paying Agent/Registrar for Obligations issued under a Supplemental Resolution.

“Regulations” means the applicable, proposed, temporary or final Treasury Regulations promulgated under the Code, or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Reimbursement Agreement” shall mean an agreement between the Authority and one or more Credit Providers pursuant to which, among other things, such Credit Provider issues (or which agreement is a part of) a Credit Agreement with respect to Obligations of one or more Series and pursuant to which the Authority agrees to reimburse such Credit Provider for any drawings made under such Credit Agreement.

“Revenue Fund” shall mean the fund so designated and created in Section 5.1 into which the Authority deposits (or causes to be deposited) Net Revenues as further described.

“Second Lien Debt Service Fund” shall mean the fund so designated, created and secured in Section 5.1 and Section 5.6.

“Second Lien Debt Service Reserve Fund” shall mean the fund so designated, created and secured in Section 5.1 and Section 5.7.

“Second Lien Debt Service Reserve Fund Participant Account” shall mean an account so described in Section 5.1.

“Second Lien Debt Service Reserve Requirement” shall mean the amount, if any, specified in any Supplemental Resolution authorizing Second Lien Obligations as the Second Lien Debt Service Reserve Requirement or, if not so specified in any such Supplemental Resolution, \$0.

“Second Lien DSRF Security” shall have the meaning given to such term in Section 5.7.

“Second Lien Hedge Agreement” shall mean a Hedge Agreement, the Hedge Agreement Payment Obligations of which are designated as Second Lien Obligations.

“Second Lien Obligations” shall mean all Obligations of any kind or class, including bonds, notes, bond anticipation notes, commercial paper and other obligations, issued or incurred and described as Second Lien Obligations under and in accordance with this Master Resolution and any Supplemental Resolution, and includes all obligations of the Authority on Obligations, including Credit Agreement Obligations and Hedge Agreement Payment Obligations, that are secured by a pledge of and lien on the Net Revenues on parity with the Second Lien Obligations.

“Series” shall mean a separate series of Obligations, including those issued or incurred as part of a commercial paper program, direct purchase note program or other similar program, as specified by or pursuant to the terms of a Supplemental Resolution.

“Short-Term Obligations” shall mean all Obligations that mature in less than a year and are issued as Short-Term Obligations pursuant to (i) Sections 3.2 and 3.4 of this Master Resolution or (ii) a Supplemental Resolution. In the event a line of credit has been extended or the Authority has undertaken a commercial paper program, direct purchase note program, or similar program, unless otherwise provided in the Supplemental Resolution authorizing the Outstanding Short-Term Obligations, only amounts actually borrowed or notes purchased under such line of credit or

program and repayable in less than a year shall be considered Short-Term Obligations, and the full amount of such facility, commitment or program shall not be treated as Outstanding Short-Term Obligations to the extent that such facility, commitment or program remains available but undrawn.

“Special Facilities” shall mean any and all facilities and appurtenances, all of the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Obligations or set aside and reserved from other available funds when such Special Facilities Obligations are issued.

“Special Facilities Lease” shall mean any lease or agreement, howsoever denominated, pursuant to which a Special Facility is leased by the Authority to the lessee in consideration for which the lessee agrees to pay (a) all debt service on the Special Facilities Obligations issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Obligations) and (b) the operation and maintenance expenses of the Special Facility.

“Special Facilities Obligations” shall mean any bonds, notes, or other obligations from time to time issued by the Port pursuant to Section 3.8 hereof.

“State” shall mean the State of Texas.

“Supplemental Resolution” shall mean any resolution supplementing this Master Resolution to provide for the issuance of Obligations or for such other purpose authorized by this Master Resolution.

“Supplemental Security” shall mean any one or more of the following: (a) any Credit Agreement or other credit enhancement for specified Obligations, (b) any funds received by or obligations payable to the Authority, other than Gross Revenues, including but not limited to Excluded Fee and Charge Revenues, and funds received by or payable to the Authority under a Hedge Agreement, (c) the proceeds from the sale of Obligations issued for the purpose of refinancing, redeeming or refunding then-Outstanding Obligations, or (d) a mortgage or encumbrance of Port Facilities acquired with the proceeds of the sale of the Obligations and permitted by Section 6.3; in each case which the Authority chooses to include as a security for specified First Lien Obligations, Second Lien Obligations, Third Lien Obligations or Inferior Lien Obligations pursuant to a Supplemental Resolution, as provided in Section 4.4.

“Tender Obligations” shall mean any Obligations the terms of which include (a) an option or an obligation on the part of the Owner to tender all or a portion of such Obligations to the Authority, the Paying Agent or another fiduciary or agent for payment or purchase prior to maturity and (b) a requirement on the part of the Authority to purchase or cause to be paid or purchased such Obligation or portion thereof prior to maturity if properly tendered.

“Third Lien Debt Service Fund” shall mean the fund so designated and created in Section 5.1 and Section 5.8.

“Third Lien Debt Service Reserve Fund” shall mean the fund so designated, created and secured in Section 5.9.

“Third Lien Debt Service Reserve Fund Participant Account” shall mean the account described and so named in Section 5.1.

“Third Lien Debt Service Reserve Requirement” shall mean the amount, if any, specified in any Supplemental Resolution authorizing Third Lien Obligations as the Third Lien Debt Service Reserve Requirement or, if not so specified in any such Supplemental Resolution, \$0.

“Third Lien DSRF Security” shall have the meaning given to such term in Section 5.9.

“Third Lien Hedge Agreement” shall mean a Hedge Agreement, the Hedge Agreement Payment Obligations under which are Third Lien Obligations.

“Third Lien Obligations” shall mean all Obligations of any kind or class, including bonds, notes, bond anticipation notes, commercial paper and other obligations, issued or incurred and described as Third Lien Obligations under and in accordance with this Master Resolution and any Supplemental Resolution, and includes all obligations of the Authority on Obligations, including Credit Agreement Obligations and Hedge Agreement Payment Obligations, that are secured by a pledge of and lien on Net Revenues on parity with other Third Lien Obligations.

“Transfer Date” shall have the meaning ascribed thereto in Section 5.2 hereof.

“Variable Rate Obligations” shall mean any Obligation the interest rate on which may fluctuate from time to time subsequent to the time of incurrence. Variable Rate Obligations may include, without limitation, (a) Tender Obligations; (b) commercial paper Obligations which are intended to be issued and refunded or refinanced periodically; (c) Obligations under a direct purchase note program which are intended to be issued and refunded or refinanced periodically; (d) Obligations that bear interest at a fixed rate, but with respect to which the Authority has entered into a Hedge Agreement that provides for the Authority to pay a variable interest rate thereunder; provided, that the notional amount under the Hedge Agreement is equal to or greater than the Outstanding principal amount of the related Obligations and reduces in amounts and on the dates that the related Obligations mature; or (e) other forms of Obligations on which the rate of interest fluctuates or is subject to being set or reset from time to time.

Section 2.2. Interpretations. All terms defined herein and all pronouns used in this Master Resolution shall be deemed to apply equally to singular and plural and to all genders. Whenever in the Master Resolution an officer of the Authority is named or referred to by title, it shall be deemed to include any office or officer of the Authority succeeding to the principal functions and powers of the named office or officer of the Authority. The titles and headings of the articles and sections of this Master Resolution have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Master Resolution 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 First Lien Obligations, Second Lien Obligations, Third Lien Obligations and Inferior Lien Obligations issued hereunder and the validity of the pledge of Net Revenues to pay the principal of and interest on the First Lien Obligations, Second Lien Obligations, Third Lien Obligations, and Inferior Lien Obligations issued hereunder.

Section 2.3. Certifications. Wherever in this Master Resolution it is provided that any Person shall make any certification or deliver or receive any report as a condition to taking or refraining from taking any action or permitting any condition, or as evidence of compliance by the Authority with any term hereof, it is intended that the truth and accuracy, at the time of such certification or report, and of the facts stated therein, shall in such case be conditions to the sufficiency of such certification or report, but all action taken hereunder pursuant to any such certification or report shall be final and effective in favor of all Persons who have relied thereon without knowledge of any untruth or inaccuracy of such facts.

ARTICLE III

ESTABLISHMENT OF THE FINANCING SYSTEM AND ISSUANCE OF OBLIGATIONS

Section 3.1. Establishment of a Financing System.

(a) Pursuant to the authority conferred by and in accordance with the provisions of the Constitution and laws of the State, including the Act and other applicable law, the Port Commission hereby establishes the “Port of Houston Authority Financing System” to (i) pay the cost of any Project, (ii) fund any reserve or other fund established in connection with the issuance of Obligations, (iii) refund and refinance outstanding Obligations and any other obligations of the Authority, (iv) pay the costs of issuance of such Obligations, and (v) provide funds for any other lawful purpose.

(b) The Obligations may, if and when authorized by the Authority pursuant to one or more Supplemental Resolutions, be issued or incurred in one or more Series, and the designation thereof, in addition to describing the priority of the security therefor as “First Lien,” “Second Lien,” “Third Lien,” or such other lien level as shall be designated for Inferior Lien Obligations, shall include such further appropriate particular designation added to or incorporated in such title for the Obligations of any particular Series as the Authority may determine, including, without limitation, the designation of such Obligations as “Bonds,” “Notes,” “Certificates,” “Commercial Paper,” “Program Notes” or other appropriate designation. A Supplemental Resolution may authorize one or more Series to be established as a program for the issuance of commercial paper, direct purchase notes or other similar forms of indebtedness from time to time as First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations. Such Obligations may be issued as Long-Term Obligations, Short-Term Obligations or Balloon Obligations.

(c) Each Supplemental Resolution shall provide for the authorization, issuance, sale, delivery, form, characteristics, interest rate(s) (which may be fixed, variable, adjustable or computed by any other method), provisions for payment and redemption and any other matters related to the Obligations authorized thereby (including without limitation, matters related to the delegation to an Authorized Representative of the sale of any such Obligations and the execution and delivery of Credit Agreements and Reimbursement Agreements, if any). A Supplemental Resolution may, to the extent consistent with or not prohibited by this Master Resolution, provide for different or

additional terms for, and delegations in connection with, Obligations issued under such Supplemental Resolution and may further provide for different or additional terms for, and delegations in connection with, Obligations issued under a Series established as a commercial paper program, direct purchase note program or other similar program.

(d) Subject to the Authority's compliance with the provisions of this Article III, no limit is imposed as to the principal amount of Obligations of any lien level that may be issued under the provisions of this Master Resolution.

(e) In a Supplemental Resolution, the Authority may establish additional funds, accounts and subaccounts as permitted under this Master Resolution. In addition, a Supplemental Resolution may establish additional lien levels for Inferior Lien Obligations, provided that such liens are inferior to the lien securing Third Lien Obligations.

Section 3.2. Issuance of Obligations and Credit Agreements.

(a) The Authority reserves and shall have the right and authority to issue Obligations and to execute and deliver Credit Agreements, Reimbursement Agreements and Hedge Agreements (subject to Section 3.3 below) with respect to any or all of the Obligations for any purpose authorized by law pursuant to the provisions of this Master Resolution and any Supplemental Resolution on the conditions set forth in Article III of this Master Resolution. The Obligations and Credit Agreement Obligations, when executed and delivered in accordance with this Master Resolution, may be (i) secured by and made payable equally and ratably on a parity with, or subordinate to, all Outstanding First Lien Obligations, Outstanding Second Lien Obligations, Outstanding Third Lien Obligations, or Outstanding Inferior Lien Obligations as the case may be, from a lien on and pledge of the Net Revenues, or (ii) secured by and made payable from any combination of liens on and pledges of Net Revenues that are on parity with or subordinate to the pledge and lien securing First Lien Obligations, senior to, on parity with, or subordinate to the pledge and lien securing Second Lien Obligations, senior to, on parity with, or subordinate to the pledge and lien securing Third Lien Obligations, or senior to, on parity with, or subordinate to the pledge and lien securing Inferior Lien Obligations.

(b) The Obligations of each Series (or collection of Series issued under the same plan of finance), together with any Credit Agreement(s) related thereto, shall be delivered in accordance with terms to be set forth in the Supplemental Resolution authorizing such Series. In addition, except in connection with the Obligations authorized by a Supplemental Resolution approved at the same meeting as this Master Resolution (which shall not have to comply with this subsection), no Series of Obligations (or any Credit Agreement) shall be issued or delivered unless:

(i) No Default. The Authority shall certify that upon the issuance of such Series of Obligations and the delivery of such Credit Agreement (and any related Reimbursement Agreement), the Authority will not be in default under any term or provision of this Master Resolution, any Obligations then Outstanding, any Supplemental Resolution pursuant to which any of such Outstanding Obligations were issued, or any Credit Agreement or Hedge Agreement;

(ii) Proper Fund Balances. The Authority shall certify that, upon the issuance of such Series of Obligations, the First Lien Debt Service Fund, the Second Lien Debt Service Fund, the Third Lien Debt Service Fund and any debt service funds established for any Inferior Lien Obligations will have the amounts required by the Master Resolution and any Supplemental Resolution to be on deposit therein, if any, and the First Lien Debt Service Reserve Fund, Second Lien Debt Service Reserve Fund, Third Lien Debt Service Reserve Fund, and any debt service reserve fund established for any Inferior Lien Obligations will contain the applicable Debt Service Reserve Fund Requirement, if any, or so much thereof as is required to be funded at such time;

(iii) Historical Coverage on Outstanding Obligations. The Authority shall certify that for any consecutive 12 months out of the most recent 18 months (for the purposes of this Section, such a period is an “Annual Period”) the Net Revenues of the Authority were equal to at least:

(A) 150% of the Annual Debt Service for such Annual Period on all Outstanding First Lien Obligations,

(B) 135% of the Annual Debt Service for such Annual Period on all Outstanding First Lien Obligations and Second Lien Obligations; and

(C) 125% of Annual Debt Service for such Annual Period on all Outstanding First Lien Obligations, Second Lien Obligations and Third Lien Obligations;

provided that the provisions of this subsection (b)(iii) shall not apply to (a) the issuance of Obligations for the purpose of refunding Short-Term Obligations or Balloon Obligations or Obligations issued under a commercial paper program or a direct purchase note program, or (b) the issuance of Completion Obligations in accordance with Section 3.5 hereof; and provided further that additional coverage requirements for Inferior Lien Obligations may be added in a Supplemental Resolution;

(iv) Coverage for Additional Obligations. Either

(A) Historical Coverage. For any consecutive 12 months out of the most recent 18 months (for the purposes of this subsection, such a period is an “Annual Period”) that the Net Revenues of the Authority were equal to at least:

(I) 150% of the maximum Projected Annual Debt Service on all First Lien Obligations for all future Fiscal Years in which both the Additional Obligations to be issued or delivered and all Outstanding Obligations are due to remain Outstanding,

(II) 135% of the maximum Projected Annual Debt Service on all First Lien Obligations and Second Lien Obligations

for all future Fiscal Years in which both the Additional Obligations to be issued or delivered and all Outstanding Obligations are due to remain Outstanding, and

(III) 125% of the maximum Projected Annual Debt Service on all First Lien Obligations, Second Lien Obligations, and Third Obligations for all future Fiscal Years in which both the Additional Obligations to be issued or delivered and all Outstanding Obligations are due to remain Outstanding; and

in making such calculation, Net Revenues may be adjusted to give effect to any increase of tariffs, rentals, fees, rates, tolls and charges placed into effect at least 60 days prior to the adoption of the Supplemental Resolution authorizing the Additional Obligations to the same extent as if such increase of tariffs, rentals, fees, rates, tolls and charges had been placed into effect prior to the commencement of the consecutive 12 month period that is the basis of the calculation; provided, however, that the result of the calculation utilizing such an adjustment must be certified by an independent certified public accountant or firm of independent certified public accountants using the Accounting Principles; or

(B) Projected Coverage: a Port Management Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues of the Authority for each of the three consecutive Fiscal Years beginning with 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 Additional Obligations, based upon a certified written estimate of such completion date by the consulting engineer for such facility or facilities, or

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

are equal to at least 150% of the maximum Projected Annual Debt Service on all First Lien Obligations, 135% of the maximum Projected Annual Debt Service on all First Lien Obligations and Second Lien Obligations, and 125% of the maximum Projected Annual Debt Service on all First Lien Obligations, Second Lien Obligations and Third Lien Obligations, in each case for all Fiscal Years described in subsection (b)(iv)(A) of this Section;

(C) Refunding Obligations: if the Additional Obligations are being issued for the purpose of refunding previously issued Obligations which are then Outstanding, none of the certifications described in (b)(iii) or (b)(iv)(A) or (B) of this Section are required (except in the event First Lien Obligations are issued to refund Obligations other than First Lien Obligations, Second Lien Obligations are issued to refund Third Lien Obligations or Inferior Lien Obligations, or Third Lien Obligations are issued to refund Inferior Lien Obligations), so long as the Projected Annual Debt Service in no Fiscal Year after the issuance of such Obligations (after taking into account the redemption or defeasance of the Obligations being refunded) will exceed the scheduled Annual Debt Service in the same Fiscal Year prior to the issuance of such Obligations;

provided, however, that the provisions of this subsection (b)(iv) shall not apply to (a) the issuance of Obligations for the purpose of refunding Short-Term Obligations or Balloon Obligations or Obligations issued under a commercial paper program or a direct purchase note program or (b) the issuance of Completion Obligations in accordance with Section 3.5 hereof; and provided further that additional coverage requirements for Inferior Lien Obligations may be added in a Supplemental Resolution; and

(v) Supplemental Resolution Requirements: Provision is made in the Supplemental Resolution authorizing the Series of Obligations proposed to be issued for:

(A) additional payments into the First Lien Debt Service Fund, Second Lien Debt Service Fund, Third Lien Debt Service Fund or debt service funds established for Inferior Lien Obligations (as the case may be) sufficient to provide for any principal and interest requirements resulting from the issuance of the Obligations, including, in the event that interest on the additional series of Obligations 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 First Lien Debt Service Fund, Second Lien Debt Service Fund, Third Lien Debt Service Fund, or debt service funds established for Inferior Lien Obligations (as the case may be) of amounts fully sufficient to pay interest on such series of Obligations during the period specified in the Supplemental Resolution; and

(B) satisfaction of any First Lien Debt Service Reserve Fund Requirement, the Second Lien Debt Service Reserve Fund Requirement, the Third Lien Debt Service Reserve Fund Requirement, or debt service reserve fund requirements established for Inferior Lien Obligations (as the case may be) by not later than the date required by any Supplemental Resolution authorizing Obligations then Outstanding.

(c) Special Provisions for Credit Agreements. The Authority may enter into Credit Agreements with respect to any Obligations if (i) prior to entering into such Credit Agreement, the Authority, 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 and (ii) the conditions described in subsection (b) of this Section are satisfied for the Obligations to be incurred under the Credit Agreement. A Credit Provider may be entitled to be subrogated to the rights of the Owners of the Obligations to payments thereon made by advances under such Credit Agreement, and to the extent so provided in a Supplemental Resolution authorizing such Credit Agreement, the Authority's Credit Agreement Obligations may be secured by Net Revenues at the same lien priority as or a lien priority inferior to the Obligations to which the Credit Agreement relates.

Section 3.3. Hedge Agreements. The Authority may enter into one or more Hedge Agreements with respect to any Obligations if prior to entering into such Hedge Agreement:

(a) the Port Commission authorizes the execution and delivery of the Hedge Agreement and specifies therein whether the Hedge Agreement Payment Obligations shall be secured by a pledge of and lien on the Net Revenues on a parity with the First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations to which such Hedge Agreement relates;

(b) the Authority obtains an opinion of nationally recognized bond counsel addressed to the Authority to the effect that the execution of the Hedge Agreement is permitted under the laws of the State and will not adversely affect the exclusion from gross income of interest on any Obligations for federal tax purposes (to the extent such Obligations were issued on a tax-exempt basis);

(c) the Authority shall certify that the Authority is not in default under this Master Resolution, any Supplemental Resolution or Obligations then Outstanding, or any existing Credit Agreement or Hedge Agreement, and that the Hedge Agreement is in compliance with the Authority's then current policies;

(d) the Authority, to the extent required by law, shall cause the proceedings authorizing the Hedge Agreement to be submitted to and approved by the Attorney General and, to the extent applicable, comply with the provisions of Section 1371.056(j) of the Texas Government Code, as amended; and

(e) the Authority shall certify that the calculation of Annual Debt Service takes into account the expected Hedge Agreement Payment Obligations to be made by the Authority and amounts to be received by the Authority from the Counterparty pursuant to such Hedge Agreement as set forth in this Master Resolution or applicable Supplemental Resolution or, in the case of a Hedge Agreement entered into in anticipation of or after the issuance of the Obligations to which it relates, the Authority makes the certifications required to demonstrate that it may then issue an equal amount of such Obligations of the same lien priority (in lieu of such Obligations if then Outstanding) in accordance with Section 3.2(b).

The Authority may elect to either (i) secure its Hedge Agreement Payment Obligations thereunder (but no other obligations with respect to any such Hedge Agreement) on parity with the First Lien Obligations or (ii) not secure such Hedge Agreement Payment Obligations thereunder issued on parity with the First Lien Obligations. In the event the Authority wishes to secure its Hedge Agreement Payment Obligations on parity with the First Lien Obligations, the Supplemental Resolution by which it is authorized shall grant such parity lien (in which event, such Hedge Agreement shall constitute a “First Lien Hedge Agreement”). Upon entering into a First Lien Hedge Agreement, amounts equal to the Hedge Agreement Payment Obligations under the First Lien Hedge Agreement (net of any amounts owed by the Counterparty to the Port) shall be deposited into the First Lien Debt Service Fund as if such amounts were additional amounts of interest due in order to pay (when due) such Hedge Agreement Payment Obligations payable under the First Lien Hedge Agreement from amounts on deposit in the First Lien Debt Service Fund. Net amounts received by the Authority from the Counterparty pursuant to First Lien Hedge Agreement shall be deposited to the credit of the First Lien Debt Service Fund or, in the case of collateral postings and amounts due on termination, to such other Fund or account as designated by an Authorized Representative of the Authority. Notwithstanding the foregoing, any amounts payable by the Authority as termination payments under a First Lien Hedge Agreement shall, if secured by a pledge of and lien on the Net Revenues, be secured by a pledge of and lien on the Net Revenues subordinate to the lien benefitting the First Lien Obligations.

The Authority may elect to either (i) secure its Hedge Agreement Payment Obligations thereunder (but no other obligations with respect to any such Hedge Agreement) on parity with the Second Lien Obligations or (ii) not secure such Hedge Agreement Payment Obligations thereunder on parity with the Second Lien Obligations. In the event the Authority wishes to secure its obligations on parity with the Second Lien Obligations, the Supplemental Resolution by which it is authorized shall grant such parity lien position (in which event, such Hedge Agreement shall constitute a “Second Lien Hedge Agreement”). Upon entering into a Second Lien Hedge Agreement, amounts equal to the Hedge Agreement Payment Obligations received under the Second Lien Hedge Agreement (net of any amounts owed by the Counterparty to the Authority) shall be deposited into the Second Lien Debt Service Fund as if such amounts were additional amounts of interest due in order to pay (when due) such Hedge Agreement Payment Obligations payable under the Second Lien Hedge Agreement from amounts on deposit in the Second Lien Debt Service Fund. Net amounts received by the Authority from the Counterparty pursuant to a Second Lien Hedge Agreement shall be deposited to the credit of the Second Lien Debt Service Fund or in the case of collateral postings and amounts on termination, to such other Fund or account as designated by an Authorized Representative of the Authority. Notwithstanding the foregoing, any amounts payable by the Authority as termination payments under a Second Lien Hedge Agreement shall, if secured by a pledge and lien on the Net Revenues, be secured by a pledge of and lien on the Net Revenues, subordinate to the lien benefitting the Second Lien Obligations.

The Authority may elect to either (i) secure its Hedge Agreement Payment Obligations thereunder (but no other obligations with respect to any such Hedge Agreement) on parity with the Third Lien Obligations or (ii) not secure such Hedge Agreement Payment Obligations thereunder on parity with the Third Lien Obligations. In the event the Authority wishes to secure its obligations on parity with the Third Lien Obligations, the Supplemental Resolution by which it is authorized shall grant such parity lien position (in which event, such Hedge Agreement shall

constitute a “Third Lien Hedge Agreement”). Upon entering into a Third Lien Hedge Agreement, amounts equal to the Hedge Agreement Payment Obligations received under the Third Lien Hedge Agreement (net of any amounts owed by the Counterparty to the Authority) shall be deposited into the Third Lien Debt Service Fund as if such amounts were additional amounts of interest due in order to pay (when due) such Hedge Agreement Payment Obligations payable under the Third Lien Hedge Agreement from amounts on deposit in the Third Lien Debt Service Fund. Net amounts received by the Authority from the Counterparty pursuant to a Third Lien Hedge Agreement shall be deposited to the credit of the Third Lien Debt Service Fund or in the case of collateral postings and amounts on termination, to such other Fund or account as designated by an Authorized Representative of the Authority. Notwithstanding the foregoing, any amounts payable by the Authority as termination payments under a Third Lien Hedge Agreement shall, if secured by a pledge and lien on the Net Revenues, be secured by a pledge of and lien on the Net Revenues, subordinate to the lien benefitting the Third Lien Obligations.

Section 3.4. Short-Term Obligations. The Authority reserves the right to issue, from time to time, one or more series of Obligations as “Short-Term Obligations;” provided, however, that no such Short-Term Obligations (other than those issued under a Supplemental Resolution adopted concurrently with this Master Resolution) may be issued without satisfying the applicable provisions of Section 3.2 above.

Section 3.5. Completion Obligations.

(a) The Authority reserves the right to issue (i) Obligations to pay the cost of completing any Financed Project (as defined in this Section below) for which Obligations have previously been issued to finance all or part of the Financed Project. Such Completion Obligations may be issued on parity with or subordinate to the Obligations that financed the costs of the Financed Project.

(b) Prior to the issuance of any series of Completion Obligations the Authority must provide, in addition to satisfying all of the conditions of Section 3.2 (other than subsections 3.2(b)(iii) and (iv)), which shall not apply to Completion Obligations), the following documents:

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

(ii) a certificate of the Executive Director or Chairman of the Port Commission (A) stating that all amounts allocated to pay costs of the Financed Project from the proceeds of the most recent series of Obligations issued in connection with the Financed Project for which the Completion Obligations are being issued were used or are still available within a construction fund therefor to be used to pay costs of such Financed Project; (B) containing a calculation of the

amount by which the aggregate cost of that Financed Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Financed 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 Financed Project plus any other moneys which the Authority has determined are available to pay such costs in any other fund; (C) certifying that, in the opinion of the Authority, the issuance of the Completion Obligations is necessary to provide funds for the completion of the Financed Project; and (D) certifying that at the time the most recent Series of Obligations were issued in connection with the Financed Project (other than pursuant to this Section), the Authority reasonably believed that such Series of Obligations would be sufficient, together with funds on hand dedicated to such purpose, to pay the costs of the Financed Project.

For purposes of this Section, the term "Financed Project" shall mean any Project or portion thereof defined in a Supplemental Resolution authorizing the issuance of First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations for the purpose of financing such Project or portion thereof. Any such Supplemental Resolution may contain such further provisions as the Authority shall deem appropriate with regard to the use, completion, modification or abandonment of such Financed Project.

Section 3.6. Inferior Lien Obligations. The Authority reserves the right to issue or incur, bonds, notes, commercial paper program 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 First Lien Obligations, the Second Lien Obligations, and the Third Lien Obligations. Such Inferior Lien Obligations may be further secured by any other source of payment lawfully available for such purposes and may be issued under this Master Resolution and a Supplemental Resolution of the Authority or a separate master resolution pertaining to the Inferior Lien Obligations. The authority may establish additional funds accounts, and sub-accounts within the flow of funds to provide for the issuance or incurrence of Inferior Lien Obligations.

Section 3.7. Capital Leases. The Authority reserves the right to finance or acquire Port Facilities through capital leases or other similar lease/purchase arrangements in accordance with this Section. Unless such capital leases or lease purchase arrangements are entered into under a Supplemental Resolution designating the Authority's payment obligations thereunder as First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, any payment obligations of the Authority under such capital leases or other similar lease/purchase arrangements will be payable from Net Revenues available after making all deposits required in connection with Outstanding First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, under this Master Resolution and the Supplemental Resolution authorizing such Outstanding First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, or other lawfully available funds of the Authority that are not Gross Revenues, including without limitations from revenues on deposit in the General Fund. Capital leases or other similar lease/purchase arrangements may be secured by the mortgage or encumbrance of the Port Facility being financed under such arrangement, subject to Section 6.3, and a pledge of any other source of payment lawfully available for such purposes, subject to Section 6.6. Capital leases or other similar lease/purchase arrangements may be entered into under

this Master Resolution or a separate resolution of the Authority. If the payment obligations of the Authority under a capital lease or other similar lease/purchase arrangement will be First Lien Obligations, Second Lien Obligations, Third Lien Obligations, or Inferior Lien Obligations, the Authority must comply with the provisions of Section 3.2 of this Master Resolution. The Authority reserves the right to establish such other funds and accounts as may be necessary in connection with such capital lease or other similar lease/purchase arrangements in a Supplemental Resolution; provided, however, that no such funds or accounts shall be earlier in priority than the First Lien Debt Service Fund and any First Lien Debt Service Reserve Fund.

Section 3.8. Special Facilities Obligations. The Authority reserves the right to issue, from time to time, in one or more series, Special Facilities Obligations 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 Obligations shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the Authority. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the Authority as security for the Obligations or for the construction, operation, maintenance or repair of Port Facilities be pledged to the payment of Special Facilities Obligations or to the payment of any expenses of maintenance and operation of Special Facilities.

Section 3.9. Excluded Fee and Charge Revenue Obligations. The Authority reserves the right to issue or incur, for any lawful Authority purpose, bonds, notes, commercial paper program 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, other than Gross Revenues (unless issued in accordance with other provisions of this Article III). The Port Commission shall document Excluded Fee and Charge Revenues via resolution or order.

Section 3.10. Springing First Lien Obligations. Notwithstanding the foregoing and without complying with any of the provisions of Section 3.2(b)(iii) or (iv), the Authority may, from time to time, issue and deliver to the State or any agency thereof or the United States or any agency thereof a Second Lien Obligation or a Third Lien Obligation that, upon the occurrence of an event of default arising from a bankruptcy related event, will be deemed to be and will automatically become a First Lien Obligation in accordance with the provisions of the Supplemental Resolution authorizing such Second Lien Obligation or Third Lien Obligation. Such provisions may include, without limitation, allowances for such Obligations to benefit from First Lien Debt Service Reserve Funds upon becoming First Lien Obligations.

ARTICLE IV

SECURITY AND SOURCE OF PAYMENT

Section 4.1. Security; Source of Payment for All Obligations. The Authority hereby covenants and agrees that all Gross Revenues, as collected and received by the Authority, shall be applied promptly to pay all Operation and Maintenance Expenses then due and, after paying, reserving or encumbering for all Operations and Maintenance Expenses due in a month, shall be deposited and credited promptly to the Revenue Fund, and shall be applied in the manner

hereinafter set forth, in order to provide for the payment of principal of, interest on and redemption premiums, if any, on the Obligations, the payment of Credit Agreement Obligations and Hedge Agreement Payment Obligations and the payment of all expenses of paying the same, and to provide for the disposition of the remaining Net Revenues in accordance with this Master Resolution.

(a) First Lien Obligations. The First Lien Obligations shall constitute special obligations of the Authority that shall be payable solely from, and equally and ratably secured by a first lien on, the Net Revenues. The Authority hereby grants a lien on such Net Revenues in the Revenue Fund and further grants a lien on the money and investments held in the First Lien Debt Service Fund and any other fund so designated in any Supplemental Resolution to secure the payment of the principal of and interest on, Maturity Amount, and, redemption premium, if any, on all First Lien Obligations and all expenses of providing for their full and timely payment in accordance with their terms. For the additional benefit of the owners of the First Lien Obligations that are Debt Service Reserve Fund Participants, the Authority hereby further grants a lien on the First Lien Reserve Fund Participant Account of the First Lien Debt Service Reserve Fund, as and to the extent provided in the Supplemental Resolution authorizing such First Lien Obligations. For the additional benefit of the owners of the First Lien Obligations that are not Debt Service Reserve Fund Participants, the Authority may create one or more additional separate accounts within the First Lien Debt Service Reserve Fund and grant a lien on such accounts for the benefit of the Owners of such Series of First Lien Obligations all as more particularly described in Article V of this Master Resolution. Except with respect to the First Lien Debt Service Reserve Fund Participant Account or the other separate accounts of the First Lien Debt Service Reserve Fund described in this Section or applicable Supplemental Resolution and except to the extent a Supplemental Security has been provided in the manner described in Section 4.4, all First Lien Obligations shall be in all respects on a parity with and of equal dignity with one another.

(b) Second Lien Obligations. The Second Lien Obligations shall constitute special obligations of the Authority that shall, subject to the prior and superior lien of the First Lien Obligations, be payable solely from and equally and ratably secured by a lien on the Net Revenues. The Authority hereby grants a lien, subject only to the prior and superior lien of the First Lien Obligations, on such Net Revenues in the Revenue Fund and on the Second Lien Debt Service Fund to secure the payment of the principal of and interest on, Maturity Amount, and premium, if any, on all Second Lien Obligations and all expenses of providing their full and timely payment in accordance with their terms. For the additional benefit of the owners of the Second Lien Obligations that are Debt Service Reserve Fund Participants, the Authority hereby further grants a lien on the Second Lien Reserve Fund Participant Account of the Second Lien Debt Service Reserve Fund to secure the payment of principal of, premium, if any, and interest on all Second Lien Obligations, as and to the extent provided in the Supplemental Resolution authorizing such Second Lien Obligations. For the additional benefit of the owners of the Second Lien Obligations that are not Debt Service Reserve Fund Participants, the Authority may, but is not obligated to, create one or more additional, and such separate accounts within the Second Lien Debt Service Reserve Fund and grant a lien on such accounts for the benefit of the Owners of such Series of Second Lien Obligations, all as more fully described in Article V of this

Master Resolution. Except with respect to the Second Lien Debt Service Fund Participant Account or the other separate accounts of the Second Lien Debt Service Reserve Fund described in this Section or applicable Supplemental Resolution and except to the extent a Supplemental Security has been provided in the manner described in Section 4.4, all Second Lien Obligations shall be in all respects on a parity with and of equal dignity with one another.

(c) Third Lien Obligations. The Third Lien Obligations shall constitute special obligations of the Authority that shall, subject to the prior and superior liens of the First Lien Obligations and Second Lien Obligations, be payable solely from and equally and ratably secured by a lien on the Net Revenues. The Authority hereby grants a lien, subject only to the prior and superior lien of the First Lien Obligations and Second Lien Obligations, on such Net Revenues in the Revenue Fund and on the Third Lien Debt Service Fund to secure the payment of the principal of and interest on, Maturity Amount, and premium, if any, on all Third Lien Obligations and all expenses of providing their full and timely payment in accordance with their terms. For the additional benefit of the owners of the Third Lien Obligations that are Debt Service Reserve Fund Participants, the Authority hereby further grants a lien on the Third Lien Reserve Fund Participant Account of the Third Lien Debt Service Reserve Fund to secure the payment of principal of, premium, if any, and interest on all Third Lien Obligations, as and to the extent provided in the Supplemental Resolution authorizing such Third Lien Obligations. For the additional benefit of the owners of the Third Lien Obligations that are not Debt Service Reserve Fund Participants, the Authority may, but is not obligated to, create one or more additional, and such separate accounts within the Third Lien Debt Service Reserve Fund and grant a lien on such accounts for the benefit of the Owners of such Series of Second Lien Obligations, all as more fully described in Article V of this Master Resolution. Except with respect to the Third Lien Debt Service Fund Participant Account or the other separate accounts of the Third Lien Debt Service Reserve Fund described in this Section or applicable Supplemental Resolution and except to the extent a Supplemental Security has been provided in the manner described in Section 4.4, all Third Lien Obligations shall be in all respects on a parity with and of equal dignity with one another.

(d) Perfection of Security Interests. Pursuant to Chapter 1208, Texas Government Code, the liens created hereunder are valid, effective and perfected. To the extent that the First Lien Obligations, Second Lien Obligations, and Third Lien Obligations are issued with a Credit Agreement, the Authority authorizes the inclusion of additional provisions, as needed to provide security for the payment of principal and interest when due on bank bonds. If State law is amended at any time while the Obligations are outstanding and unpaid such that the pledge of the security granted by the Authority under this Master Resolution is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the owners of the Obligations the perfection of the security interest in said pledge, the Authority agrees to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and maintain the perfection and priority of such security under the Code.

Section 4.2. Obligations Not Payable from Taxes. The owners of the Obligations shall never have the right to demand payment of either the principal of, or interest on, Maturity Amount of, or any redemption premium on, any Obligations, any Credit Agreement Obligations or any amounts due and owing under any Credit Agreement or Hedge Agreement out of any funds raised or to be raised by taxation.

Section 4.3. Rate Covenant. The Authority covenants that it will at all times fix, charge impose and collect tariffs, rentals, tolls, rates, fees and other charges for the use of Port Facilities, and revise the same as may be necessary or appropriate, in order that in each Fiscal Year, after the payment of all Operating and Maintenance Expenses for such Fiscal Year paid or to be paid from Gross Revenues, Net Revenues are at least equal to the greater of (a) or (b) below:

(a) All amounts required to be deposited in such Fiscal Year to the credit of the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund, the Third Lien Debt Service Fund, and the Third Lien Debt Service Reserve Fund; or

(b) An amount not less than one hundred twenty-five percent (125%) of the Annual Debt Service in such Fiscal Year on all Outstanding First Lien Obligations, Second Lien Obligations and Third Lien Obligations.

In making the calculations in (a) and (b) above, the Authority may take into consideration as a credit against Annual Debt Service any amounts received, or reasonably expected to be received, in the Fiscal Year from or as a result of any Supplemental Security the Authority has pledged for the benefit of Obligations to the extent the Authority is not under an obligation to repay the amounts received; provided, however, that if the pledge is not for the benefit of all Obligations, the amounts expected to be received may only be taken into account when making the calculation for the affected Obligations. Except as provided below, if the Net Revenues in any Fiscal Year are less than the amounts specified above, the Authority, promptly upon receipt of the annual audit for such Fiscal Year, shall undertake revisions of the Authority's tariffs, rentals, tolls, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Port Facilities in order to satisfy as quickly as practicable, subject to commercial, contractual, statutory and regulatory constraints, the foregoing requirements for each succeeding Fiscal Year. So long as the Authority can demonstrate compliance with such foregoing requirements within twenty-four (24) months of its receipt of the annual audit specifying that the Net Revenues in any Fiscal Year are less than those specified above, the Authority will not be deemed to have defaulted in the performance of its duties under this Section of the Master Resolution, so long as there is no other default hereunder. Notwithstanding the above, the Authority must at all times fix, change, impose and collect tariffs, rentals, tolls, rates, fees and other changes sufficient to produce Net Revenues in each Fiscal Year in an amount not less than one hundred percent (100%) of the Annual Debt Service for such Fiscal Year on all Outstanding First Lien Obligations, Second Lien Obligations, and Third Lien Obligations. The Authority may make additions to the rate covenant established in this Section 4.3 in order to accommodate the authorization of Inferior Lien Obligations.

Section 4.4. Supplemental Security. The Authority may, in its discretion, provide Supplemental Security (a) for specified Obligations, but shall have no obligation to provide such additional security or credit enhancement to any other Obligations, or (b) for deposit into one or

more specified Funds or accounts created under this Master Resolution or any Supplemental Resolution, except that no Supplemental Security shall be provided unless there shall have been first delivered an opinion of Bond Counsel to the effect that the exclusion from gross income of interest on any Outstanding Obligations issued, or Obligations then proposed to be issued, on a tax-exempt basis for federal income tax purposes will not be adversely affected thereby. The Authority reserves the right to establish, pursuant to a Supplemental Resolution, one or more Funds or accounts for the purpose of securing, investing and disbursing Supplemental Security.

ARTICLE V

FUNDS AND ACCOUNTS

Section 5.1. Establishment of Special Funds.

(a) The following special funds shall be established, maintained and accounted for by the Authority as hereinafter provided so long as any of the Obligations remain Outstanding:

- (i) Revenue Fund;
- (ii) Rebate Fund;
- (iii) First Lien Debt Service Fund;
- (iv) First Lien Debt Service Reserve Fund;
- (v) Second Lien Debt Service Fund;
- (vi) Second Lien Debt Service Reserve Fund;
- (vii) Third Lien Debt Service Fund;
- (viii) Third Lien Debt Service Reserve Fund;
- (ix) Funds or accounts established for Inferior Lien Obligations;
- (x) Funds or accounts established to provide a reserve for any lawful purpose; and
- (xi) General Fund.

(b) The special funds shall be maintained in the following manner:

- (i) The Revenue Fund, the Rebate Fund; the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund, the Third Lien Debt Service Fund, the Third Lien Debt Service Reserve Fund, funds or accounts established for Inferior Lien Obligations, funds or accounts established to provide a reserve for any lawful purpose, and the General Fund shall be maintained at an official depository

bank of the Authority separate and apart from all other funds and accounts of the Authority; provided, however, that the Authority may maintain such accounts as separate subaccounts within the Authority's Revenue Fund so long as full and complete records are maintained indicating the monies and investments credited to each of such funds.

(ii) The Revenue Fund shall be maintained as a separate fund or account on the books of the Authority and all amounts credited to such fund shall be maintained in an official depository of the Authority.

(iii) The Rebate Fund shall be maintained as a separate fund or account on the books of the Authority and all amounts credited to such fund or account shall be maintained in an official depository of the Authority.

(iv) The First Lien Debt Service Fund shall constitute a fund for the benefit of the Owners of the First Lien Obligations and the balance on deposit therein (other than the interest income thereon, which shall either be retained in the First Lien Debt Service Fund and applied against future required deposits into such fund or transferred to the Revenue Fund unless federal tax law requires that it be deposited to a different Fund) is hereby pledged to the payment of the First Lien Obligations.

(v) The First Lien Debt Service Reserve Fund or accounts therein may be pledged to particular Series of First Lien Obligations as described herein and in the Supplemental Resolutions authorizing the issuance of the First Lien Obligations. Within the First Lien Debt Service Reserve Fund, there is created a First Lien Debt Service Reserve Fund Participant Account. The First Lien Debt Service Reserve Fund Participant Account shall constitute funds for the benefit of Owners of the First Lien Obligations that are First Lien Debt Service Reserve Fund Participants. The balance of the First Lien Debt Service Reserve Fund Participant Account (other than the interest income thereon, which may be transferred, to the extent herein provided, to the First Lien Debt Service Fund or such other funds as may be permitted under federal tax law) is hereby pledged to the payment of the First Lien Obligations that are First Lien Debt Service Reserve Fund Participants. The Authority reserves the right to issue First Lien Obligations that are not Debt Service Reserve Fund Participants and that are not secured by the First Lien Debt Service Reserve Fund Participant Account; and the Authority may, but is not obligated to, create one or more separate accounts within the First Lien Debt Service Reserve Fund for the benefit of any Series of First Lien Obligations that is not a Debt Service Reserve Fund Participant, the balance of which account (other than the interest income thereon, which may be transferred, to the extent herein provided, to the First Lien Debt Service Fund or such other funds as may be permitted under federal tax law) is hereby pledged to the payment of such Series of First Lien Obligations that is not a First Lien Debt Service Reserve Fund Participant.

(vi) The Second Lien Debt Service Fund shall constitute a fund for the benefit of the Owners of the Second Lien Obligations and the balance on deposit therein (other than the interest income thereon, which shall either be retained in the Second Lien Debt Service Fund and applied against future required deposits into such fund or transferred to the Revenue Fund unless federal tax law requires that it be deposited to a different Fund) shall be pledged to the payment of the Second Lien Obligations.

(vii) The Second Lien Debt Service Reserve Fund or accounts thereunder may be pledged to particular Series of Second Lien Obligations as described herein and in the Supplemental Resolutions authorizing the issuance of the Second Lien Obligations. Within the Second Lien Debt Service Reserve Fund, there is created a Second Lien Debt Service Reserve Fund Participant Account. The Second Lien Debt Service Reserve Fund Participant Account shall constitute funds for the benefit of Owners of the Second Lien Obligations that are Second Lien Debt Service Reserve Fund Participants. The balance of the Second Lien Debt Service Reserve Fund Participant Account (other than the interest income thereon, which may be transferred, to the extent herein provided, to the Second Lien Debt Service Fund or such other funds as may be permitted under federal tax law) is hereby pledged to the payment of the Second Lien Obligations that are Second Lien Debt Service Reserve Fund Participants. The Authority reserves the right to issue Second Lien Obligations that are not Debt Service Reserve Fund Participants and that are not secured by the Second Lien Debt Service Reserve Fund Participant Account; and the Authority may, but is not obligated to, create one or more separate accounts within the Second Lien Debt Service Reserve Fund for the benefit of any Series of Second Lien Obligations that is not a Debt Service Reserve Fund Participant, the balance of which account (other than the interest income thereon, which may be transferred, to the extent herein provided, to the Second Lien Debt Service Fund or such other funds as may be permitted under federal tax law) is hereby pledged to the payment of such Series of Second Lien Obligations that is not a Second Lien Debt Service Reserve Fund Participant.

(viii) The Third Lien Debt Service Fund shall constitute a fund for the benefit of the Owners of the Third Lien Obligations and the balance on deposit therein (other than the interest income thereon, which shall either be retained in the Third Lien Debt Service Fund and applied against future required deposits into such fund or transferred to the Revenue Fund unless federal tax law requires that it be deposited to a different Fund) shall be pledged to the payment of the Third Lien Obligations.

(ix) The Third Lien Debt Service Reserve Fund or accounts thereunder may be pledged to particular Series of Third Lien Obligations as described herein and in the Supplemental Resolutions authorizing the issuance of the Third Lien Obligations. Within the Third Lien Debt Service Reserve Fund, there is created a Third Lien Debt Service Reserve Fund Participant Account. The Third Lien Debt Service Reserve Fund Participant Account shall constitute funds for the benefit of Owners of the Third Lien Obligations that are Third Lien Debt Service Reserve

Fund Participants. The balance of the Third Lien Debt Service Reserve Fund Participant Account (other than the interest income thereon, which may be transferred, to the extent herein provided, to the Third Lien Debt Service Fund or such other funds as may be permitted under federal tax law) is hereby pledged to the payment of the Third Lien Obligations that are Third Lien Debt Service Reserve Fund Participants. The Authority reserves the right to issue Third Lien Obligations that are not Debt Service Reserve Fund Participants and that are not secured by the Third Lien Debt Service Reserve Fund Participant Account; and the Authority may, but is not obligated to, create one or more separate accounts within the Third Lien Debt Service Reserve Fund for the benefit of any Series of Third Lien Obligations that is not a Debt Service Reserve Fund Participant, the balance of which account (other than the interest income thereon, which may be transferred, to the extent herein provided, to the Third Lien Debt Service Fund or such other funds as may be permitted under federal tax law) is hereby pledged to the payment of such Series of Third Lien Obligations that is not a Third Lien Debt Service Reserve Fund Participant.

(x) All of the Funds named above shall be used solely as herein provided so long as any Obligations remain Outstanding.

(xi) The Authority reserves the right to establish additional accounts and subaccounts within any Fund as necessary or desirable in furtherance of the intent and purpose of this Master Resolution, including without limitation, the purposes of causing the supplemental funding of any Debt Service Reserve Fund and creating accounts and subaccounts for the purpose of accounting for Obligation Proceeds, revenues or other amounts relating to one or more Series of Obligations. Each such account or subaccount within a Fund shall be designated in a manner that indicates the identity of such Fund and that distinguishes such account or subaccount from all other accounts and subaccounts established under this Master Resolution.

(c) The Authority reserves the right to establish one or more additional Funds, accounts or sub-accounts for such purposes as the Authority may determine from time to time, including, but not limited to, the purposes of providing for the issuance of Inferior Lien Obligations, establishing construction funds and the creation of reserves for any lawful Authority purpose.

Section 5.2. Revenue Fund; and Flow of Funds. After the payment of or reservation or encumbrance for the payment of Operations and Maintenance Expenses due in a month from Gross Revenues, all Net Revenues shall be deposited as received by the Authority into the Revenue Fund. Unless modified with respect to a particular Series of Obligations in a Supplemental Resolution, which modifications shall not have an adverse effect with respect to any Outstanding Obligations, moneys on deposit in the Revenue Fund shall be deposited in, or credited to, as appropriate, the following Funds and Accounts, on or before the last Business Day of each month (each, a “Transfer Date”) beginning on the last Business Day of the calendar month in which any Obligations are issued and Outstanding hereunder (or on such other date or dates as may be provided in a Supplemental Resolution with respect to a particular Series of Obligations adopted in accordance herewith and any conditions contained in a Supplemental Resolution or Credit Agreement) in the

following amounts and in the following order of priority (provided, however, that if the Chief Financial Officer of the Authority provides a written certification that a Fund contains the amount required to be deposited therein for a particular period under this Master Resolution and any Supplemental Resolution, the Authority may suspend transfers to such Fund for the period identified in such certification):

(a) First, to the Rebate Fund the amount, if any, necessary to pay the rebate amount required to be paid, pursuant to section 148(f) of the Internal Revenue Code of 1986, as amended, in the month following the Transfer Date; and

(b) Second, to the First Lien Debt Service Fund (or to a fund or account created to pay Credit Agreement Obligations under a Credit Agreement entered into in connection with First Lien Obligations or a Hedge Agreement Payment Obligation under a First Lien Hedge Agreement, if the same are not payable from the First Lien Debt Service Fund and deposits to such fund or account are ratable with deposits to the First Lien Debt Service Fund), an amount equal to the sum of the following:

(i) one-sixth (1/6) of the interest becoming due on the next semiannual Interest Payment Date with respect to First Lien Obligations that bear interest at a fixed rate payable semiannually; and

(ii) one-third (1/3) of the interest becoming due on the next quarterly Interest Payment Date with respect to First Lien Obligations that bear interest at a fixed rate payable quarterly; and

(iii) the amount of interest next becoming due in the following month on First Lien Obligations that bear interest at a fixed rate payable monthly; and

(iv) if interest on the First Lien Obligations bears interest payable at a variable rate or a fixed rate on other than a semi-annual, quarterly, or monthly basis, the amount required to provide for the payment of the interest thereon becoming due on the next Interest Payment Date in substantially equal monthly installments based on reasonably foreseeable financial conditions; and

(v) the amount of interest accruing in such month on First Lien Obligations that bear interest payable on other than a monthly basis (other than Capital Appreciation Bonds), together with the amount of interest that will accrue on such First Lien Obligations through any Interest Payment Dates that will occur prior to the next Transfer Date; and

(vi) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of First Lien Obligations that will mature and become due and payable on the next annual maturity date therefor; and

(vii) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of First Lien Obligations subject to mandatory sinking fund redemption on the next annual mandatory sinking fund redemption date; and

(viii) the Credit Agreement Obligation secured by a pledge of and a lien on Net Revenues on parity with other First Lien Obligations or Hedge Agreement Payment Obligation, if any, payable by the Authority under a First Lien Hedge Agreement accruing in such month or that will accrue through a payment date that will occur prior to the next Transfer Date; provided, that such amounts shall be included in the calculation of the monthly deposit only to the extent such amounts are required to be paid in addition to the amounts provided for by clauses (i) through (vii) above.

In calculating such monthly deposit to the First Lien Debt Service Fund, the following shall be taken into account and credited against deposits to the First Lien Debt Service Fund otherwise required by the foregoing clauses: (a) any accrued interest deposited into the First Lien Debt Service Fund from the proceeds of a Series of First Lien Obligations, and any amounts credited to the First Lien Debt Service Fund and dedicated to pay capitalized interest on a Series of First Lien Obligations, in either case on or before the Transfer Date and anticipated to be available to pay interest on such First Lien Obligations on the next Interest Payment Date, (b) any other amounts deposited to the First Lien Debt Service Fund prior to the Transfer Date, (c) any investment income realized by the Authority from the investment of amounts on deposit in the First Lien Debt Service Fund and credited to the First Lien Debt Service Fund, and (d) any payments received by the Authority from a Counterparty under a First Lien Hedge Agreement and deposited to the First Lien Debt Service Fund (which amounts shall be deposited to the First Lien Debt Service Fund as described in Section 3.3 of this Master Resolution).

No deposits shall be required under clauses (vi) or (vii), above, for the payment of the principal amount or Maturity Amount as applicable on a First Lien Obligation to the extent there is in effect a third party agreement (e.g. bond purchase agreement) to refund or refinance the principal amount or Maturity Amount coming due or the First Lien Obligation is a Short-Term Obligation that will be refinanced, refunded or rolled under a commercial paper program or a direct purchase note program.

Further, such monthly deposits shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to each Series of First Lien Obligations and the frequency of payments under any First Lien Hedge Agreements so as to assure ratable monthly accrual of all Obligations of the Authority payable thereunder. On or before each Transfer Date, the Authority shall make up any deficiencies in deposits on prior Transfer Dates from and to the extent moneys remain on deposit in the Revenue Fund.

(c) Third, to the First Lien Debt Service Reserve Fund, all amounts, if any, which, together with amounts on deposit therein and amounts available under a First Lien DSRF Security, may be required by any Supplemental Resolution, including transfers to pay all Credit Agreement Obligations under a First Lien DSRF Security.

(d) Fourth, to the Second Lien Debt Service Fund (or to a fund or account created to pay or Credit Agreement Obligations under a Credit Agreement entered into in connection with Second Lien Obligations or a Hedge Agreement Payment Obligation under a Second Lien Hedge Agreement), an amount equal to the sum of the following:

(i) one-sixth (1/6) of the interest becoming due on the next semiannual Interest Payment Date with respect to Second Lien Obligations that bear interest at a fixed rate payable semiannually; and

(ii) one-third (1/3) of the interest becoming due on the next quarterly Interest Payment Date with respect to Second Lien Obligations that bear interest at a fixed rate payable quarterly; and

(iii) the amount of interest next becoming due in the following month on Second Lien Obligations that bear interest at a fixed rate payable monthly; and

(iv) if interest on the Second Lien Obligations bears interest payable at a variable rate or fixed rate on other than a semi-annual, quarterly, or monthly basis, the amount required to provide for the payment of the interest thereon becoming due on the next Interest Payment Date in substantially equal monthly installments under reasonably foreseeable financial conditions; and

(v) the amount of interest accruing in such month on Second Lien Obligations that bear interest payable on other than a monthly basis (other than Capital Appreciation Bonds), together with the amount of interest that will accrue on such Second Lien Obligations through any Interest Payment Dates that will occur prior to the next Transfer Date; and

(vi) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Second Lien Obligations that will mature and become due and payable on the next annual maturity date therefor; and

(vii) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Second Lien Obligations subject to mandatory sinking fund redemption on the next annual mandatory sinking fund redemption date; and

(viii) the Credit Agreement Obligation secured by a pledge of and a lien on the Net Revenues on parity with other Second Lien Obligations or Hedge Agreement Payment Obligations the amount, if any, payable by the Authority under a Second Lien Hedge Agreement accruing in such month or that will accrue through a payment date that will occur prior to the next Transfer Date; provided, that such amounts shall be included in the calculation of the monthly deposit only to the extent such amounts are required to be paid in addition to the amounts provided for by clauses (i) through (vii) above.

In calculating such monthly deposit to the Second Lien Debt Service Fund, the following shall be taken into account and credited against deposits to the Second Lien Debt Service Fund otherwise required by the foregoing clauses: (a) any accrued interest deposited into the Second Lien Debt Service Fund from the proceeds of a Series of Second Lien Obligations, and any amounts credited to the Second Lien Debt Service Fund and dedicated to pay capitalized interest on a Series of Second Lien Obligations, in either case before the Transfer Date and anticipated to be available to pay interest on such Second Lien Obligations on the next Interest Payment Date, (b) any amounts deposited to the

Second Lien Debt Service Fund prior to the Transfer Date, (c) any investment income realized by the Authority from the investment of amounts on deposit in the Second Lien Debt Service Fund and credited to the Second Lien Debt Service Fund, and (d) any payments received by the Authority from a Counterparty under a Second Lien Hedge Agreement and deposited to the Second Lien Debt Service Fund (which amounts shall be deposited to the Second Lien Debt Service Fund as described in Section 3.3 of this Master Resolution).

No deposits shall be required under clauses (vi) or (vii), above, for the payment of the principal amount or Maturity Amount as applicable on a Second Lien Obligation to the extent there is in effect a third party agreement (e.g. bond purchase agreement) to refund or refinance the principal amount or Maturity Amount coming due or the Second Lien Obligation is a Short-Term Obligation that will be refinanced, refunded or rolled under a commercial paper program or a direct purchase note program.

Further, such monthly deposits shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to each Series of Second Lien Obligations and the frequency of payments under any Second Lien Hedge Agreements so as to assure ratable monthly accrual of all Obligations of the Authority payable thereunder. On or before each Transfer Date, the Authority shall make up any deficiencies in deposits on prior Transfer Dates from and to the extent monies remain on deposit in the Revenue Fund.

(e) Fifth, to the Second Lien Debt Service Reserve Fund, all amounts, if any, which, together with amounts on deposit therein and amounts available under a Second Lien DSRF Security, may be required by any Supplemental Resolution, including transfers to pay all Credit Agreement Obligations under a Second Lien DSRF Security.

(f) Sixth, to the Third Lien Debt Service Fund (or to a fund or account created to pay Credit Agreement Obligations under a Credit Agreement entered into in connection with Third Lien Obligations or a Hedge Agreement Payment Obligation under a Third Lien Hedge Agreement, if the same are not payable from the Third Lien Debt Service Fund and deposits to such fund or account are ratable with deposits to the Third Lien Debt Service Fund), an amount equal to the sum of the following:

(i) one-sixth (1/6) of the interest becoming due on the next semiannual Interest Payment Date with respect to Third Lien Obligations that bear interest at a fixed rate payable semiannually; and

(ii) one-third (1/3) of the interest becoming due on the next quarterly Interest Payment Date with respect to Third Lien Obligations that bear interest at a fixed rate payable quarterly; and

(iii) the amount of interest next becoming due in the following month on Third Lien Obligations that bear interest at a fixed rate payable monthly; and

(iv) if interest on the Third Lien Obligations bears interest payable at a variable rate or a fixed rate on other than a semi-annual, quarterly, or monthly basis, the amount required to provide for the payment of the interest thereon becoming

due on the next Interest Payment Date in substantially equal monthly installments based on reasonably foreseeable financial conditions; and

(v) the amount of interest accruing in such month on Third Lien Obligations that bear interest payable on other than a monthly basis (other than Capital Appreciation Bonds), together with the amount of interest that will accrue on such Third Lien Obligations through any Interest Payment Dates that will occur prior to the next Transfer Date; and

(vi) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Third Lien Obligations that will mature and become due and payable on the next annual maturity date therefor; and

(vii) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Third Lien Obligations subject to mandatory sinking fund redemption on the next annual mandatory sinking fund redemption date; and

(viii) the Credit Agreement Obligation secured by a pledge of and a lien on Net Revenues on parity with other Third Lien Obligations or Hedge Agreement Payment Obligation, if any, payable by the Authority under a Third Lien Hedge Agreement accruing in such month or that will accrue through a payment date that will occur prior to the next Transfer Date; provided, that such amounts shall be included in the calculation of the monthly deposit only to the extent such amounts are required to be paid in addition to the amounts provided for by clauses (i) through (vii) above.

In calculating such monthly deposit to the Third Lien Debt Service Fund, the following shall be taken into account and credited against deposits to the Third Lien Debt Service Fund otherwise required by the foregoing clauses: (a) any accrued interest deposited into the Third Lien Debt Service Fund from the proceeds of a Series of Third Lien Obligations, and any amounts credited to the Third Lien Debt Service Fund and dedicated to pay capitalized interest on a Series of Third Lien Obligations, in either case on or before the Transfer Date and anticipated to be available to pay interest on such Third Lien Obligations on the next Interest Payment Date, (b) any other amounts deposited to the Third Lien Debt Service Fund prior to the Transfer Date, (c) any investment income realized by the Authority from the investment of amounts on deposit in the Third Lien Debt Service Fund and credited to the Third Lien Debt Service Fund, and (d) any payments received by the Authority from a Counterparty under a Third Lien Hedge Agreement and deposited to the Third Lien Debt Service Fund (which amounts shall be deposited to the Third Lien Debt Service Fund as described in Section 3.3 of this Master Resolution).

No deposits shall be required under clauses (vi) or (vii), above, for the payment of the principal amount or Maturity Amount as applicable on a Third Lien Obligation to the extent there is in effect a third party agreement (e.g. bond purchase agreement) to refund or refinance the principal amount or Maturity Amount coming due or the Third Lien Obligation is a Short-Term Obligation that will be refinanced, refunded or rolled under a commercial paper program or a direct purchase note program.

Further, such monthly deposits shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to each Series of Third Lien Obligations and the frequency of payments under any Third Lien Hedge Agreements so as to assure ratable monthly accrual of all Obligations of the Authority payable thereunder. On or before each Transfer Date, the Authority shall make up any deficiencies in deposits on prior Transfer Dates from and to the extent moneys remain on deposit in the Revenue Fund.

(g) Seventh, to the Third Lien Debt Service Reserve Fund, all amounts, if any, which, together with amounts on deposit therein and amounts available under a Third Lien DSRF Security, may be required by any Supplemental Resolution, including transfers to pay all Credit Agreement Obligations under a Third Lien DSRF Security

(h) Eighth, to any funds or accounts created by any Supplemental Resolution to pay Inferior Lien Obligations or pay or repay amounts under a Credit Agreement or Hedge Agreement secured on a lien and subordinate to the First Lien Obligations, Second Lien Obligations, and Third Lien Obligations. Supplemental Resolutions establishing such funds or accounts shall establish the application of such deposits.

(i) Ninth, to any reserve funds or accounts created by any Supplemental Resolution to provide a reserve for any lawful purpose. Supplemental Resolutions establishing such reserve funds or accounts shall establish the application of such deposits.

(j) Tenth, except as otherwise provided in a Supplemental Resolution, to the General Fund all amounts remaining on deposit in the Revenue Fund.

It shall be the duty of the Authorized Representatives of the Authority or his designee to cause all Gross Revenues to be accounted for, deposited, invested, transferred and applied in accordance with the provisions of this Article V and any Supplemental Resolution.

Section 5.3. Rebate Fund. Amounts on deposit in the Rebate Fund may be used solely to make payments to the United States of America under Section 148 of the Code (or any successor provision) to pay costs related to the calculation of the amounts due.

Section 5.4. First Lien Debt Service Fund. The Authority may create such additional accounts in the First Lien Debt Service Fund pursuant to a Supplemental Resolution as it deems necessary or appropriate, including, but not limited to, (i) an account into which drawings on a Credit Agreement are to be deposited and from which principal or Maturity Amount, as applicable (including redemption price), of and interest on the Series of First Lien Obligations secured by such Credit Agreement are to be paid (and upon such payment, amounts on deposit in the First Lien Debt Service Fund shall be used to repay the provider of the Credit Agreement for such payments as and to the extent provided in Section 5.2), and (ii) an account into which payments to the Authority from any First Lien Hedge Agreement Counterparty are to be deposited and from which payments from the Authority to any such First Lien Hedge Agreement Counterparty are to be paid as and to the extent provided in Section 5.2.

The moneys in the First Lien Debt Service Fund shall be held for the benefit of the First Lien Obligations, to the extent the First Lien Obligations are made payable therefrom in the applicable Supplemental Resolution, and, pending application, shall be subject to a lien and charge

in favor of the Owners of such First Lien Obligations until paid out or transferred as hereinafter provided. The Authority shall pay out of the First Lien Debt Service Fund to the respective Paying Agents, if any, for First Lien Obligations or other payees thereof (a) on or before each Interest Payment Date and each date fixed for the redemption or other payment of First Lien Obligations, the amount required for the payment of the interest becoming due on such date and (b) on or before each date on which First Lien Obligations or other payments secured by the First Lien Debt Service Fund mature or become subject to scheduled mandatory sinking fund redemption or optional redemption or otherwise become due, the amount required for payment of the principal amount or Maturity Amount, as applicable, of the First Lien Obligations maturing or otherwise becoming due, the redemption price of First Lien Obligations becoming subject to redemption on such date (or to purchase First Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), and any other payments secured by moneys in the First Lien Debt Service Fund becoming due, except, in each case, to the extent such interest, principal amount or Maturity Amount, as applicable, or redemption price is paid from a fund or account other than the First Lien Debt Service Fund, as provided in the Supplemental Resolution authorizing such First Lien Obligation.

The Authority may determine to purchase First Lien Obligations in accordance with State law and may apply amounts in the First Lien Debt Service Fund to pay the purchase price of such First Lien Obligations if after the application of amounts in First Lien Debt Service Fund for such purpose, the amounts on deposit in the First Lien Debt Service Fund, together with amounts required to be deposited therein by Section 5.2, will be sufficient to pay the principal or Maturity Amount, and interest next becoming due on the First Lien Obligations.

If at the time the Authority is required to make a transfer from the First Lien Debt Service Fund the moneys therein shall not be sufficient for such purpose, any remaining required transfers shall be accomplished pursuant to Section 5.11 below.

Except as may be otherwise provided in any Supplemental Resolution authorizing any First Lien Obligations, whenever the total amounts on deposit to the credit of the First Lien Debt Service Fund and the First Lien Debt Service Reserve Fund, if applicable, shall be equivalent to the sum of the aggregate principal amount of all Outstanding First Lien Obligations plus the aggregate amount of all interest and other payments secured by the First Lien Debt Service Fund accrued and to accrue thereon, no further transfers need be made into the First Lien Debt Service Fund or the First Lien Debt Service Reserve Fund, if applicable, and such First Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds.

Section 5.5. First Lien Debt Service Reserve Fund.

(a) The Authority shall establish and maintain as hereinafter provided a balance in the applicable account of the First Lien Debt Service Reserve Fund equal to the First Lien Debt Service Reserve Fund Requirement for the First Lien Obligations that are secured thereby as established in the Supplemental Resolution authorizing such First Lien Obligations. In addition, within the First Lien Debt Service Reserve Fund, subaccounts may be established pursuant to Supplemental Resolutions into which the applicable First Lien Debt Service Reserve Fund Requirement for the

particular Series of First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants being issued under the Supplemental Resolution may be deposited.

The First Lien Debt Service Reserve Fund Requirement shall, as provided in any Supplemental Resolution authorizing such First Lien Obligations, be satisfied by depositing to the credit of the First Lien Debt Service Reserve Fund Participant Account (in the case of First Lien Obligations that are First Lien Debt Service Reserve Fund Participants) or such other designated accounts, as applicable, (in the case of First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants) of the First Lien Debt Service Reserve Fund (i) after providing for the payment of Operating and Maintenance Expenses and making required transfers to the First Lien Debt Service Fund, transfers into the First Lien Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to accumulate within sixty (60) months the First Lien Debt Service Reserve Fund Requirement; (ii) proceeds of such First Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the Authority, will be sufficient to fund fully the First Lien Debt Service Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such First Lien Obligations has been provided out of proceeds of such Additional First Lien Obligations or investment earnings thereon as estimated by the Authority or from other lawfully available funds other than Net Revenues; or (iii) a surety bond, insurance policy or letter of credit or similar financial instrument; 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 similar financial instrument, or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the three highest letter categories by at least one nationally recognized securities rating agency (each, a “First Lien DSRF Security”) and which First Lien DSRF Security is in an amount equal to the amount required to be funded. The First Lien DSRF Security shall be payable (upon the giving of any notice as may be required thereunder) on any Interest Payment Date, principal payment date or redemption date on which moneys will be required to be withdrawn from the First Lien Debt Service Reserve Fund and applied to the payment of the principal amount, Maturity Amount or redemption price of or interest on any First Lien Obligations secured thereby, unless otherwise provided in a Supplemental Resolution. Any downgrade of an issuer of a First Lien DSRF Security shall have no effect on the value of such instrument for the purposes of meeting the First Lien Debt Service Reserve Fund Requirement and the Authority shall have no obligation to supplement or replace such First Lien DSRF Security or make additional cash contributions to the First Lien Debt Service Reserve Fund as a result of such downgrade. The Authority further expressly reserves the right to substitute at any time a First Lien DSRF Security for any funded amounts in the First Lien Debt Service Reserve Fund and to apply the funds thereby released for any lawful purpose, including without limitation any purpose for which First Lien Obligations may be issued or in order to pay debt service on First Lien Obligations. The Authority also reserves the right to provide for the use of a DSRF Security in relationship to a Series-specific debt service reserve requirement as may be required under any Supplemental Resolution.

(b) In any month in which any account of the First Lien Debt Service Reserve Fund contains less than the applicable First Lien Debt Service Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the Authority has elected to accumulate the First Lien Debt Service Reserve Fund Requirement for any Series of First 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 all required transfers to the First Lien Debt Service Fund, there shall be transferred on a pro rata basis into the First Lien Debt Service Reserve Fund Participant Account (in the case of First Lien Obligations that are Debt Service Reserve Fund Participants) and such other designated accounts, as applicable, (in the case of First Lien Obligations that are not Debt Service Reserve Fund Participants) of the First Lien Debt Service Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the Authority to pay all Credit Agreement Obligations under First Lien DSRF Security allocable to the First Lien Debt Service 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 Authority within a twelve (12) month period to reestablish in the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Fund, as applicable, the First Lien Debt Service Reserve Fund Requirement for the First Lien Obligations secured thereby. After such amounts have been accumulated in the First Lien Debt Service Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain the First Lien Debt Service Reserve Fund Requirement, no further transfers shall be required to be made into the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Reserve Fund, and any excess amounts in such accounts shall be transferred to the First Lien Debt Service Fund to the extent the excess is attributable to the First Lien Debt Service Reserve Fund for any tax-exempt First 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 First Lien Debt Service Reserve Fund Participant Account or such other designated accounts is reduced below the applicable First Lien Debt Service Reserve Fund Requirement, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Fund, as applicable, to such amount within a twelve (12) month period.

The First Lien Debt Service Reserve Fund Participant Account shall be used to pay the principal of and interest on the First Lien Obligations that are Debt Service Reserve Fund Participants at any time when there is not sufficient money available in the First Lien Debt Service Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any First Lien DSRF Security, unless provided otherwise in each of the First Lien DSRF Securities allocable to the First Lien Debt Service Reserve Fund Participant Account) and to repay amounts drawn under any First Lien DSRF Security allocable to such First Lien Debt Service Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the Authority's Credit Agreement Obligations incurred in connection with such First Lien DSRF Security. The First Lien Debt Service Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all First Lien Obligations then Outstanding that are secured thereby.

With respect to any Series of First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants, any account created within the First Lien Debt Service Reserve Fund for the benefit of such Series of First Lien Obligations shall be used to pay the principal and interest on such Series of First Lien Obligations at any time when there is not sufficient money available in the First Lien Debt Service Fund for such purpose and to repay amounts drawn under any First

Lien DSRF Security allocable to such account for such purpose, in accordance with the terms of the Supplemental Resolution establishing such account.

(c) The Authority directs and requires the Paying Agent/Registrar for any Series of First Lien Obligations to ascertain the necessity for claim or draw upon the applicable First Lien DSRF Security, 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 First Lien Obligations to which it pertains.

Section 5.6. Second Lien Debt Service Fund. The Authority may create such additional accounts in the Second Lien Debt Service Fund pursuant to a Supplemental Resolution as it deems necessary or appropriate, including, but not limited to, (i) an account into which drawings on a Credit Agreement are to be deposited and from which principal or Maturity Amount, as applicable (including redemption price), of and interest on the Series of Second Lien Obligations secured by such Credit Agreement are to be paid (and upon such payment, amounts on deposit in the Second Lien Debt Service Fund shall be used to repay the provider of the Credit Agreement for such payments as and to the extent provided for in Section 5.2), (ii) an account into which payments to the Authority from any Second Lien Hedge Agreement Counterparty are to be deposited and from which payments from the Authority to any such Second Lien Hedge Agreement Counterparty are to be paid as and to the extent provided for in Section 5.2.

The moneys in the Second Lien Debt Service Fund shall be held for the benefit of the Second Lien Obligations, to the extent the Second Lien Obligations are made payable therefrom in the applicable Supplemental Resolution, and, pending application, shall be subject to a lien and charge in favor of the Owners of the Second Lien Obligations until paid out or transferred as hereinafter provided. The Authority shall pay out of the Second Lien Debt Service Fund to the respective Paying Agents, if any, for Second Lien Obligations or other payees thereof (a) on or before each Interest Payment Date and each date fixed for the redemption of Second Lien Obligations, the amount required for the payment of the interest becoming due on such date and (b) on or before each date on which Second Lien Obligations or other payments secured by the Second Lien Debt Service Fund mature or become subject to scheduled mandatory sinking fund redemption or optional redemption or otherwise become due, the amount required for payment of the principal amount or Maturity Amount, as applicable, of the Second Lien Obligations maturing or otherwise becoming due, the redemption price of Second Lien Obligations becoming subject to redemption on such date (or to purchase Second Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), and any other payments secured by moneys in the Second Lien Debt Service Fund becoming due, except, in each case, to the extent such interest, principal amount or Maturity Amount, as applicable, or redemption price is payable from a fund or account other than the Second Lien Debt Service Fund, as provided in the Supplemental Resolution authorizing such Second Lien Obligation.

The Authority may determine to purchase Second Lien Obligations in accordance with State law and may apply amounts in the Second Lien Debt Service Fund to pay the purchase price of such Second Lien Obligations if after the application of amounts in Second Lien Debt Service Fund for such purpose, the amounts on deposit in the Second Lien Debt Service Fund, together with amounts required to be deposited therein by Section 5.2, will be sufficient to pay the principal or Maturity Amount, and interest next becoming due on the Second Lien Obligations.

If at the time the Authority is required to make a withdrawal from the Second Lien Debt Service Fund the moneys therein shall not be sufficient for such purpose, any remaining required transfers shall be accomplished pursuant to Section 5.11 below.

Except as may be otherwise provided in any Supplemental Resolution authorizing any Second Lien Obligations, whenever the total amounts on deposit to the credit of the Second Lien Debt Service Fund and the Second Lien Debt Service Reserve Fund, if applicable, shall be equivalent to the sum of the aggregate principal amount of all Outstanding Second Lien Obligations plus the aggregate amount of all interest and other payments secured by the Second Lien Debt Service Fund accrued and to accrue thereon, no further transfers need be made into the Second Lien Debt Service Fund or the Second Lien Debt Service Reserve Fund, if applicable, and such Second Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds.

Section 5.7. Second Lien Debt Service Reserve Fund.

(a) The Authority shall establish and maintain as hereinafter provided a balance in the applicable account of the Second Lien Debt Service Reserve Fund equal to the Second Lien Debt Service Reserve Fund Requirement for the Second Lien Obligations that are secured thereby as established in the Supplemental Resolution authorizing such Second Lien Obligations. In addition, within the Second Lien Debt Service Reserve Fund, subaccounts may be established pursuant to Supplemental Resolutions into which the applicable Second Lien Debt Service Reserve Fund Requirement for the particular Series of Second Lien Obligations that are not Second Lien Debt Service Reserve Fund Participants being issued under the Supplemental Resolution may be deposited.

The Second Lien Debt Service Reserve Fund Requirement shall, as provided in any Supplemental Resolution authorizing such Second Lien Obligations, be satisfied by depositing to the credit of the Second Lien Debt Service Reserve Fund Participant Account (in the case of Additional Second Lien Obligations that are Second Lien Debt Service Reserve Fund Participants) or such other designated accounts, as applicable, (in the case of Second Lien Obligations that are not Second Lien Debt Service Reserve Fund Participants) of the Second Lien Debt Service Reserve Fund (i) after providing for the payment of Operating and Maintenance Expenses and making required transfers to the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund and the Second Lien Debt Service Fund, transfers into the Second Lien Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to accumulate within sixty (60) months the First Lien Debt Service Reserve Fund Requirement; (ii) proceeds of such Second Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the Authority, will be sufficient to fund fully the Second Lien Debt Service Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Second Lien Obligations has been provided out of proceeds of such Second Lien Obligations or investment earnings thereon as estimated by the Authority or from other lawfully available funds other than Net Revenues or (iii) a surety bond, insurance policy or letter of credit or similar financial instrument; 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 similar financial instrument, or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one

of the three highest letter categories by at least one nationally recognized securities rating agency (or, if such entities are no longer in existence, by comparable services) (each, a “Second Lien DSRF Security”) and which Second Lien DSRF Security is in an amount equal to the amount required to be funded. The Second Lien DSRF Security shall be payable (upon the giving of any notice as may be required thereunder) on any Interest Payment Date, principal payment date or redemption date on which moneys will be required to be withdrawn from the Second Lien Debt Service Reserve Fund and applied to the payment of the principal amount, Maturity Amount or redemption price of or interest on any Second Lien Obligations secured thereby, unless otherwise provided in a Supplemental Resolution. Any downgrade of an issuer of a Second Lien DSRF Security shall have no effect on the value of such instrument for the purposes of meeting the Second Lien Debt Service Reserve Fund Requirement and the Authority shall have no obligation to supplement or replace such Second Lien DSRF Security or make additional cash contributions to the Second Lien Debt Service Reserve Fund as a result of such downgrade. The Authority further expressly reserves the right to substitute at any time a Second Lien DSRF Security for any funded amounts in the First Lien Debt Service Reserve Fund and to apply the funds thereby released for any lawful purpose, including without limitation any purpose for which Second Lien Obligations may be issued or in order to pay debt service on Second Lien Obligations. The Authority also reserves the right to provide for the use of a DSRF Security in relationship to a Series-specific debt service reserve requirement as may be required under any Supplemental Resolution.

(b) In any month in which any account of the Second Lien Debt Service Reserve Fund contains less than the applicable Second Lien Debt Service Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the Authority has elected to accumulate the Debt Service Reserve Fund Requirement for any Series of Second 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 all required transfers to the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund and Second Lien Debt Service Fund, there shall be transferred on a pro rata basis into the Second Lien Debt Service Reserve Fund Participant Account (in the case of Second Lien Obligations that are Second Lien Debt Service Reserve Fund Participants) and such other designated accounts, as applicable, (in the case of Second Lien Obligations that are not Second Lien Debt Service Reserve Fund Participants) of the Second Lien Debt Service Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the Authority to pay all Credit Agreement Obligations under Second Lien DSRF Security allocable to the Second Lien Debt Service 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 Authority within a twelve (12) month period to reestablish in the Second Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the Second Lien Debt Service Fund, as applicable, the Second Lien Debt Service Reserve Fund Requirement for the Second Lien Obligations secured thereby. After such amounts have been accumulated in the Second Lien Debt Service Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain the Second Lien Debt Service Reserve Fund Requirement, no further transfers shall be required to be made into the Second Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the Second Lien Debt Service Reserve Fund, and any excess amounts in such accounts shall be transferred to the Second Lien Debt Service Fund to the extent the excess is attributable to the Second Lien Debt Service Reserve Fund for any tax-exempt

Second 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 Second Lien Debt Service Reserve Fund Participant Account or such other designated accounts is reduced below the applicable Second Lien Debt Service Reserve Fund Requirement, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Second Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the Second Lien Debt Service Fund, as applicable, to such amount within a twelve (12) month period.

The Second Lien Debt Service Reserve Fund Participant Account shall be used to pay the principal of and interest on the Second Lien Obligations that are Second Lien Debt Service Reserve Fund Participants at any time when there is not sufficient money available in the Second Lien Debt Service Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Second Lien DSRF Security, unless provided otherwise in each of the Second Lien DSRF Securities allocable to the Second Lien Debt Service Reserve Fund Participant Account) and to repay amounts drawn under any Second Lien DSRF Security allocable to such Second Lien Debt Service Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the Authority's Credit Agreement Obligations incurred in connection with such Second Lien DSRF Security. The Second Lien Debt Service Reserve Fund Participant Account shall also be used to make the final payments for the retirement or defeasance of all Second Lien Obligations then Outstanding that are secured thereby.

With respect to any Series of Second Lien Obligations that are not Debt Service Reserve Fund Participants, any account created within the Second Lien Debt Service Reserve Fund for the benefit of such Series of Second Lien Obligations shall be used to pay the principal of and interest on such Series of Second Lien Obligations at any time when there is not sufficient money available in the Second Lien Debt Service Fund for such purpose and to repay amounts drawn under any Second Lien DSRF Security allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the Supplemental Resolution establishing such account.

(c) The Authority directs and requires the Paying Agent/Registrar for any Series of Second Lien Obligations to ascertain the necessity for claim or draw upon the applicable Second Lien DSRF Security, 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 Second Lien Obligations to which it pertains.

Section 5.8. Third Lien Debt Service Fund. The Authority may create such additional accounts in the Third Lien Debt Service Fund pursuant to a Supplemental Resolution as it deems necessary or appropriate, including, but not limited to, (i) an account into which drawings on a Credit Agreement are to be deposited and from which principal or Maturity Amount, as applicable (including redemption price), of and interest on the Series of Third Lien Obligations secured by such Credit Agreement are to be paid (and upon such payment, amounts on deposit in the Third Lien Debt Service Fund shall be used to repay the provider of the Credit Agreement for such payments as and to the extent provided for in Section 5.2), (ii) an account into which payments to the Authority from any Third Lien Hedge Agreement Counterparty are to be deposited and from

which payments from the Authority to any such Third Lien Hedge Agreement Counterparty are to be paid as and to the extent provided for in Section 5.2.

The moneys in the Third Lien Debt Service Fund shall be held for the benefit of the Third Lien Obligations, to the extent the Third Lien Obligations are made payable therefrom in the applicable Supplemental Resolution, and, pending application, shall be subject to a lien and charge in favor of the Owners of the Third Lien Obligations until paid out or transferred as hereinafter provided. The Authority shall pay out of the Third Lien Debt Service Fund to the respective Paying Agents, if any, for Third Lien Obligations or other payees thereof (a) on or before each Interest Payment Date and each date fixed for the redemption of Third Lien Obligations, the amount required for the payment of the interest becoming due on such date and (b) on or before each date on which Third Lien Obligations or other payments secured by the Third Lien Debt Service Fund mature or become subject to scheduled mandatory sinking fund redemption or optional redemption or otherwise become due, the amount required for payment of the principal amount or Maturity Amount, as applicable, of the Third Lien Obligations maturing or otherwise becoming due, the redemption price of Third Lien Obligations becoming subject to redemption on such date (or to purchase Third Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), and any other payments secured by moneys in the Third Lien Debt Service Fund becoming due, except, in each case, to the extent such interest, principal amount or Maturity Amount, as applicable, or redemption price is payable from a fund or account other than the Third Lien Debt Service Fund, as provided in the Supplemental Resolution authorizing such Third Lien Obligation.

The Authority may determine to purchase Third Lien Obligations in accordance with State law and may apply amounts in the Third Lien Debt Service Fund to pay the purchase price of such Third Lien Obligations if after the application of amounts in Third Lien Debt Service Fund for such purpose, the amounts on deposit in the Third Lien Debt Service Fund, together with amounts required to be deposited therein by Section 5.2, will be sufficient to pay the principal or Maturity Amount, and interest next becoming due on the Third Lien Obligations.

If at the time the Authority is required to make a withdrawal from the Third Lien Debt Service Fund the moneys therein shall not be sufficient for such purpose, any remaining required transfers shall be accomplished pursuant to Section 5.11 below.

Except as may be otherwise provided in any Supplemental Resolution authorizing any Third Lien Obligations, whenever the total amounts on deposit to the credit of the Third Lien Debt Service Fund and the Third Lien Debt Service Reserve Fund, if applicable, shall be equivalent to the sum of the aggregate principal amount of all Outstanding Third Lien Obligations plus the aggregate amount of all interest and other payments secured by the Third Lien Debt Service Fund accrued and to accrue thereon, no further transfers need be made into the Third Lien Debt Service Fund or the Third Lien Debt Service Reserve Fund, if applicable, and such Third Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds.

Section 5.9. Third Lien Debt Service Reserve Fund.

(a) The Authority shall establish and maintain as hereinafter provided a balance in the applicable account of the Third Lien Debt Service Reserve Fund equal to the Third Lien Debt Service Reserve Fund Requirement for the Third Lien Obligations that are secured thereby as established in the Supplemental Resolution authorizing such Third Lien Obligations. In addition, within the Third Lien Debt Service Reserve Fund, subaccounts may be established pursuant to Supplemental Resolutions into which the applicable Third Lien Debt Service Reserve Fund Requirement for the particular Series of Third Lien Obligations that are not Third Lien Debt Service Reserve Fund Participants being issued under the Supplemental Resolution may be deposited.

The Third Lien Debt Service Reserve Fund Requirement shall, as provided in any Supplemental Resolution authorizing such Third Lien Obligations, be satisfied by depositing to the credit of the Third Lien Debt Service Reserve Fund Participant Account (in the case of Additional Third Lien Obligations that are Third Lien Debt Service Reserve Fund Participants) or such other designated accounts, as applicable, (in the case of Third Lien Obligations that are not Third Lien Debt Service Reserve Fund Participants) of the Third Lien Debt Service Reserve Fund (i) after providing for the payment of Operating and Maintenance Expenses and making required transfers to the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund and the Third Lien Debt Service Fund, transfers into the Third Lien Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to accumulate within sixty (60) months the First Lien Debt Service Reserve Fund Requirement; (ii) proceeds of such Third Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the Authority, will be sufficient to fund fully the Third Lien Debt Service Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Third Lien Obligations has been provided out of proceeds of such Third Lien Obligations or investment earnings thereon as estimated by the Authority or from other lawfully available funds other than Net Revenues or (iii) a surety bond, insurance policy or letter of credit or similar financial instrument; 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 similar financial instrument, or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the three highest letter categories by at least one nationally recognized securities rating agency (or, if such entities are no longer in existence, by comparable services) (each, a "Third Lien DSRF Security") and which Third Lien DSRF Security is in an amount equal to the amount required to be funded. The Third Lien DSRF Security shall be payable (upon the giving of any notice as may be required thereunder) on any Interest Payment Date, principal payment date or redemption date on which moneys will be required to be withdrawn from the Third Lien Debt Service Reserve Fund and applied to the payment of the principal amount, Maturity Amount or redemption price of or interest on any Third Lien Obligations secured thereby, unless otherwise provided in a Supplemental Resolution. Any downgrade of an issuer of a Third Lien DSRF Security shall have no effect on the value of such instrument for the purposes of meeting the Third Lien Debt Service Reserve Fund Requirement and the Authority shall have no obligation to supplement or replace such Third Lien DSRF Security or make additional cash contributions to the Third Lien Debt Service Reserve Fund as a result of such downgrade. The Authority further expressly reserves the right to substitute at any

time a Third Lien DSRF Security for any funded amounts in the Third Lien Debt Service Reserve Fund and to apply the funds thereby released for any lawful purpose, including without limitation any purpose for which Third Lien Obligations may be issued or in order to pay debt service on Third Lien Obligations. The Authority also reserves the right to provide for the use of a DSRF Security in relationship to a Series-specific debt service reserve requirement as may be required under any Supplemental Resolution.

(b) In any month in which any account of the Third Lien Debt Service Reserve Fund contains less than the applicable Third Lien Debt Service Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the Authority has elected to accumulate the Debt Service Reserve Fund Requirement for any Series of Third 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 all required transfers to the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund and Third Lien Debt Service Fund, there shall be transferred on a pro rata basis into the Third Lien Debt Service Reserve Fund Participant Account (in the case of Third Lien Obligations that are Third Lien Debt Service Reserve Fund Participants) and such other designated accounts, as applicable, (in the case of Third Lien Obligations that are not Third Lien Debt Service Reserve Fund Participants) of the Third Lien Debt Service Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the Authority to pay all Credit Agreement Obligations under Third Lien DSRF Security allocable to the Third Lien Debt Service 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 Authority within a twelve (12) month period to reestablish in the Third Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the Third Lien Debt Service Fund, as applicable, the Third Lien Debt Service Reserve Fund Requirement for the Third Lien Obligations secured thereby. After such amounts have been accumulated in the Third Lien Debt Service Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain the Third Lien Debt Service Reserve Fund Requirement, no further transfers shall be required to be made into the Third Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the Third Lien Debt Service Reserve Fund, and any excess amounts in such accounts shall be transferred to the Third Lien Debt Service Fund to the extent the excess is attributable to the Third Lien Debt Service Reserve Fund for any tax-exempt Third 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 Third Lien Debt Service Reserve Fund Participant Account or such other designated accounts is reduced below the applicable Third Lien Debt Service Reserve Fund Requirement, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Third Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the Third Lien Debt Service Fund, as applicable, to such amount within a twelve (12) month period.

The Third Lien Debt Service Reserve Fund Participant Account shall be used to pay the principal of and interest on the Third Lien Obligations that are Third Lien Debt Service Reserve Fund Participants at any time when there is not sufficient money available in the Third Lien Debt Service Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Third Lien DSRF Security, unless provided

otherwise in each of the Third Lien DSRF Securities allocable to the Third Lien Debt Service Reserve Fund Participant Account) and to repay amounts drawn under any Third Lien DSRF Security allocable to such Third Lien Debt Service Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the Authority's Credit Agreement Obligations incurred in connection with such Third Lien DSRF Security. The Third Lien Debt Service Reserve Fund Participant Account shall also be used to make the final payments for the retirement or defeasance of all Third Lien Obligations then Outstanding that are secured thereby.

With respect to any Series of Third Lien Obligations that are not Debt Service Reserve Fund Participants, any account created within the Third Lien Debt Service Reserve Fund for the benefit of such Series of Third Lien Obligations shall be used to pay the principal of and interest on such Series of Third Lien Obligations at any time when there is not sufficient money available in the Third Lien Debt Service Fund for such purpose and to repay amounts drawn under any Third Lien DSRF Security allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the Supplemental Resolution establishing such account.

(c) The Authority directs and requires the Paying Agent/Registrar for any Series of Third Lien Obligations to ascertain the necessity for claim or draw upon the applicable Third Lien DSRF Security, 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 Third Lien Obligations to which it pertains.

Section 5.10. General Fund. After making all payments, credits and transfers described heretofore, amounts credited to the General Fund may be used for any purpose permitted by law and not inconsistent with the terms and provisions of any Federal grants or aid or any contracts to which the Authority is a party, including, but not limited to, capital expenditures, establishing self-insurance reserves, contingency reserves and/or unrestricted reserves, costs of replacing any depreciable property or equipment of the Authority, any major or extraordinary repairs, any lease or contractual obligation, and transfers to make up any deficiency in any Fund established under Article V. The General Fund may contain such other funds or accounts as may be established by the policies of the Port Commission from time to time. The Authority reserves the right to pledge the funds on deposit in the General Fund to any lawful Authority obligation, including those entered into outside of this Master Resolution.

Section 5.11. Deficiencies in Funds. If in any month there shall not be transferred into any Fund maintained pursuant to this Article V the full amounts required herein, amounts equivalent to such deficiency (a) shall be set apart and transferred to such Fund or Funds from the first available and unallocated moneys in the Revenue Fund, in the order provided in Section 5.2, and such transfer shall be in addition to the amounts otherwise required to be transferred to such Funds during any succeeding month or months or (b) at the sole discretion of the Authority, may be set apart and transferred to such Fund or Funds from funds on deposit in the General Fund.

Section 5.12. Investment of Funds; Transfer of Investment Income.

(a) Money in the Revenue Fund, the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve

Fund, the Third Lien Debt Service Fund, the Third Lien Debt Service Reserve Fund, and any debt service funds or debt service reserve funds established for Inferior Lien Obligations shall, at the option of the Authority, be invested in Permitted Investments or in any other investments authorized by State 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 Authority'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. Any obligation in which money is so invested shall be kept and held at an official depository of the Authority, except as otherwise permitted by the laws applicable to the Authority. 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 Authority, in common investments of the kind described above, or in a common pool of such investments maintained by the Authority or its designated agent, 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 any account of the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Reserve Fund, and the Third Lien Debt Service Reserve Fund shall remain in such funds to the extent necessary to accumulate the respective Debt Service Reserve Fund Requirement therefor 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 Supplemental Resolution authorizing the issuance of First Lien Obligations, Second Lien Obligations, or Third Lien Obligations shall remain in such construction fund for application in the manner provided in such applicable Supplemental Resolution.

(d) To the extent not otherwise provided for above in this Article V (including Section 5.1(b) and Sections 5.12(b) and 5.12(c)) or specifically excluded from the definition of Gross Revenues, all interest and income derived from deposits and investments credited to the Revenue Fund, the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund, the Third Lien Debt Service Fund, and the Third Lien Debt Service Reserve Fund shall remain on deposit in such funds and be credited against future transfers to such funds, be transferred or credited semi-annually to the Revenue Fund, or be transferred 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 Obligations from being includable within the gross income of the owners thereof for federal income tax purposes.

Section 5.13. Security for Uninvested Funds. So long as any Obligations remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund, the Third Lien Debt Service Fund, and the Third Lien Debt Service Reserve Fund shall be secured by the pledge of security, to the extent required by law.

ARTICLE VI

COVENANTS AND REPRESENTATIONS

Section 6.1. Payment of Obligations. The Authority will punctually pay or cause to be paid the interest on, principal of, the Maturity Amount of and other amounts due on all Obligations 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 Master Resolution and in any Supplemental Resolution.

Section 6.2. Maintenance of Port Facilities. So long as any Obligations remain outstanding, the Authority covenants that it will at all times maintain and operate all material Port Facilities, or within the limits of its authority cause the same to be maintained and operated, in good and serviceable condition.

Section 6.3. Sale or Encumbrance of Port Facilities.

(a) Unless otherwise provided in this Section, except for (i) the use of the Port Facilities or services pertaining thereto in the normal course of business, (ii) a nonmaterial part of the Port Facilities, or (iii) any Port Facilities sold, alienated or otherwise disposed of for “fair market value” or “reasonable market value” as determined by the Port Commission or an Authorized Representative (provided that the Port Commission or an Authorized Representative must first reasonably determine that such sale, alienation or other disposition for “fair market value” or “reasonable market value” will have no material adverse effect on the Gross Revenues of the Authority as determined at the time of such determination), no material part of the Port Facilities shall be sold, mortgaged, pledged, encumbered, alienated or otherwise disposed of until all Obligations have been paid in full, or unless provision has been made therefor in accordance with Section 6.7, and the Authority shall not dispose of its title to a material part of the Port Facilities or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Port Facilities.

(b) Notwithstanding the foregoing, subject to the other provisions of this subsection (b), the Authority may and expressly reserves the right to:

(i) execute leases, franchises, licenses, easements or other agreements in connection with the ordinary operation of the Port Facilities by the Authority (so long as such leases, franchises, licenses, easements or other agreements do not, in the judgment of the Port Commission at the time of execution, restrict the operation of the Port Facilities or in the aggregate materially impair Net Revenues therefrom);

(ii) make pledges of and liens on (A) Gross Revenues for the payment of Operations and Maintenance Expenses and (B) Net Revenues for the payment of Obligations, and any other obligations pertaining to the Port Facilities, including, but not limited to, capital leases or other similar lease/purchase arrangements, which may be issued or incurred in accordance with the terms and conditions of this Master Resolution or outside of the Master Resolution if secured by revenues in the General Fund or other lawfully available funds other than Net Revenues or made on a subject to annual appropriations basis; provided, however, that if the payment of such obligations are secured by a lien on the Net Revenues on parity with First Lien Obligations, Second Lien Obligations, or Third Lien Obligations, respectively, such obligations shall be issued or entered into as First Lien Obligations, Second Lien Obligations, or Third Lien Obligations, respectively under the Master Resolution;

(iii) mortgage or encumber any personal property (including, for the avoidance of doubt, floating cranes, gantry cranes, ship-to-shore cranes and other cranes typically used by the Authority or its customers) or non-revenue producing property to be acquired or financed under a capital lease, lease/purchase or other similar arrangement in connection with the capital lease, lease/purchase, or other similar arrangement;

(iv) lease one or more Port Facilities to a private third party operator for operation as Port Facilities during the term of such lease if the Port Commission or an Authorized Representative determines at the time the Authority enters into such lease that the lease is in the financial interest of the Authority;

(v) terminate, alter, amend, extend and/or modify any leases or other agreements affecting Port Facilities or entered into hereafter; and

(vi) sell, exchange, lease, or otherwise dispose of any property constituting a part of the Port Facilities, which the Chairman of the Port Commission or an Authorized Representative certifies in good faith on behalf of the Authority (A) to be no longer useful in the construction or operation of the Port Facilities, or necessary for the efficient operation of the Port Facilities, or (B) to have been replaced by other property of at least equal value.

The net proceeds of the sale or disposition of any Port Facilities property pursuant to subsection (b)(vi) shall be used for the construction, improvement, operation or maintenance of Port Facilities. No sale, lease, alienation or disposition of any Port Facilities, or early termination or amendment of any leases or other agreements, may be approved by the Authority unless the Authorized Representative determines such sale, lease, alienation or disposition of Port Facilities, or such early termination or amendment of any leases or other agreements, is reasonably expected by the Authority not to result in a violation of the Rate Covenant in the current fiscal year or a reasonably foreseeable Fiscal Year, as determined by the Authorized Representative at the time of such approval.

(c) Nothing herein shall prevent any transfer of all or a substantial part of the Port Facilities to another body corporate or politic (including, but not necessarily limited to a joint action agency) which assumes the Authority's obligations under this Master Resolution and under any Supplemental Resolution authorizing the issuance of Obligations, wholly or in part, if, a Port Management Consultant provides a written report setting for projections indicating that the estimated Net Revenues of the entity assuming the Port's Obligations will be sufficient to meet the Rate Covenant following the transfer. In the event of any such transfer and assumption, nothing herein shall prevent the retention by the Authority of any facility of the Authority if the report of the Port Management Consultant indicates that, such retention will not prevent such other body's ability to comply with the requirements of the Rate Covenant.

Section 6.4. Insurance. The Authority further covenants and agrees that it will keep the Port Facilities insured through self-insurance or, 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 operating similar properties, to the extent that such insurance is available at a commercially reasonable cost. The terms of all such commercially-provided insurance shall be on commercially reasonable terms and the costs of such insurance shall constitute an Operations and Maintenance Expense. 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 Port Facilities or shall be used to redeem or defease Obligations (or pledged as Supplemental Security for one or more Series of Obligations), except for proceeds of business interruption insurance, which shall be credited to the Revenue Fund. Notwithstanding the foregoing, the Authority reserves the right to not use self-insurance funds to repair or replace property that is damaged or destroyed, make other capital improvements to the Port Facilities, or redeem or defease Obligations (or pledge as Supplemental Security for one or more Series of Obligations) if the Port Commission or an Authorized Representative determines that not repairing or replacing the damaged or destroyed property will not have a material adverse effect on the operation of the Port Facilities or the Net Revenues of the Authority.

Section 6.5. Accounts, Records, and Audits. So long as any Obligations remain outstanding, the Authority covenants and agrees that it will maintain a proper and complete system of all material records and accounts pertaining to the Gross Revenues and the operation of the Port Facilities 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 Port Facilities. The Authority shall, within 180 days after the close of each Fiscal Year 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 Annual Debt Service for such fiscal year (as such terms are herein defined) and shall set forth a calculation to demonstrate whether the Port has satisfied the Rate Covenant. Each year promptly after such reports are prepared, the Authority shall furnish copies thereof to any Owners of Obligations who shall request the same. The Authority may furnish such copies by posting the audit report on a publicly available Internet website. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Port Facilities.

Section 6.6. Pledge and Encumbrance of Revenues. The Authority covenants and represents that it has the lawful power to create liens on and to pledge the Net Revenues and the other items pledged hereunder to secure the payment of the Obligations and has lawfully exercised such power under the Constitution and laws of the State. The Authority further covenants and represents that, other than to the payment of Operation and Maintenance Expenses (including maintenance of the operating reserve) and the Obligations, 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 Authority, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Obligations.

Section 6.7. Defeasance.

(a) The Authority reserves the right to discharge and defease its obligations with respect to any Obligations in any manner now or hereafter permitted by the laws of the State.

(b) Without limiting the provisions of subsection (a), the Authority may discharge its obligation to the Owners of any or all of the Obligations or other Series of Obligations to pay the principal of and interest on, the Maturity Amount, and redemption premium and other obligations (if any) thereon:

(i) by depositing with the applicable paying agent/registrar, if any, or escrow agent for such Obligations cash in an amount equal to the principal amount of and interest on, the Maturity Amount and redemption premium, if any, on such Obligations plus interest thereon to the date of maturity or redemption, or

(ii) by depositing either with the applicable paying agent/registrar, if any, or escrow agent for such Obligations or with any entity qualifying to receive such funds under Chapter 1207, Texas Government Code, as amended (or its successor), pursuant to an escrow or trust agreement, cash and/or any obligation authorized under State law to be deposited for the payment or redemption of the such Obligations, in principal amounts and maturities and bearing interest at rates sufficient, based upon a verification report of an independent certified public accountant or other verification agent, to provide for the timely payment of the principal amount of or the Maturity Amount and redemption premium, if any, of such Obligations plus interest thereon to the date of maturity or redemption.

In making the deposits under paragraphs (i) or (ii), to the extent that the interest rate on Variable Rate Obligations cannot be ascertained at the time of the deposit, the interest for the period during which the interest rate cannot be ascertained shall be calculated at the maximum interest rate applicable to such Variable Rate Obligations. Upon a deposit in accordance with paragraph (i) or (ii) above and obtaining a defeasance opinion from nationally recognized bond counsel, such Obligations shall no longer be regarded as being Outstanding or unpaid.

(c) In case any Obligations are to be redeemed on any date prior to their maturity, the Authority shall give to the applicable paying agent/registrar instructions to

give notice of redemption of said Obligations to be so redeemed in the manner required in the Supplemental Resolution or Supplemental Resolutions authorizing such Obligations. For any Obligations 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 6.7, the Authority shall give the applicable paying agent/registrar, in form satisfactory to it, irrevocable instructions to mail, by United States mail, first class postage prepaid, a notice to the Registered Owner of each such Obligation that the deposit required by this Section has been made and that said Obligations 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 Obligations 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 Obligations.

ARTICLE VII

REMEDIES

Section 7.1. Bondholders' Remedies. This Master Resolution shall constitute a contract between the Authority and the Owners of the Obligations from time to time Outstanding and this Master Resolution shall be and remain irrevocable until the Obligations, the interest thereon and all other amounts due hereunder shall be fully paid or discharged or provision therefor shall have been made as provided in Section 6.7. In the event of a default in the payment of the principal of or interest on any of the Obligations or a default in the performance of any duty or covenant provided by law or in this Master Resolution, the Owner or Owners of any of the Obligations thereby affected may pursue all legal remedies afforded by the Constitution and laws of the State to compel the Authority to remedy such default and to prevent further default or defaults. As provided in Section 5007.006(i) of the Special District Local Laws Code, it is expressly provided that any Owner of any of the Obligations shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the Port Commission, as applicable, to observe and perform any specific covenant, condition, duties or obligations required to be performed by the Port Commission under this Master Resolution, including the imposition of reasonably required rentals, tolls, fees, rates and charges for the use and services of the Port Facilities, the deposit of the Gross Revenues into the special funds herein provided, and the application of such Gross Revenues in the manner required in this Master Resolution.

Section 7.2. Remedies Applicable. The Owner shall be entitled to the remedies provided in this Article VII; provided, however, that except as may be provided in a Supplemental Resolution in accordance with applicable law, (a) acceleration of the principal of and interest on or Maturity Amount of the Obligations or any of the Obligations upon the occurrence of an event of default is not a remedy available under this Master Resolution and (b) in no event shall the Owner or other parties have the ability, upon the occurrence of an event of default, to declare immediately due and payable the principal of and interest on or Maturity Amount of the Obligations or any of the Obligations.

Section 7.3. Waivers. No delay or omission to exercise any right or power accruing upon any default or event of default shall impair any such right or power or shall be construed to be a waiver of any such default or event of default or acquiescence therein, and every right and

power may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or event of default hereunder shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereon.

Section 7.4. Rights of Credit Providers and Credit Enhancers. The rights, if any, of any Credit Provider or the provider of a municipal bond insurance policy or a DSRF Security, if they do not constitute Credit Providers, as they relate to events of default shall be addressed in the Supplemental Resolution approving such Credit Agreement, municipal bond insurance policy or DSRF Security.

Section 7.5. Counterparties to Hedge Agreements not Owners. Counterparties to Hedge Agreements shall not be treated as Owners of the Obligations to which the Hedge Agreement relates for the purposes of directing the exercise of any remedy under the Master Resolution or any Supplemental Resolution, unless such Counterparty is in fact the Owner of such Obligations.

Section 7.6. Provisions and Remedies in Supplemental Resolution. In addition to or in lieu of the provisions and remedies for events of defaults set forth in this Master Resolution, a Supplemental Resolution may provide additional or different provisions and remedies for events of default in connection with the Series of Obligations authorized thereby, to the extent that any such provisions and remedies are not inconsistent with the provisions and remedies set forth herein.

ARTICLE VIII

AMENDMENT OF RESOLUTION

Section 8.1. Alteration of Rights and Duties. The rights, duties, and obligations of the Authority and the Owners of Outstanding Obligations 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.

Section 8.2. Amendment of Resolution Without Consent. The Authority may, without the consent of or notice to any of the Owners of the Obligations, amend this Master Resolution for any one or more of the following purposes:

(a) to cure any ambiguity, defect, omission or inconsistent provision in this Master Resolution or in the Obligations, or to comply with any applicable provision of law or regulation of State or federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Obligations;

(b) to change the terms or provisions of this Master Resolution to the extent necessary to prevent the interest on the Obligations (if they are issued as obligations the interest on which is excludable from gross income of the Owners thereof for federal income tax purposes) from being includable within the gross income of the Owners thereof for federal income tax purposes;

(c) to make any changes or amendments requested by any Rating Agency, as a condition to the issuance or maintenance of a rating;

(d) to make such changes, modifications or amendments as may be necessary or desirable, in order, to the extent permitted by law, to facilitate the economic and practical utilization of Credit Agreements with respect to the Obligations including, without limitation, supplementing the definition of “Annual Debt Service” to address the amortization of payments due and owing under a Credit Agreement;

(e) to modify any of the provisions of this Master Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Obligations Outstanding at the date of the adoption of such modification shall cease to be Outstanding, and (ii) such modification shall be specifically referred to in the text of all Additional Obligations issued after the date of the adoption of such modification;

(f) to grant to or confer upon the Owners of the Obligations any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Obligations;

(g) to add to the covenants and agreements of the Authority contained in this Master Resolution other covenants and agreements of, or conditions or restrictions upon, the Authority or to surrender or eliminate any right or power reserved to or conferred upon the Authority in this Master Resolution;

(h) to subject additional revenues to the lien and pledge of this Master Resolution;

(i) to provide for the issuance of Inferior Lien Obligations;

(j) to provide for the establishment of additional reserve funds; or

(k) to amend any provisions of this Master Resolution if, prior to execution of any such amendment, there shall be delivered to the Port an opinion of nationally recognized bond counsel to the effect that such amendment will not have a material adverse effect on the security, remedies or rights of the Owners.

Section 8.3. Amendments of Resolution Requiring Consent. The Authority may at any time adopt one or more resolutions amending, modifying, adding to or eliminating any of the provisions of this Master Resolution but, if such amendment is not of the character described in Section 8.2 hereof, only with the consent given in accordance with Section 8.4 hereof of the Owner or Owners of not less than a majority in aggregate unpaid principal amount of the First Lien Obligations, Second Lien Obligations, and Third Lien Obligations 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 or other amounts owed on any Obligations issued hereunder, or (b) a reduction in the principal amount of any Obligations or the rate of interest or other amounts owed on any Obligations, or (c) a reduction in the aggregate principal amount of the Obligations required for consent to such amendment, unless the Owner or Owners of 100% in the aggregate principal amount of the First Lien Obligations, Second Lien Obligations, and Third Lien Obligations Outstanding and affected by such amendment shall consent to the changes described in clauses (a) through (c). Before the Authority

shall adopt an amendment authorized by this section, the Authority must receive an opinion from nationally recognized bond counsel to the effect that such amendment does not affect the exclusion from gross income for federal income tax purposes of interest on outstanding tax-exempt obligations.

Section 8.4. Consent of Owners. Any consent required by Section 8.3 hereof by any Owners 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 Obligations, if made in the following manner, shall be sufficient for any of the purposes of this Master Resolution, and shall be conclusive in favor of the Authority with regard to any action taken, suffered or omitted to be taken by the Authority under such instrument, namely:

(a) 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

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

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

Consents required pursuant to Section 8.3 shall be valid only if given following the giving of notice by or on behalf of the Authority requesting such consent and setting forth the substance of the amendment of this Master Resolution in respect of which such consent is sought and stating that copies thereof are available at the office of the Authority for inspection. Such notice shall be given by certified mail to each Registered Owner of the First Lien Obligations, Second Lien Obligations, Third Lien Obligations or Inferior Lien Obligations affected at the address shown on the Register.

Section 8.5. Revocation of Consent. Any consent by any Owner of an Obligation pursuant to the provisions of this Article VIII shall be irrevocable for a period of up to six (6) months, which period shall be specified in the request for consent, from the date of mailing of the notice provided for in this Article VIII, and shall be conclusive and binding upon all future Owners of the same Obligations and any Obligations delivered on transfer thereof or in exchange for or replacement thereof during such period. Such consent may be revoked at any time after six (6) 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 Obligations Outstanding as in this Master Resolution defined have, prior to the attempted revocation, consented to and approved the amendment.

Section 8.6. Rights of Credit Provider or Credit Enhancer. The rights, if any, of a Credit Provider, the provider of a municipal bond insurance policy or the provider of a DSRF Security to make any consents under this Article VIII, except those under Section 8.3(a), (b) and (c), may be specified in the Supplemental Resolution authorizing the Credit Agreement, municipal bond insurance policy or DSRF Security.

Section 8.7. Counterparties to Hedge Agreements not Owners. Unless otherwise provided in a Supplemental Resolution authorizing an Obligation, Counterparties to Hedge Agreements shall not be treated as Owners of the Obligations to which the Hedge Agreement relates for purposes of any voting rights to approve any amendments, unless such Counterparty is in fact the Owner of such Obligations.

ARTICLE IX

MISCELLANEOUS

Section 9.1. Notice. All notices hereunder shall be given by United States certified or registered mail or by telecommunication device capable of creating written record of such notice and its receipt. Notices hereunder shall be effective when received and shall be addressed:

- (a) Port of Houston Authority
111 East Loop North
Houston, Texas 77029-4326
Attn: Chief Financial Officer
Telephone No.: (713) 670-2627
email: tfinley@porthouston.com

With a copy to Port's Chief Legal Officer:

- (b) Port of Houston Authority
111 East Loop North
Houston, Texas 77029-4326
Attn: Chief Legal Officer
Telephone No.: (713) 670-2614
email: eeriksson@porthouston.com

Section 9.2. Continuing Disclosure Obligations. The Authority's continuing disclosure obligations, if any, under United State Securities and Exchange Commission Rule 15c2-12 with respect to the Obligations shall be set out in or authorized by the Supplemental Resolution with respect to such Obligations.

Section 9.3. Legal Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Master Resolution or any Supplemental Resolution, shall be a day that is not a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day with the same force and

effect as if done on the nominal date provided in this Master Resolution or any Supplemental Resolution and no interest shall accrue for the period after such nominal date.

Section 9.4. Governing Law. This Master Resolution shall be governed in all respects, including validity, interpretation and effect, by, and shall be enforceable in accordance with, the laws of the State.

Section 9.5. No Recourse Against Authority Officials. No recourse shall be had for the payment of principal of or interest on any Obligations or for any claim based thereon or on this Master Resolution against any official of the Authority or Port Commission or any person executing any Obligations.

Section 9.6. Successors. Whenever in the Master Resolution the Authority is named or referred to, it shall be deemed to include the board, body, commission, authority, agency, department or instrumentality of the State succeeding to the principal functions and powers of the Authority, and all the covenants and agreements in the Master Resolution contained by or on behalf of the Authority shall bind and inure to the benefit of said successor whether so expressed or not.

Section 9.7. Further Proceedings. The Chairman of the Port Commission, Secretary of the Port Commission and other appropriate officials of the Authority are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Master Resolution, which may include any conforming changes to any Supplemental Resolution relating to the issuance of Obligations. The Authorized Representative, in consultation with bond counsel, may make any changes in the written text of this Master Resolution prior to issuance of the first Obligations hereunder as he determines are consistent with the intent and purposed of this Master Resolution and are necessary to obtain the approval of the Attorney General. Any such determination by the Authorized Representative shall be final.

Section 9.8. Severability. If any Section, paragraph, clause or provision of this Master Resolution 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 Master Resolution.

Section 9.9. 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 Port Commission at which this Master Resolution was adopted was posted at a place convenient and readily accessible at all times to the general public at the Port Commission's regular meeting location for the time required by law preceding this meeting, as required by the Open Meetings Law, Chapter 551, Texas Government Code, and that this meeting has been open to the public as required by law at all times during which this Master Resolution and the subject matter thereof has been discussed, considered and formally acted upon. The Port Commission further ratifies, approves and confirms such written notice and the contents and posting thereof.

Section 9.10. Repealer. All resolutions and orders, or parts thereof, inconsistent herewith are hereby repealed to the extent of such inconsistency and subject to any conditions or prerequisites described in this section. The Prior Master Resolution and any supplemental resolutions adopted thereunder, are hereby rescinded and repealed and the liens created thereby

are hereby closed, with such repeal, rescission and closure to become effective concurrently with the earlier to occur of the closing of the first direct purchase note program established under this Master Resolution or the first Obligations issued under this Master Resolution. The Authorized Representatives are hereby authorized to take such action as may be necessary to effectuate such repeal, rescission and closure, including, without limitation, the provision of notices or the execution of certificates related thereto. Unless otherwise provided by the Port Commission, to the extent the Authority has appropriated against a direct purchase note program established under the Prior Master Resolution, such appropriation is hereby transferred to the new direct purchase note program established under this Master Resolution or, if issued prior to the closing of such direct purchase note program, the first series of Obligations issued under this Master Resolution upon the effective date of the repeal of the Prior Master Resolution.

Section 9.11. Effective Date. This Master Resolution shall be in force and effect from and after its passage on the date shown below.

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APPENDIX B

EXCERPTS FROM SECOND SUPPLEMENTAL RESOLUTION

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SECOND SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE, SALE, AND DELIVERY OF PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS FIRST LIEN REVENUE BONDS, SERIES 2021 (NON-AMT); PROVIDING FOR THE SECURITY AND PAYMENT THEREOF; APPROVING A BOND PURCHASE AGREEMENT AND AN OFFICIAL STATEMENT; AUTHORIZING AN AUTHORIZED REPRESENTATIVE TO APPROVE THE AMOUNTS, INTEREST RATES, PRICES AND TERMS OF SUCH BONDS AND CERTAIN OTHER MATTERS RELATING THERETO; AUTHORIZING OTHER ACTIONS; MAKING CERTAIN FINDINGS WITH RESPECT THERETO; AND CONTAINING OTHER PROVISIONS RELATING TO THE SUBJECT

IT IS HEREBY RESOLVED BY THE PORT COMMISSION OF THE PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS:

ARTICLE I

FINDINGS AND DETERMINATIONS

Section 1.01 Findings and Determinations. It is hereby officially found, determined and declared that:

(a) Pursuant to the Act (as defined in the Master Resolution), the Authority has adopted a Master Resolution (as defined herein) authorizing the issuance of one or more series of Obligations (as defined in the Master Resolution) pursuant to one or more Supplemental Resolutions (as defined in the Master Resolution).

(b) The Authority desires to issue its First Lien Revenue Bonds, Series 2021 (Non-AMT) (the "Bonds") pursuant to the Master Resolution and this Second Supplemental Resolution (as defined herein) for the purposes of (i) paying a portion of the Authority's share of the costs of the design, construction, property acquisition and equipment of the Houston Ship Channel Expansion Channel Improvement Project and (ii) paying the costs of issuance of the Bonds.

(c) Pursuant to Chapter 1371, Texas Government Code, as amended, the Port Commission may delegate to the Authorized Representative (as defined herein) the authority to execute and finalize certain terms in connection with the issuance of the Bonds authorized by this Second Supplemental Resolution, and the Authority desires to delegate to the Authorized Representative such authority as described herein.

(d) The Port Commission hereby finds and determines that (i) the issuance of the Bonds, (ii) the execution of the Bond Purchase Agreement (as defined herein) and (iii) the delegation of certain powers to the Authorized Representative, in each case, are necessary and in the public interest, and the use of the proceeds of the Bonds in the manner herein specified constitutes a valid public purpose.

(e) The purposes of this Second Supplemental Resolution are to approve the issuance of the Bonds and to extend the pledge, lien and provisions of the Master Resolution to and for the

benefit of the Owners of the Bonds and to provide for the execution of the Bond Purchase Agreement.

(f) The Authority is a conservation and reclamation district of the State of Texas operating under Article XVI, Section 59 of the Texas Constitution and therefore is an “issuer” as defined by Chapter 1371.001(4)(E), Texas Government Code.

(g) The meeting at which this Second Supplemental Resolution is being considered is open to the public as required by law, and the public notice of the time, place and purpose of said meeting is given as required by Chapter 551, Texas Government Code.

ARTICLE II

DEFINITIONS AND PRELIMINARY MATTERS

Section 2.01 Definitions. Unless otherwise expressly provided in this Second Supplemental Resolution, the capitalized terms contained herein shall have the meanings given in the Master Resolution.

“Authorized Denomination” means \$5,000 or any integral multiple thereof.

“Authorized Representative” shall have the meaning ascribed in the Master Resolution.

“Bond” or “Bonds” means bonds of the Authority authorized by this Second Supplemental Resolution in the aggregate principal amount set forth in the Pricing Certificate and herein designated as “Port of Houston Authority of Harris County, Texas First Lien Revenue Bonds, Series 2021 (Non-AMT).”

“Bond Purchase Agreement” means collectively, one or more Bond Purchase Agreements between the Authority and the Underwriters providing for the purchase of the Bonds by the respective Underwriters.

“Chapter 1371” means Chapter 1371, Texas Government Code, as amended.

“Co-Bond Counsel” means Orrick, Herrington & Sutcliffe LLP and West & Associates L.L.P. with respect to the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, and, with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding provision of any subsequent Internal Revenue Code, and (d) the Regulations promulgated under the provisions described in (b) and (c).

“Comptroller” means the Comptroller of Public Accounts of the State of Texas.

“Designated Payment/Transfer Office” means (i) with respect to the initial Paying Agent/Registrar named herein, its Houston, Texas, office, or at such other location designated by the Paying Agent/Registrar, and (ii) with respect to any successor Paying Agent/Registrar or

Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the Authority and such successor.

“Depository Participant” means each broker dealer, bank or other financial institution for which DTC holds Bonds from time to time as Securities Depository.

“DTC” means The Depository Trust Company, New York, New York, its successors and assigns.

“Houston Ship Channel Expansion Channel Improvement Project” means the widening of the Houston Ship Channel by 170 feet along its Galveston Bay reach, from 530 feet to 700 feet, other widening upstream, deepening upstream segments up to 46.5 feet, safety and efficiency improvements, and new environmental features.

“Interest Payment Date” has the meaning set forth in the Pricing Certificate.

“Issuance Date” means the date of delivery of the Bonds.

“Issue Price” has the meaning ascribed to such term in section 1.148-1(f) of the Regulations.

“Letter of Representations” means that certain Blanket Issuer Letter of Representations between the Authority and DTC, as the Securities Depository.

“Master Resolution” means the Master Resolution adopted by the Authority and dated as of September 28, 2021 together with any amendments thereto.

“Preliminary Official Statement” means the Authority’s preliminary official statement prepared in connection with the public offering and sale of the Bonds, together with any addenda, supplements and amendments thereto.

“Official Statement” means the Authority’s final official statement prepared in connection with the public offering and sale of the Bonds, together with any addenda, supplements and amendments thereto.

“Paying Agent/Registrar” means Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas, and any successors thereto.

“Paying Agent\Registrar Agreement” means the issuing agent and paying agent/registrar agreement between the Paying Agent/Registrar and the Authority relating to the Bonds.

“Pricing Certificate” means a certificate or certificates to be signed by an Authorized Representative, substantially in the form attached here as Exhibit B.

“Project” means the Authority’s share of the design, construction, property acquisition and equipment of the Houston Ship Channel Expansion Channel Improvement Project.

“Project Costs” means all costs and expenses incurred in relation to the Project and permitted by law to be paid or refunded with the proceeds of the Bonds, including without limitation design, planning, engineering and legal costs, acquisition costs of land, interests in land, rights-of-way and easements, construction costs, costs of machinery, equipment, and other capital assets incident and related to the operation, maintenance, and administration of a Project, and financing costs, including interest during construction, underwriter’s discount and/or fees, legal, and costs of financial, and other professional services.

“Record Date” means the 15th day of the month next preceding each Interest Payment Date.

“Register” means the Register specified in Section 3.09(b) of this Second Supplemental Resolution.

“Rule” means SEC Rule 15c2-12, as amended from time to time.

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

“Second Supplemental Resolution” means this Second Supplemental Resolution approved by the Authority on October 26, 2021 authorizing the issuance of the Bonds.

“Securities Depository” means any bank or trust company appointed by the Authority in accordance with this Second Supplemental Resolution to act as securities depository for the Bonds.

“Series 2021 DSRF” means the separate account established within the First Lien Debt Service Reserve Fund pursuant to Section 8.03(c) hereof.

“Series 2021 First Lien Debt Service Reserve Fund Requirement” means, as of any date of calculation, with respect to the Bonds, an amount equal to the lesser of (i) ten percent of the stated principal amount of the Bonds (or Issue Price of the Bonds in the event that the amount of original issue discount exceeds two percent multiplied by the stated redemption price at maturity of the Bonds), (ii) the maximum annual principal and interest requirements of the Bonds outstanding, and (iii) 125 percent of average annual principal and interest requirements of the Bonds outstanding.

“Series 2021 Project Fund” means the separate fund of the Authority established in Section 8.03 hereof.

“Special Record Date” shall have the meaning set forth in Section 3.05(c) hereof.

“Stated Maturity” of any Bond means the stated date when the principal thereof will become due.

“Tax Counsel” means Orrick, Herrington & Sutcliffe LLP with respect to the Bonds.

“Unclaimed Payments” means money deposited with the Paying Agent/Registrar for the payment of principal, premium, if any, or interest, or money set aside for the payment of the Bonds duly called for redemption prior to Stated Maturity and remaining unclaimed by the Owners for 90 days after the applicable payment or redemption date.

“Underwriters” means the underwriters named in the Bond Purchase Agreement.

Section 2.02 Table of Contents, Titles and Headings. The table of contents, titles and headings of the articles and sections of this Second Supplemental Resolution have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Second Supplemental Resolution or any provision hereof or in ascertaining intent, if any question of intent should arise.

Section 2.03 Interpretation.

(a) Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa.

(b) Any action required to be taken on a date which is not a Business Day shall be taken on the next succeeding Business Day and have the same effect as if taken on the date so required.

(c) This Second Supplemental Resolution and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of this Second Supplemental Resolution.

(d) References to section numbers shall mean sections in this Second Supplemental Resolution unless designated otherwise.

Section 2.04 Declarations under the Master Resolution.

(a) This Second Supplemental Resolution is a Supplemental Resolution adopted under Article III of the Master Resolution.

(b) The Bonds are designated as First Lien Obligations under the Master Resolution.

(c) The Bonds are not First Lien Debt Service Reserve Fund Participants. However, pursuant to Article IV of the Master Resolution and Section 8.03(c) hereof, the “Series 2021 Reserve Account of the First Lien Debt Service Reserve Fund” is hereby created for the benefit of the Owners of the Bonds.

(d) The Chief Operating Officer may appoint in writing any other employee or officer to serve as an Authorized Representative if the Authorized Representative is unavailable to carry out such functions.

ARTICLE III

AUTHORIZATION; GENERAL TERMS AND PROVISIONS REGARDING THE BONDS

Section 3.01 Authorization, Principal Amount, Designation of Series, Terms and Provisions to Apply.

(a) The Bonds are hereby authorized to be issued pursuant to and in accordance with the provisions of the Master Resolution, this Second Supplemental Resolution and the Act. The terms of the Bonds shall be as set forth in the Master Resolution, this Second Supplemental Resolution and the Pricing Certificate. All terms and provisions of the Pricing Certificate relating to the Bonds shall be deemed to be incorporated into and shall become a part of this Second Supplemental Resolution.

(b) The Authorized Representative shall determine and shall set forth in the Pricing Certificate the aggregate principal amount of Bonds to be issued in one or more subseries for each of the purposes identified in Section 3.02 hereof, the terms of the Bonds pursuant to Section 9.01 hereof, any other terms and provisions determined by the Authorized Representative as necessary or desirable with respect to the terms of the Bonds and shall make such findings as required by law, as authorized by the Master Resolution, this Second Supplemental Resolution or as otherwise deemed appropriate by the Authorized Representative, all of which shall be set forth in the Pricing Certificate, provided that:

(i) the net effective interest rate of the Bonds shall not exceed the maximum rate allowed by Chapter 1204, Texas Government Code;

(ii) the aggregate principal amount of the Bonds shall not exceed \$400,000,000.00;

(iii) the final maturity dates of the Bonds shall not exceed December 1, 2061;
and

(iv) any finding by the Authorized Representative relating to the sale and delivery of the Bonds shall have the same force and effect as a finding or determination made by the Port Commission.

(c) The Authorized Representative is also hereby authorized to approve the Preliminary Official Statement and any insertions, additions and modifications as are necessary and appropriate to carry out the purposes of the financing as authorized by this Second Supplemental Resolution.

Section 3.02 Purposes.

(a) The Bonds are issued in accordance with Section 3.2 of the Master Resolution for the purposes of providing funds to (i) pay a portion of the Authority's share of the costs of the design, construction, property acquisition and equipment of the Houston Ship Channel Expansion Channel Improvement Project, and (ii) pay the costs of issuing the Bonds, all under and in

accordance with the Constitution and the laws of the State, the Master Resolution and this Second Supplemental Resolution.

Section 3.03 Date, Denomination, Numbers and Letters.

- (a) The Bonds shall be dated as provided in the Pricing Certificate.
- (b) The Bonds shall be issued in Authorized Denominations.
- (c) Unless the Authority shall direct otherwise, the Bonds shall be numbered separately from R-1 upward (except for the initial Bond registered by the Comptroller of Public Accounts (the “Initial Bond”), which shall be lettered and numbered IR-1).

Section 3.04 Interest Payment Dates and Interest Rates of the Bonds. The Bonds shall bear interest from their Issuance Date at the rate or rates per annum set forth in the Pricing Certificate, calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds shall be payable semiannually on each Interest Payment Date until maturity or prior redemption.

Section 3.05 Method and Place of Payment.

(a) The principal of any Bond is payable upon presentation and surrender thereof at the corporate office of the Paying Agent/Registrar. Interest on the Bonds shall be paid as described in Section 3.04, above.

(b) If the date for the payment of the principal of or interest on any Bond is not a Business Day, then the date for such payment shall be the next succeeding Business Day, and payment on such shall have the same force and effect as if made on the original date any such payment on the Bond was due.

(c) Interest payable on each Bond shall be paid by check or draft dated as of the Interest Payment Date and mailed by the Paying Agent/Registrar to the Registered Owner at the close of business on the Record Date, first class postage prepaid, to the address of the Registered Owner as it appears in the registration books kept by the Paying Agent/Registrar, or such other customary banking arrangements acceptable to the Paying Agent/Registrar and the Person to whom interest is to be paid; provided, however, that such Person shall bear all risk and expenses of such other customary banking arrangements. In the event of nonpayment of interest on a scheduled Interest Payment Date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Authority. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the “Special Payment Date,” which shall be 15 days after the Special Record Date) shall be sent at least five Business Days prior to the Special Record Date by U.S. mail, first class postage prepaid, to the address of each Registered Owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last Business Day preceding the date of mailing of such notice.

(d) Unclaimed Payments shall be segregated in a special account and held in trust, uninvested by the Paying Agent/Registrar, for the account of the Registered Owners. Subject to

Title 6, Texas Property Code, as amended, Unclaimed Payments remaining unclaimed by the Registered Owners entitled thereto for three (3) years after the applicable payment or redemption date shall be applied to the next payment or payments on the Bonds thereafter coming due and, to the extent any such money remains three (3) years after the retirement of all outstanding Bonds, shall be paid to the Authority to be used for any lawful purpose. Thereafter, neither the Authority, the Paying Agent/Registrar nor any other person shall be liable or responsible to any Registered Owner for any further payment of such unclaimed moneys or on account of any such Notes, subject to Title 6, Texas Property Code.

Section 3.06 Execution and Initial Registration.

(a) The Bonds shall be executed on behalf of the Authority by the Chairman of the Port Commission and the Executive Director of the Authority, by their manual or facsimile signatures, and the official seal of the Port Commission shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Bonds shall have the same effect as if each Bond had been signed manually and in person by each of said officers, and such facsimile seal on the Bonds shall have the same effect as if the official seal of the Port Commission had been manually impressed upon each of the Bonds.

(b) In the event that any officer of the Port Commission whose manual or facsimile signature appears on the Bonds ceases to be such officer before the authentication of such Bond or before the delivery thereof, such manual or facsimile signature nevertheless shall be valid and sufficient for all purposes as if such officer had remained in such office.

(c) Except as provided below, no Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Second Supplemental Resolution or the Master Resolution unless and until there appears thereon the Certificate of Paying Agent/Registrar substantially in the form provided in Exhibit A of this Second Supplemental Resolution, duly authenticated by manual execution of the Paying Agent/Registrar.

(d) On the Issuance Date, one initial bond representing the entire principal amount of the Bonds designated in the Pricing Certificate, payable in stated installments to the representative of the Underwriters or its designee, executed by manual or facsimile signature of the Chairman and Executive Director of the Port Commission, approved by the Attorney General, and registered and manually signed by the Comptroller, will be delivered to the Underwriter or its designee. Upon payment for the initial bond, the Paying Agent/Registrar shall cancel the initial bond and deliver registered definitive Bonds to DTC in accordance with Section 3.07 hereof. To the extent the Paying Agent/Registrar is eligible to participate in DTC's FAST System, as evidenced by an agreement between the Paying Agent/Registrar and DTC, the Paying Agent/Registrar shall hold the definitive Bonds in safekeeping for DTC.

Section 3.07 Securities Depository; Book-Entry System.

(a) The Authority hereby appoints DTC as Securities Depository for the Bonds. In accordance with the Letter of Representations, the Authority shall cause the Bonds to be registered in the name of Cede & Co., as nominee for DTC, and to be delivered by the Underwriters to DTC on the Issuance Date.

(b) With respect to Bonds registered in the registration books maintained by the Paying Agent/Registrar in the name of Cede & Co., or a nominee of any successor Securities Depository, the Authority and the Paying Agent/Registrar shall have no responsibility or obligation to any Depository Participant or to any Person on behalf of whom such Depository Participant holds an interest in Bonds. The Authority and the Paying Agent/Registrar may treat and consider the Owner of any Bond as the absolute owner of such Bond for the purpose of payment of the principal of, premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers and exchanges with respect to such Bond, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all the principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owners of the Bonds and all such payments shall be valid and effective with respect to such payments to the extent of the sum or sums so paid. The Authority and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, any successor Securities Depository or any Depository Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository Participant or any other Person, other than an Owner of a Bond as shown in the registration books for Obligations required to be kept and maintained pursuant to the Master Resolution, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any Depository Participant or any other Person, other than an Owner of a Bond, of any amount with respect to any Bond. The rights of Depository Participants and Persons on behalf of whom any Depository Participant holds a beneficial interest in the Bonds shall be limited to those established by law and agreements between such Depository Participants and other Persons and the applicable Securities Depository.

(c) In the event that either (i) the Securities Depository that is, directly or through a nominee, the Owner of all of the Outstanding Bonds notifies the Paying Agent/Registrar and the Authority that it is no longer willing or able to discharge its responsibilities as a Securities Depository or (ii) the Authority determines that continuance of the existing book-entry system for ownership of interests in the Bonds is not in the best interest of such owners of beneficial interests in the Bonds, then the Authority shall direct the Securities Depository to terminate the existing book-entry system for ownership of interests in the Bonds. Upon such termination, the Authority shall promptly select a substitute Securities Depository (and shall notify the Paying Agent/Registrar in writing of such selection) to provide a system of book-entry ownership of beneficial interests in the Bonds, if one is available, satisfactory to the Authority, and the ownership of all Bonds shall be transferred on the registration books for the Bonds to such successor Securities Depository, or its nominee. In the alternative, the Authority may direct the Paying Agent/Registrar to, and if the Authority fails to promptly designate a successor Securities Depository the Paying Agent/Registrar, without further direction, shall, notify the Depository Participants, through the Securities Depository for the Bonds, of the availability of Bonds registered in the names of such Persons as are owners of beneficial interests in the Bonds and, upon surrender to the Paying Agent/Registrar of the Outstanding Bonds held by the Securities Depository, accompanied by registration instructions from the Securities Depository, the Paying Agent/Registrar shall, at the expense of the transferees, cause to be printed and authenticated Bonds, in Authorized Denominations, to the owners of beneficial interests in the Bonds as of the date of the termination of the existing book-entry ownership system for the Bonds. Neither the Authority nor the Paying Agent/Registrar shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying upon, such instructions. So long as the Authority has designated a Securities Depository to provide a system of book-entry

ownership of the Bonds, all of the Bonds must be held under such book-entry system. In connection with any proposed transfer outside the book-entry system, prior to or in conjunction with the issuance of any certificated Bonds, the Owner shall provide or cause to be provided to the Paying Agent/Registrar all information necessary to allow the Paying Agent/Registrar to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045. The Authority acknowledges such tax reporting obligations and agrees to use commercially reasonable efforts to assist the Paying Agent/Registrar in obtaining such information.

Section 3.08 Ownership.

(a) The Authority, the Paying Agent/Registrar and any other person may treat the person in whose name the Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of the principal thereof and premium, if any, thereon, for the further purpose of making and receiving payment of the interest thereon, and for all other purposes, and neither the Authority nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary.

(b) All payments made to the person deemed to be the Owner of the Bond in accordance with this Section shall be valid and effectual and shall discharge the liability of the Authority and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

Section 3.09 Registration; Transfer and Exchange.

(a) The Bonds shall be issued in registered form, without coupons, in the name of the Registered Owner. The Initial Bond shall be registered as provided in the Pricing Certificate.

(b) So long as any Bond remains outstanding, the Authority shall cause the Paying Agent/Registrar to keep at the Designated Payment/Transfer Office a register (the "Register") in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer and exchange of Bonds in accordance with this Second Supplemental Resolution.

(c) The ownership of the Bonds may be transferred only upon the presentation and surrender of the Bonds at the Designated Payment/Transfer Office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar. No transfer of a Bond shall be effective until entered in the Register.

(d) The Bonds shall be exchangeable upon the presentation and surrender thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar for the Bonds for a like aggregate principal amount of fully registered Bonds of Authorized Denominations of like interest rate provisions and maturity, but only in the manner, subject to the limitations and upon payment of the charges provided herein and upon surrender and cancellation of this Bond. The Paying Agent/Registrar is hereby authorized to authenticate and deliver the Bonds exchanged for other Bonds in accordance with this Section.

(e) Each exchange Bond delivered by the Paying Agent/ Registrar in accordance with this Section shall constitute an original contractual obligation of the Authority and shall be entitled

to the benefits and security of this Second Supplemental Resolution and the Master Resolution to the same extent as the Bond or Bonds in lieu of which such exchange Bond is delivered.

(f) No service charge shall be made to the Registered Owners for the initial registration, subsequent transfer, or exchange for any different denomination of the Bonds. The Paying Agent/Registrar, however, may require a Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer or exchange of the Bonds.

Section 3.10 Cancellation. Any portion of the Bonds paid or redeemed before scheduled maturity in accordance with this Second Supplemental Resolution, and the Bonds in lieu of or in exchange or replacement for which any Bond is authenticated and delivered in accordance with this Second Supplemental Resolution, shall be cancelled upon the making of proper records regarding such payment, redemption, exchange or replacement. The Paying Agent/Registrar shall deliver all cancelled Bonds to the Authority.

Section 3.11 Replacement Bonds.

(a) Upon the presentation and surrender to the Paying Agent/Registrar, at the Designated Payment/Transfer Office, of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding. The Authority or the Paying Agent/Registrar may require the Registered Owner of such Bond to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection therewith and any other expenses connected therewith.

(b) In the event that the Bond is lost, apparently destroyed or wrongfully taken, the Paying Agent/Registrar, pursuant to the applicable laws of the State and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall authenticate and deliver a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding, provided that the Registered Owner:

(i) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction or theft of such Bond;

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

(iii) pays 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 is authorized to be imposed; and

(iv) satisfies any other reasonable requirements imposed by the Authority and the Paying Agent/Registrar.

(c) If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the Authority and the Paying Agent/Registrar shall be entitled to recover such replacement 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 Authority or the Paying Agent/Registrar in connection therewith.

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

(e) Each replacement Bond delivered in accordance with this Section shall constitute an original contractual obligation of the Authority and shall be entitled to the benefits and security of this Second Supplemental Resolution to the same extent as the Bond or Bond in lieu of which such replacement Bond is delivered.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01 Redemption Provisions. The Bonds shall be subject to redemption prior to Stated Maturity only as provided in the Pricing Certificate for the Bonds and in this Second Supplemental Resolution.

Section 4.02 Notice of Redemption.

(a) All redemption notices shall be sent by the Paying Agent/Registrar and must contain the complete official name of the Bond issue with series designation, CUSIP number, certificate numbers (for Bonds within a Stated Maturity redeemed in part), principal amounts called for each certificate (for partial calls), interest rate, maturity date, redemption date and redemption price.

(b) Not less than thirty (30) days prior to a redemption date for the Bonds, a notice of redemption will be sent by U.S. mail, first class postage prepaid, in the name of the Authority to each Owner of a Bond to be redeemed in whole or in part at the address of such Owner appearing on the Register at the close of business on the Business Day next preceding the date of mailing. Such notices shall state the redemption date, the redemption price, the place at which Bonds are to be surrendered for payment and, if less than all Bonds outstanding are to be redeemed, the numbers of Bonds or portions thereof to be redeemed. Any notice of redemption so mailed as provided in this Section will be conclusively presumed to have been duly given, whether or not the Owner receives such notice.

(c) The Bonds may be redeemed only in Authorized Denominations. If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. In selecting portions of Bonds for redemption, the Registrar shall treat each Bond as representing that number of Bonds of \$5,000 denomination, which is obtained by dividing the principal amount of such Bond by \$5,000. Upon surrender of any Bond for redemption in part, the Registrar, in accordance with Section 3.09 hereof, shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

(d) The Authority reserves the right to give notice of its election or direction to redeem the Bonds under Section 4.01 conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) that the Authority retains the right to rescind such notice at any time prior to the scheduled redemption date if the Authority rescinds the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. If the Bonds (or a portion thereof) are subject to conditional redemption and redemption has been rescinded, the Bonds (or the corresponding portion thereof) shall remain Outstanding.

Section 4.03 Payment Upon Redemption.

(a) By the date fixed for any such redemption, due provision shall be made by the Authority with the Paying Agent/Registrar (or an authorized escrow agent) for the payment of the required redemption price for the Bonds or the portions thereof that are to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such written notice of redemption is given, and if due provision for such payment is made, all as provided above, the Bonds, or the portions thereof that are to be so redeemed, thereby automatically shall be redeemed prior to their scheduled maturities, shall not bear interest after the date fixed for their redemption, and shall not be regarded as being Outstanding except for the right of the Registered Owner to receive the redemption price plus accrued interest to the date fixed for redemption from the Paying Agent/Registrar (or an authorized escrow agent) out of the funds provided for such payment.

(b) If the Authority shall fail to make provision for payment of all sums due on a redemption date, then the Bonds or portion thereof shall continue to bear interest at the rate stated on the Bond until due provision is made for the payment of same.

Section 4.04 Lapse of Payment. Money set aside for the redemption of the Series 2021 Bonds and remaining unclaimed by the Owners thereof shall be subject to the provisions of Section 3.05(d) hereof.

ARTICLE V

PAYING AGENT/REGISTRAR

Section 5.01 Appointment of Initial Paying Agent/Registrar. Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas, is hereby appointed the initial Paying Agent/Registrar for the Bonds. The Authorized Representative is hereby authorized to execute and deliver a Paying Agent/Registrar Agreement on behalf of the Authority in a form acceptable to the Authorized Representative as indicated by his or her execution of such agreement.

Section 5.02 Qualifications. Each Paying Agent/Registrar shall be a commercial bank, a trust company organized under the laws of the State, or any other entity duly qualified and legally

authorized to serve as and perform the duties and services of paying agent and registrar for the Bonds.

Section 5.03 Maintaining Paying Agent/Registrar.

(a) At all times while the Bonds are Outstanding, the Authority will maintain a Paying Agent/Registrar that is qualified under Section 5.02 of this Second Supplemental Resolution.

(b) If the Paying Agent/Registrar resigns, with the consent of the Authority, or otherwise ceases to serve as such, the Authority will promptly appoint a replacement.

Section 5.04 Termination. The Authority, upon not less than 45 days' notice, reserves the right to terminate the appointment of any Paying Agent/Registrar by delivering to the entity whose appointment is to be terminated written notice of such termination; provided, however, that such termination shall not be effective until a successor Paying Agent/Registrar has been appointed and has accepted the duties of Paying Agent/Registrar for the Bonds.

Section 5.05 Notice of Change. Promptly upon each change in the entity serving as Paying Agent/Registrar, the Authority will cause notice of the change to be sent to the Owners by U.S. mail, first class postage prepaid, at the address in the Register, stating the effective date of the change and the name and mailing address of the replacement Paying Agent/Registrar.

Section 5.06 Agreement to Perform Duties and Functions. By accepting the appointment as Paying Agent/Registrar, and executing the Paying Agent/Registrar Agreement, the Paying Agent/Registrar is deemed to have agreed to the provisions of this Second Supplemental Resolution, and the Master Resolution and that it will perform the duties and functions of Paying Agent/Registrar prescribed thereby.

Section 5.07 Delivery of Records to Successor. If a Paying Agent/Registrar is replaced, such Paying Agent, promptly upon the appointment of the successor, will deliver the Register (or a copy thereof) and all other pertinent books and records relating to the Bonds to the successor Paying Agent/Registrar.

ARTICLE VI

BOND PURCHASE AGREEMENT

Section 6.01 Form of Bond Purchase Agreement; Approval of Bond Purchase Agreements. Upon the execution of the Pricing Certificate for the Bonds, as further described therein, sale of the Bonds is hereby awarded to the underwriters shown on the cover of, and more particularly described under the heading "UNDERWRITING" in the Preliminary Official Statement for the Bonds, and also in accordance with the provisions of the Bond Purchase Agreement for the Bonds substantially in the form attached hereto as Exhibit C, the terms and provisions of which are hereby accepted, approved, and authorized, and, upon the completion of the terms of the Bond Purchase Agreement in accordance with the terms of the Pricing Certificate for the Bonds and this Second Supplemental Resolution, the Authorized Representative is authorized and directed to enter into and execute the Bond Purchase Agreement for the Bonds on behalf of the Authority.

ARTICLE VII

FORM OF BONDS AND FORM OF REGISTRATION CERTIFICATE OF THE COMPTROLLER

Section 7.01 Form Generally.

(a) The Bonds, including the Certificate of the Paying Agent/Registrar and the form of Assignment to appear on each Bond, and the form of the Registration Certificate of the Comptroller for the Initial Bond to be obtained prior to the initial issuance of the Bonds, shall be substantially in the form set forth in Exhibit A, with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Second Supplemental Resolution or the terms of the Pricing Certificate, and may have such letters, numbers, or other marks of identification and such legends and endorsements thereon as, consistently herewith, may be determined by the Authority or by the officers executing such Bonds, as evidenced by their execution thereof.

(b) The Bonds, shall be typed, printed, lithographed, photocopied or engraved, and may be produced by any combination of these methods or produced in any other similar manner, all as determined by the officers executing such Bonds, as evidenced by their execution thereof.

ARTICLE VIII

SECURITY AND SOURCE OF PAYMENT FOR BONDS; ESTABLISHMENT OF FUNDS AND ACCOUNTS; COVENANT REGARDING PORT IMPROVEMENT FUND; DEFEASANCE

Section 8.01 Pledge and Source of Payment.

(a) The Bonds are hereby designated as First Lien Obligations under the Master Resolution.

(b) To provide security for the payment of the principal of and interest on the Bonds as the same shall become due and payable, there is hereby pledged, subject to the provisions of the Master Resolution and this Second Supplemental Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein and herein, ratably with the other First Lien Obligations Outstanding from time to time, a lien on the Net Revenues, and the funds and accounts as more specifically provided in this Second Supplemental Resolution and the Master Resolution. The Bonds are further secured by the Series 2021 DSRF as set forth herein and in the Pricing Certificate.

(c) Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of Net Revenues and other security granted by the Authority herein and in the Master Resolution, and such pledge is, therefore, valid, effective, and perfected. If Texas law is amended at any time while the Bonds are Outstanding and unpaid such that the pledge of the Net Revenues granted by the Authority becomes subject to the filing requirements of Chapter 9, as amended, Texas Business & Commerce Code, then in order to preserve to the Registered Owners of the Bonds the perfection and priority of the security interest in this pledge, the Authority agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with

the applicable provisions of Chapter 9, as amended, Texas Business & Commerce Code, as so amended, or other applicable law and cause a filing to perfect the security interest in this pledge to occur.

Section 8.02 Bonds Not Payable from Taxes. The Owners of the Bonds shall never have the right to demand payment of either the principal of or interest on the Bonds out of any funds raised or to be raised by taxation.

Section 8.03 Creation of Additional Funds and Accounts.

(a) Pursuant to Section 5.1 of the Master Resolution, the Authority hereby establishes a separate fund to be known as the “Port of Houston Authority First Lien Series 2021 Project Fund (Non-AMT)” (the “Series 2021 Project Fund”) in order to provide for the efficient administration of the proceeds of the Bonds. The moneys in such fund shall be secured and invested in the manner required by law. The earnings on the investment of the proceeds deposited in the Series 2021 Project Fund shall remain in such fund to accomplish the purposes of the Bonds. Money deposited in the Series 2021 Project Fund shall remain therein until expended from time to time for the purposes specified in Section 3.02 of this Second Supplemental Resolution.

Any money remaining in the Series 2021 Project Fund and determined by the Authorized Representative not to be necessary for the payment of Project Costs or the purposes described in Section 3.02 shall be transferred into the First Lien Debt Service Fund.

(b) Pursuant to Sections 5.1 and 5.4 of the Master Resolution, the Authority hereby establishes a separate account within the First Lien Debt Service Fund to be known as the “Series 2021 Payment Account of the First Lien Debt Service Fund” (the “Series 2021 Payment Account”) in order to provide for payment of debt service on the Bonds.

Money on deposit in the Series 2021 Payment Account shall be used to pay principal of and interest on the Bonds at the respective interest payment, maturity, or redemption dates of each issue of such Bond as provided herein. Amounts remaining in the Series 2021 Payment Account not necessary for the purposes for which such funds were deposited in such account may be transferred to the Revenue Fund upon request of the Authorized Representative. Pending the expenditure of money in the Series 2021 Payment Account for authorized purposes, money deposited therein may be invested as provided in the Master Resolution. Any income received from investments in the Series 2021 Payment Account shall be transferred in accordance with the provisions of the Master Resolution.

(c) Pursuant to Sections 5.1 and 5.5 of the Master Resolution, the Authority hereby establishes a separate account within the First Lien Debt Service Reserve Fund to be known as the “Series 2021 Reserve Account of the First Lien Debt Service Reserve Fund” (the “Series 2021 DSRF”).

The Series 2021 DSRF shall be made available for and reasonably employed to pay principal of and interest on the Bonds in the event that amounts in the First Lien Debt Service Fund are insufficient for such purpose. If any amount of the Series 2021 DSRF is employed to pay principal of or interest on the Bonds and, after disbursement of such amounts for such purpose, the amount on deposit in the Series 2021 DSRF is less than the Series 2021 First Lien Debt Service

Reserve Fund Requirement, the Series 2021 First Lien Debt Service Reserve Fund Requirement shall be restored from Net Revenues in thirty-six (36) approximately equal monthly payments from available Net Revenues in the Revenue Fund, subject only to (and in accordance with) the priority of payments prescribed in Section 5.2 of the Master Resolution.

The Authority may, at its option, withdraw all surplus on deposit in the Series 2021 DSRF in excess of the Series 2021 First Lien Debt Service Reserve Fund Requirement as permitted in the Master Resolution.

To the extent permitted by and in accordance with applicable law, the Authority may replace or substitute a Credit Agreement for cash or investment securities on deposit in the Series 2021 DSRF or in substitution or replacement of any existing Credit Agreement as permitted in the Master Resolution.

Notwithstanding anything to the contrary contained in this Section 8.03, the requirement set forth above to establish and maintain the Series 2021 DSRF shall be suspended for such time as the Net Revenues of the Authority equal or exceed 300% of Annual Debt Service for all First Lien Obligations outstanding at the time of such calculation. In the event that the Net Revenues for any Fiscal Year are less than 300% of Annual Debt Service for all Outstanding First Lien Obligations, the Authority will be required to establish the Series 2021 DSRF and commence making deposits to the Series 2021 DSRF, as provided above, and to continue such deposits until such time as the Series 2021 DSRF contains the Series 2021 First Lien Debt Service Reserve Fund Requirement.

During such time as the obligation to maintain the Series 2021 First Lien Debt Service Reserve Fund Requirement in the Series 2021 DSRF has been suspended pursuant to this section, the Authority may, at its option, withdraw all monies from the Series 2021 DSRF and deposit such surplus in the Revenue Fund; provided, however, to the extent such monies constitute Bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the Revenue Fund and shall only be used for the purposes for which Bond proceeds may be used.

Section 8.04 Defeasance. The Bonds may be defeased in the manner provided in Section 6.7 of the Master Resolution.

ARTICLE IX

ISSUANCE AND SALE OF BONDS

Section 9.01 Delegation of Authority to Authorized Representative. As authorized by Chapter 1371, each Authorized Representative is hereby appointed and designated as an officer of the Authority, authorized to act on behalf of the Authority, from time to time, in connection with entering into the Bond Purchase Agreement and carrying out the duties and procedures specified in this Second Supplemental Resolution, including approval (subject only to the limitations specified within this Second Supplemental Resolution) of the following terms and provisions for the Bonds:

- (a) the manner in which the Bonds should be sold, delivered and issued (whether as current interest bonds or as any combination of current interest bonds, compound interest bonds and deferred interest bonds);
- (b) the price at which the Bonds will be sold;
- (c) the series designation;
- (d) the principal amount;
- (e) the dated date and Issuance Date;
- (f) the rate of interest or the method of calculating the interest to be borne on the principal amount of each Stated Maturity;
- (g) the maturity date;
- (h) the Interest Payment Dates;
- (i) whether the subject Bonds shall be issued as tax-exempt or taxable;
- (j) the prices and terms upon and at which the Bonds shall be subject to redemption prior to maturity at the option of the Authority (including redemption premium and/or make-whole redemption, if any);
- (k) any mandatory sinking fund redemption provisions;
- (l) designations, calculations or deposit amounts relative to the Series 2021 DSRF; and
- (m) such other matters as herein delegated to the Authorized Officer or as may be necessary to facilitate the issuance of the Bonds and the payment of fees and expenses as contemplated by this Second Supplemental Resolution.

These characteristics, as finally determined by the Authorized Representative consistent with the provisions of this Second Supplemental Resolution, shall be evidenced in the Pricing Certificate and/or written instructions consistent with the Bond Purchase Agreement and (to the extent applicable) in each definitive Bond.

All officers and officials of the Authority are authorized to take such actions and to execute such documents, certificates and receipts to satisfy the conditions for the issuance of the Bonds as set forth in the Master Resolution, this Second Supplemental Resolution and the Bond Purchase Agreement and to pay costs and expenses required to facilitate the issuance of the Bonds, and to make such elections with respect to the tax-exempt status of the Bonds as they may deem necessary and appropriate in order to consummate the delivery of the Bonds. Such officers are also hereby authorized to approve the Preliminary Official Statement and the final Official Statement and any insertions, additions and modifications as are necessary and appropriate to carry out the purposes of the financing as authorized by this Second Supplemental Resolution. Further, in connection with the submission of the record of proceedings for the Bonds to the Attorney General of the State

for examination and approval of the proceedings authorizing such Bonds, the appropriate officer of the Authority is hereby authorized and directed to issue a check of the Authority payable to the Attorney General of the State as a nonrefundable examination fee in the amount required by law.

Section 9.02 Issuance and Sale of Bonds. The Bonds shall be completed and delivered by the Paying Agent/Registrar in accordance with written instructions, which may include electronic mail, of any Authorized Representative and in the manner specified in the Bond Purchase Agreement and below.

Section 9.03 Offering Documents. The Port Commission hereby authorizes and approves, in connection with the sale of the Bonds, the preparation and distribution of one or more Preliminary Official Statements relating to the Bonds, substantially in the form or forms attached hereto as Exhibit D (with such addenda, supplement or amendments as may be approved by an Authorized Representative and the Underwriters), and one or more final Official Statements containing such additional information and amendments as may be necessary to conform to the terms of the Bonds, the Pricing Certificate, and this Second Supplemental Resolution.

The Authority hereby ratifies and confirms that the one or more Preliminary Official Statements approved by this Section 9.03 are deemed to be “final” by the Port Commission as of their date, except for the omission of no more than the information permitted by Subsection (b)(1) of the Rule.

Further, the Authority hereby ratifies, authorizes, and approves the actions of the Authorized Representative and the Authority’s financial advisors and other consultants in seeking ratings on the Bonds from one or more of the Rating Agencies, and such action is hereby ratified and confirmed.

ARTICLE X

APPLICATION OF PROCEEDS OF BONDS

Section 10.01 Application of Proceeds of the Sale of Bonds. Proceeds of the sale of the Bonds shall be applied as follows:

- (a) to deposit, as determined in the Pricing Certificate, the amounts to be used to pay Project Costs into the Series 2021 Project Fund;
- (b) to pay costs of issuance of the Bonds; and
- (c) to deposit to the Series 2021 Payment Account all remaining proceeds, if any, or as otherwise set forth in the Pricing Certificate.

ARTICLE XI

PROVISIONS REGARDING FEDERAL INCOME TAX EXCLUDABILITY

Section 11.01 Special Accounts Within First Lien Debt Service Fund and Series 2021 DSRF. In order to comply with the covenant set forth in Section 11.02 below with respect to the requirements of the Code (as defined in Section 11.02), there shall be established within the First Lien Debt Service Fund a separate account with respect to the Bonds, and there may be established within the First Lien Debt Service Fund, the Series 2021 DSRF and any other Funds and Accounts established pursuant to the Master Resolution or any Supplemental Resolution additional accounts or subaccounts with respect to each Series of the Bonds for the purpose of maintaining a separate accounting of amounts allocable to each Series of the Bonds within each of such Funds or Accounts; provided, however, that the First Lien Debt Service Reserve Fund and any other related subaccount shall be established at the direction of the Authority. Complete books and records shall be maintained with respect to the allocable amounts attributable to each Series of the Bonds maintained in each such account. In addition, in order to facilitate compliance with the covenant set forth in Section 11.02 below, the Authority reserves the right to establish rebate accounts with respect to any or all of such accounts to account for excess arbitrage profits and interest thereon that must be accounted for or rebated to the United States of America. In establishing and maintaining the foregoing accounts, maintaining all books and records relating thereto and making disbursements therefrom, particularly to the United States of America, the Authority may rely from time to time upon opinions issued by nationally-recognized bond counsel (“Counsel’s Opinion”) to the effect that any action by the Authority in reliance upon any interpretation of the Code or Regulations contained in such opinions will not cause interest on the Bonds to be includable in gross income for federal income tax purposes under existing law.

Section 11.02 Covenants to Maintain Tax-Exempt Status.

(a) Definitions. When used in this Section, the following terms have the following meanings:

“Code” means the Internal Revenue Code of 1986, as amended by all legislation, if any, enacted on or before the Issue Date.

“Computation Date” has the meaning stated in section 1.148-1(b) of the Regulations.

“Gross Proceeds” has the meaning stated in section 1.148-1(b) of the Regulations.

“Investment” has the meaning stated in section 1.148-1(b) of the Regulations.

“Issue Date” for the Bonds is the date on which the Bonds are delivered against payment therefor.

“Net Sale Proceeds” has the meaning stated in section 1.148-1(b) of the Regulations.

“Nonpurpose Investment” has the meaning stated in section 1.148-1(b) of the Regulations.

“Proceeds” has the meaning stated in section 1.148-1(b) of the Regulations.

“Rebate Amount” has the meaning stated in section 1.148-3 of the Regulations.

“Regulations” means the temporary or final Income Tax Regulations applicable to the Bonds issued pursuant to sections 141 through 150 of the Code. Any reference to a section of the Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to sections 141 through 150 of the Code and applicable to the Bonds.

“Yield of” means:

1. any Investment shall be computed in accordance with section 1.148-5 of the Regulations, and
2. the Bonds shall be computed in accordance with section 1.148-4 of the Regulations.

(b) Use of Proceeds. The Authority will use all of the proceeds of the Bonds to (i) pay a portion of the Authority’s costs for the design, construction, property acquisition and equipment of the Houston Ship Channel Expansion Channel Improvement Project and (ii) pay the costs of issuing the Bonds.

(c) Not to Cause Interest to Become Taxable. The Authority shall not use, permit the use of or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which, if made or omitted, respectively, would cause the interest on any Bond to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Authority shall have received a written Counsel’s Opinion to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the Authority shall comply with each of the specific covenants in this Section.

(d) No Private Use Limitations. The Authority covenants that it will use the Proceeds of the Bonds and the property financed, directly or indirectly, with such Proceeds so that the Bonds will not be “private activity bonds” within the meaning of section 141 of the Code. Furthermore, the Authority will not take a deliberate action (as defined in section 1.141-2(d)(3) of the Regulations) that causes the Bonds to be “private activity bonds” unless it takes a remedial action permitted by section 1.141-12 of the Regulations.

(e) Not to Invest at Higher Yield. Except to the extent permitted by section 148 of the Code and the regulations and rulings thereunder, the Authority shall not, at any time prior to the earlier of the final stated maturity or final payment of the Bonds, directly or indirectly invest Gross Proceeds of the Bonds in any Investment (or use such Gross Proceeds to replace money so invested), if as a result of such investment the Yield of all Investments allocated to such Gross Proceeds, whether then held or previously disposed of, exceeds the Yield on the Bonds.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the regulations and rulings thereunder, the Authority shall not take or omit to take any action which would cause the Bonds to be federally guaranteed within the meaning of section 149(b) of the Code and the regulations and rulings thereunder.

(g) Information Report. The Authority shall timely file with the Secretary of the Treasury the information required by section 149(e) of the Code with respect to the Bonds on such forms and in such place as such Secretary may prescribe.

(h) Payment of Rebate Account. Except to the extent otherwise provided in section 148(f) of the Code and the regulations and rulings thereunder, the Authority shall:

(i) account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of such accounting for at least six years after the final Computation Date. The Authority may, however, to the extent permitted by law, commingle Gross Proceeds of the Bonds with other money of the Authority, provided that the Authority separately accounts for each receipt and expenditure of such Gross Proceeds and the obligations acquired therewith;

(ii) calculate the Rebate Amount with respect to the Bonds, not less frequently than each Computation Date, in accordance with rules set forth in section 148(f) of the Code, section 1.148-3 of the Regulations, and the rulings thereunder. The Authority shall maintain a copy of such calculations for at least six years after the final Computation Date;

(iii) as additional consideration for the purchase of each of the Bonds by the initial purchaser thereof and the loan of the money represented thereby, and in order to induce such purchase by measures designed to ensure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (ii) above at the times, in the installments, to the place, in the manner and accompanied by such forms or other information as is or may be required by section 148(f) of the Code and the regulations and rulings thereunder; and

(iv) exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (ii) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including payment to the United States of any interest and any penalty required by the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the regulations and rulings thereunder, the Authority shall not, at any time prior to the earlier of the final stated maturity or final payment of the Bonds enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Bonds not been relevant to either party.

(j) No Hedge Bonds. The Authority shall not invest more than 50 percent of the Proceeds of the Bonds in Nonpurpose Investments having a guaranteed yield for four years or more. The Authority reasonably expects that at least 85 percent of the Net Sale Proceeds of the

Bonds will be used to carry out the governmental purpose of such Series within three years after the Issue Date of such Series.

(k) No Abusive Arbitrage Device. The Authority will not issue or use the Bonds as part of an “abusive arbitrage device” (as defined in Section 1.148-10(a) of the Regulations). Without limiting the foregoing, the Bonds are not and will not be a part of a transaction or series of transactions that attempts to circumvent the provisions of section 148 of the Code and the regulations, by (i) enabling the Authority to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage, or (ii) increasing the burden on the market for tax-exempt obligations.

(l) Authorization of Officers. Proper officers of the Authority charged with the responsibility for issuing the Bonds are hereby directed to make, execute and deliver certifications as to facts, estimates or circumstances in existence as of the Issue Date and stating whether there are facts, estimates or circumstances that would materially change the Authority’s expectations. On or after the Issue Date, the Authority will take such actions as are necessary and appropriate to assure the continuous accuracy of the representations contained in such certificates.

(m) Reliance. The covenants and representations made or required by this Section are for the benefit of the Owners of the Bonds and any subsequent Owner of the Bonds, and may be relied upon by the Owner and any subsequent Owner and Tax Counsel to the Authority.

(n) Survival of Covenants and Provisions. Notwithstanding any other provision of this Second Supplemental Resolution, the Authority’s representations and obligations under the covenants and provisions of this Section 11.02 shall survive the defeasance and discharge of the Bonds for as long as such matters are relevant to the exclusion of interest on the Bonds from the gross income of the owners for federal income tax purposes.

ARTICLE XII

COVENANTS AND REPRESENTATIONS

Section 12.01 Payment of the Bonds. The Authority will punctually pay or cause to be paid the interest on, premium on, if any, and principal of the Bonds according to the terms of the Bonds, the Master Resolution and this Second Supplemental Resolution and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in the Master Resolution and this Second Supplemental Resolution.

Section 12.02 The Series 2021 DSRF. Subject to Section 8.03(c) hereof, the Authority covenants and agrees to accumulate and maintain an amount in the Series 2021 DSRF equal to but not less than the Series 2021 First Lien Debt Service Reserve Fund Requirement.

Section 12.03 Authority. The Authority represents and warrants that it is duly authorized under the Constitution of the State, the Act and other applicable laws of the State to issue the Bonds and enter into the Bond Purchase Agreement; all action on its part for the creation and issuance of the Bonds has been duly and effectively taken; and the Bonds in the hands of the Owners thereof are and will be valid and enforceable obligations of the Authority in accordance with their terms.

ARTICLE XIII

DEFAULT AND REMEDIES

Section 13.01 Events of Default. The following occurrence or event for the purpose of this Second Supplemental Resolution is hereby declared to be an Event of Default: failure of the Authority to make the due and punctual payment of the principal or Maturity Amount, as applicable, or redemption price of any Bond when and as the same shall become due and payable.

Section 13.02 Remedies for Default. The remedies for default described in Article VII of the Master Resolution shall apply to this Second Supplemental Resolution.

ARTICLE XIV

CONTINUING DISCLOSURE

Section 14.01 Definitions. As used in this Article, the following terms have the meanings assigned to such terms below:

“MSRB” means the Municipal Securities Rulemaking Board.

“Financial Obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

Section 14.02 Annual Reports. The Authority shall provide annually to the MSRB within six months after the end of each fiscal year: quantitative financial information and operating data with respect to the Authority of the general type included in the final Official Statement for the Bonds, being the information described in schedules listed in Appendix F thereto and the portions of the audited financial statements of the Authority appended to Appendix C thereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in the Authority’s financial statement included as an appendix to the Official Statement and (2) audited, if the Authority 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 Authority shall provide such financial statements on an unaudited bases and any additional financial information required within the required time, and audited financial statements when and if such audited financial statements become available.

If the Authority 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 date by which the Authority otherwise would be required to provide financial information and operating data pursuant to this Article, provided that the period between the existing filing date and the new filing date shall not exceed one year.

The financial information and operating data to be provided pursuant to this Article shall be in an electronic format as prescribed by the MSRB and may be set forth in full in one or more documents or may be included by specific reference to any document (including an official

statement or other offering document, if it is available from the MSRB) that theretofore has been provided to the MSRB or filed with the SEC.

Section 14.03 Certain Event Notices. The Authority shall notify 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, of any of the following events with respect to the Bonds, to the extent applicable:

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 Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of holders of the Bonds, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Authority;
13. The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority 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;
14. Appointment of a successor or additional Paying Agent/Registrar or the change of name of Paying Agent/Registrar, if material;
15. Incurrence of a Financial Obligation of the Authority, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Authority, any of which affect security holders, if material; and

16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Authority, any of which reflect financial difficulties.

For these purposes, (a) any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States 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 Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers of the Authority 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 Authority, and (b) the Authority intends the words used in the immediately preceding paragraphs (15) and (16) and the definition of Financial Obligation in this Section to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

The Authority shall notify the MSRB, in a timely manner, of any failure by the Authority to provide financial information or operating data in accordance with Section 14.02 by the time required by this Article.

Section 14.04 Limitations, Disclaimers and Amendments. All information to be filed with the MSRB pursuant to this Article shall be filed in electronic format in the manner prescribed by the MSRB. The Authority shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the Authority remains an “obligated person” with respect to the Bonds within the meaning of the Rule, except that the Authority in any event will give the notice required by this Article of any Bond calls and defeasance that cause the Authority to be no longer such an “obligated person.”

The provisions of this Article are for the sole benefit of the Owners of the 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 Authority 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 Authority’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 Authority does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE AUTHORITY BE LIABLE TO THE OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE AUTHORITY, WHETHER NEGLIGENT OR WITH 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.

No default by the Authority in observing or performing its obligations under this Article shall constitute a breach of or default under this Second Supplemental Resolution for purposes of any other provision of the Second Supplemental Resolution.

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

The provisions of this Article may be amended by the Authority 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 Authority, but only if (1) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of the 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 Second Supplemental Resolution that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the Authority (such as nationally-recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Bonds. If the Authority so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with this Article 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 Authority 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 Authority may also amend the provisions of this Article in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

ARTICLE XV

AMENDMENT OF SECOND SUPPLEMENTAL RESOLUTION

Section 15.01 Amendment of Resolution Without Consent. The Authority may, without the consent of or notice to any of the Owners, amend this Second Supplemental Resolution for any one or more of the following purposes:

(a) to cure any ambiguity, defect, omission or inconsistent provision in this Second Supplemental Resolution or in the Bonds; or to comply with any applicable provision of law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners;

(b) to change the terms or provisions of this Second Supplemental Resolution to the extent necessary to prevent the interest on the Bonds (if they are issued as obligations the interest

on which is excludable from gross income of the Owners thereof for federal income tax purposes) 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 any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners;

(d) to add to the covenants and agreements of the Authority contained in this Second Supplemental Resolution other covenants and agreements of, or conditions or restrictions upon, the Authority or to surrender or eliminate any right or power reserved to or conferred upon the Authority in this Second Supplemental Resolution;

(e) to subject additional revenues to the lien and pledge of this Second Supplemental Resolution;

(f) to comply with applicable federal or state securities laws;

(g) to amend any provisions of this Second Supplemental Resolution if, prior to execution of any such amendment there shall be delivered to the Authority an opinion of Co-Bond Counsel to the effect that such amendment will not have a material adverse effect on the security, remedies or rights of the Owners; or

(h) to make such changes, modifications, or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Bonds by a rating agency or to obtain or maintain a Credit Agreement, in each case with respect to any Outstanding Obligations or Obligations proposed to be issued, so long as such changes, modifications and/or amendments will not have an adverse effect on the security, remedies or rights of the Owners.

Section 15.02 Amendments of Resolution Requiring Consent. The Authority may at any time adopt one or more resolutions amending, modifying, adding to or eliminating any of the provisions of this Second Supplemental Resolution but, if such amendment is not of the character described in Section 15.01 hereof, only with the consent given in accordance with Section 15.03 hereof of, the Owners holding of not less than a majority in aggregate unpaid principal amount of the 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 Bond, or (b) a reduction in the principal amount of any Bond or the rate of interest on any Bond, or (c) a reduction in the aggregate principal amount of the Bonds required for consent to such amendment, unless the Owners holding 100% in the aggregate principal amount of the Bonds then Outstanding shall consent to the changes described in clauses (a) through (c). Before the Authority shall adopt an amendment authorized by this section, the Authority must receive an opinion from nationally recognized bond counsel to the effect that such amendment does not affect the excludability from gross income for federal income tax purposes of interest on any tax-exempt Bonds.

Section 15.03 Consent of Owners. Any consent required by Section 15.02 hereof shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by an 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 Bonds, if made in the following manner,

shall be sufficient for any of the purposes of this Second Supplemental Resolution, and shall be conclusive in favor of the Authority with regard to any action taken, suffered or omitted to be taken by the Authority under such instrument, namely:

(a) 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

(b) the fact of a person's status as an Owner with respect to any Bonds and the date of the ownership of the same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that at the date thereof such Bonds were registered in the name of such party in the Register.

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

Consents required pursuant to Section 15.02 shall be valid only if given following the giving of notice by or on behalf of the Authority requesting such consent and setting forth the substance of the amendment of this Second Supplemental Resolution in respect of which such consent is sought and stating that copies thereof are available at the office of the Authority for inspection. Such notice shall be given by certified mail to each Owner affected at the address shown on the Register.

Section 15.04 Revocation of Consent. Any consent by an Owner pursuant to the provisions of this Article shall be irrevocable for a period of up to six (6) months, with such period to be specified in the request for consent, from the date of mailing of the notice provided for in this Article, and shall be conclusive and binding upon all future Owners with respect to the same Bonds and any Bonds delivered on transfer thereof or in exchange for or replacement thereof during such period. Such consent may be revoked at any time after six (6) 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 Bonds Outstanding as in this Second Supplemental Resolution defined have, prior to the attempted revocation, consented to and approved the amendment.

ARTICLE XVI

MISCELLANEOUS

Section 16.01 Notices to Cede & Co. Notwithstanding any other provision of this Second Supplemental Resolution to the contrary, as long as any Bonds are registered in the name of Cede & Co., as nominee of DTC, all notices with respect to such Bonds shall be made and given, respectively, in the manner provided in the Letter of Representations of the Authority to DTC.

Section 16.02 Changes to Second Supplemental Resolution. Prior to the issuance of the Bonds, an Authorized Representative may approve changes to this Second Supplemental Resolution for such purposes as such Authorized Representative deems necessary including, but

not limited to, obtaining or continuing a credit rating from any of the Rating Agencies or obtaining approval of this Second Supplemental Resolution by the Attorney General of the State of Texas; provided, however, that such changes, in the opinion of Co-Bond Counsel shall not materially affect the security for the Bonds or the intent and purpose of the Port Commission in adopting this Second Supplemental Resolution.

Section 16.03 Further Procedures. The Chairman of the Port Commission, the Secretary of the Port Commission, the Authorized Representative, the Executive Director, and other appropriate officials of the Authority are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Second Supplemental Resolution. In case any officer of the Authority or the Commission whose signature shall appear on any certificate shall cease to be such officer before the delivery of such certificate, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

Section 16.04 Further Delegations for the Bonds. Pursuant to the provisions of the Act, the Authority delegates to the Authorized Representatives the authority to execute and/or consent to the delivery of any agreements, consents, certificates, notices, or other instrument on behalf of the Authority that are authorized under the Master Resolution and this Second Supplemental Resolution, including the Paying Agent/Registrar Agreement, the Bond Purchase Agreement and any certificate, notice, or other instrument required in connection with the issuance of the Bonds or to otherwise effectuate the purposes of this Second Supplemental Resolution.

Section 16.05 Approval of the Attorney General. No Bond herein authorized to be issued shall be sold or delivered by an Authorized Representative until the Attorney General of the State of Texas shall have approved this Second Supplemental Resolution and the issuance of the Bonds and other agreements and proceedings as may be required in connection therewith, all as is required by Chapter 1371.

Section 16.06 Severability. If any Section, paragraph, clause or provision of this Second Supplemental Resolution 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 Second Supplemental Resolution.

Section 16.07 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 Port Commission at which this Second Supplemental Resolution was adopted was posted at a place convenient and readily accessible at all times to the general public at the offices of the Authority for the time required by law preceding this meeting, as required by Chapter 551, Texas Government Code, and that this meeting has been open to the public as required by law at all times during which this Second Supplemental Resolution and the subject matter thereof has been discussed, considered and formally acted upon. The Port Commission further ratifies, approves and confirms such written notice and the contents and posting thereof.

Section 16.08 Individuals Not Liable. No covenant, stipulation, obligation or agreement herein contained shall be deemed to be a covenant, stipulation, obligation or agreement of any agent or employee of the Authority in his or her individual capacity. No agent or employee of the

Authority shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 16.09 Repealer. All orders, resolutions, or parts thereof, inconsistent herewith are hereby repealed to the extent of such inconsistency as provided in Section 9.10 of the Master Resolution.

Section 16.10 Force and Effect. This Second Supplemental Resolution shall be in full force and effect from and after its final passage and it is so ordained.

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APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY

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Comprehensive Annual Financial Report

For the years ended December 31, 2020 and 2019

Port of Houston Authority
111 East Loop North, Houston, TX 77029
Phone: 713.670.2400 • Fax: 713.670.2554
porthouston.com
Prepared by: Office of the Controller, Port of Houston Authority

On the cover: A close up of the Super Post Panamax ship-to-shore crane at Bayport Container Terminal. This is 1 of 3 new cranes in the Port's portfolio as Port Houston gets READY for the future.

Port of Houston Authority of Harris County, Texas

**Comprehensive Annual Financial Report
For the Years Ended December 31, 2020 and 2019**

**Prepared By:
Office of the Controller
Port of Houston Authority**



Port of Houston Authority of Harris County, Texas
Comprehensive Annual Financial Report
For the Years Ended December 31, 2020 and 2019

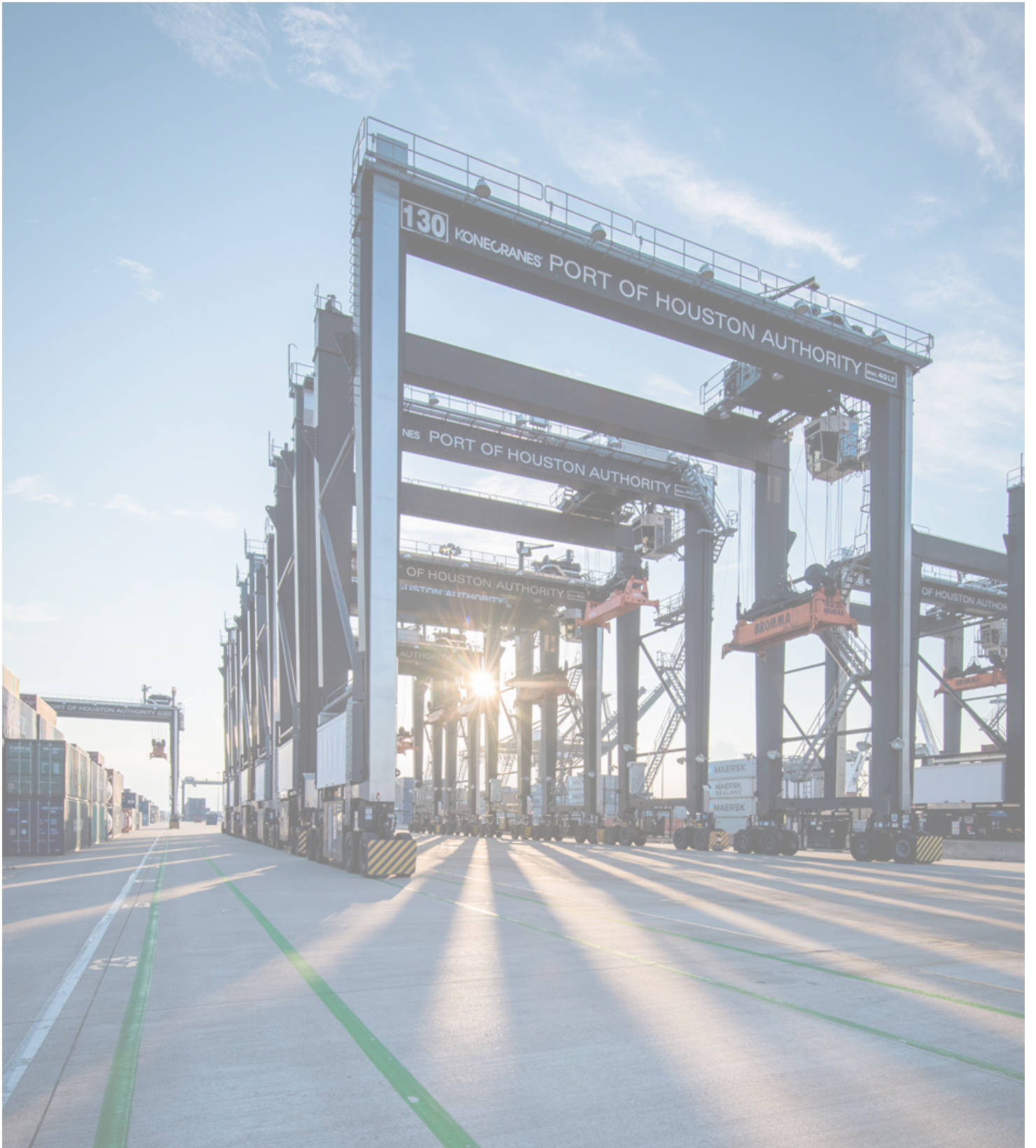
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INTRODUCTORY SECTION



May 5, 2021

Port Commission

Port of Houston Authority of Harris County, Texas

Houston, Texas

Dear Commissioners:

We are pleased to present the Comprehensive Annual Financial Report of the Port of Houston Authority of Harris County, Texas ("Authority") for the year ended December 31, 2020. Dollar amounts are rounded to the nearest million within this letter of transmittal, and to the nearest thousand in the Management's Discussion and Analysis ("MD&A"), financial statements and the accompanying notes to the financial statements.

Responsibility for the accuracy of the data and the completeness and fairness of presentation, as well as all disclosures, rests with management of the Authority. To the best of its knowledge the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. We have included disclosures necessary to enable the reader to gain an understanding of the Authority's financial position.

Profile of the Authority

Originally constituted in 1911, the Authority is an independent political subdivision of the state of Texas, operating as a navigation district under Chapter 5007, Texas Special District Local Laws Code, having boundaries generally coterminous with Harris County, Texas. Governance of the activities of the Authority is the responsibility of the Port Commission composed of seven commissioners. Two are appointed by Harris County Commissioners Court, two by the City Council of the City of Houston, one by the City Council of the City of Pasadena and one by the Harris County Mayors' and Councils' Association. The chairman of the Port Commission is jointly appointed by the governing bodies of Harris County and the City of Houston.

The Authority had 682 active, regular employees as of December 31, 2020 and in addition, utilized 442 full-time equivalent workers throughout the year hired from local longshoremen union halls.



The greater Port of Houston ("Port of Houston") opened as a deep draft port in November 1914. The Houston Ship Channel (the "Channel"), the heart of the Port of Houston complex, extends 52 miles inland from the Gulf of Mexico to the City of Houston. The Port of Houston consists of not only the Authority's public terminals and wharves, but also includes more than 200 privately-owned facilities along the upper half of the Channel. The Port of Houston is host to the world's second largest petrochemical complex and is ranked first in the nation in total tonnage and foreign waterborne tonnage.

Some of the privately-owned terminals within the Port of Houston compete directly with the Authority's terminals, but serve to increase commerce through competitive rates. The Authority neither regulates the tariffs charged by, nor derives any revenues from, any of the privately-owned terminals, except for certain lease payments, harbor fees for fire protection and emergency services, and certain payments that may be received from private terminals located at the Bayport Industrial Complex.

Business of the Authority

The Authority owns and operates a diverse group of facilities designed to accommodate a variety of cargo, including general cargo, containers, grain, coal, pet coke, dry and liquid bulk and project and heavy-lift cargo. The Authority continues to make capital infrastructure improvements and operate its terminals to achieve optimum utilization of its assets. In addition to its 3,557 acres of developed properties, the Authority also owns 4,271 acres of undeveloped properties, including dredged material placement areas.

The Authority's Turning Basin Terminal in the upper Channel area is a multipurpose complex of breakbulk and general cargo wharves with substantial dockside facilities, as well as open and enclosed short-term storage space. Wharf 32, located within this terminal, was specifically designed for handling project and heavy-lift cargo, and has 36 acres of heavy-duty paved marshalling area.

The Manchester Terminal, considered part of the Turning Basin Terminal complex, is a liquid bulk facility on a 16 acre leased site.

The Authority's container cargo facilities are Barbour's Cut Container Terminal ("BCT") and Bayport Container Terminal ("Bayport"), which handle approximately two-thirds of all the containerized cargo in the U.S. Gulf of Mexico area.

BCT is located in the cities of Morgan's Point and La Porte, and at the mouth of Galveston Bay, three and a half hours sailing time to the open waters of the Gulf of Mexico. In addition to its container handling and storage facilities, facilities for intermodal rail service and connecting terminal warehouses are available at BCT. A modernization program is underway to increase cargo handling efficiency and increase annual capacity from 1.2 million to 2 million twenty-foot equivalent units ("TEUs") when completed.

Bayport is located within an industrial complex in southeast Harris County linked by the Bayport Channel to the Houston Ship Channel. Bayport's proximity to BCT benefits the customers at Bayport due to competitive trucking charges and affordable ancillary services. At the completion of current development activities, Bayport is expected to annually handle 2.3 million TEUs.

Care Terminal, Jacintoport Terminal, the Bulk Materials Handling Plant, the grain elevator at Woodhouse Terminal, and the grain elevator at the Turning Basin Terminal are leased by the Authority to third-party operators. In addition, 58 acres at the Authority's Beltway 8 property is leased for petrochemical liquid bulk storage. The world's largest ethane export complex is

located in part on 16.3 acres of leased property along the north side of the Bayport channel and is now being developed to operate a liquid bulk dock to handle crude oil and condensate. Certain wharves at BCT, Care Terminal, Jacintoport Terminal, the Bulk Materials Handling Plant, Sims Bayou, and in the Turning Basin Terminal area may be subject to preferential, but not exclusive, berthing arrangements.

The Authority also provides railroad rights-of-way to rail operators, licenses pipeline rights-of-way and crossings, issues marine construction permits, and maintains expansive areas for dredged material.

The Authority owns approximately 165 miles of railroad track with operating rights on an additional 10 miles of track and 734 acres of rights-of-way with storage yard capacity for railroad cars near its facilities. These yards are located on property made available to the Port Terminal Railroad Association, an association of line railroads that serve the Port of Houston.

The Authority also owns or manages over 12,750 acres of submerged land in Harris County. In 2020, the Authority continued to expand its leasing program to begin leasing these lands to owners of adjacent property.

As the Non-Federal Sponsor of the Houston Ship Channel, the Authority has provided to the U.S. Army Corps of Engineers ("Corps") over 7,000 acres of land in Harris County and Galveston Bay as dredge material placement areas. The Authority performs environmental management and operational oversight of these placement areas through professional services and maintenance contracts, the cost of which has been reduced by 30-60% over the past five years.

The Houston Ship Channel Expansion Channel Improvement Project ("Project 11") was authorized with the year-end adoption of the Water Resources Development Act of 2020. The project will enable deeper draft and generally larger ships to call further upstream to the heart of the Channel petrochemical reach, and allow for more efficient and safer transportation through Galveston Bay to the Channel endpoint at the Turning Basin. Additional widening of the ship channels serving the container terminals is expected to assure the capability of those channels to satisfy the growing demand for containerized cargo in the future.

For additional information, please refer to the Table of Physical Characteristics of the Port Facilities of the Authority in the Statistical Section of this Annual Report, under Operating Information (Schedule 18).

Economic Outlook

In late February 2021 Federal Reserve Chairman Powell testified to Congress that the economy continues to be defined by the course of the COVID-19 virus and the measures to control its spread. Although the economy grew 4% in the fourth quarter of 2020, it still contracted -3.5% for the year, and the recent rebound has slowed while weakness continues in certain sectors of the economy. Improvement in the labor markets has also slowed considerably, as high levels of joblessness has been particularly concentrated in the low-wage employment market. In addition, inflation has rebounded in part due to agricultural commodity prices but remains below the Federal Reserve's 2% target.

Initial jobless claims through February continued to hold well over 700,000 per week. Powell stated that in August 2020 the Federal Reserve emphasized the importance of maximum employment as a broad and inclusive goal, and so it is not expected to change monetary policy should a strong labor market return. Regarding inflation, Powell reiterated that "following periods when inflation has been running below 2 percent, appropriate monetary policy will

likely aim to achieve inflation moderately above 2 percent for some time." The Fed remains with its federal funds target range of 0.00% to 0.25%.

The Consumer Price Index ("CPI") for all items increased 1.4% in 2020. The index for all items less food and energy also rose 1.6% percent over the 12-month period. The food index increased 3.9% in 2020, a larger increase than the 2019 rise of 1.8%, and the energy index declined 7.0% in 2020 after rising 3.4% in 2019. The Authority uses a CPI measure as the basis for periodic rate adjustments in many lease agreements and marine terminal services agreements.

On the fiscal front, President Biden's \$1.9 trillion stimulus proposal is pending, though not expected to pass through the Senate's budget resolution process until later in 2021.

Financial Planning

In accordance with statutory requirements, the Port Commission reviews and approves an annual budget and a one-year capital plan. The Authority also develops a five-year forecast and a long-range plan addressing goals, strategies, and priorities.

For 2021, the Authority budgeted revenues of \$422 million. While representing a 3% decrease from the 2020 budgeted revenues of \$437 million, this 2021 budget illustrates growth of 5% from 2020 results which were impacted by the Covid-19 pandemic. Budgeted nonoperating revenues in 2021 reflect an expected increase in federal grant reimbursements and reduced interest income. Total expenses are budgeted at \$356 million, a 7% increase versus the prior year, due primarily to higher terminal operating and labor costs, depreciation and amortization, and anticipated interest expense associated with financing Project 11. Excluding revenues and expenses related to property tax-supported debt and collection, the Authority projects net income of \$67 million for 2021 or 35% lower than the 2020 budget. The Authority also expects to generate cash flows of about \$153 million in 2021.

During 2020, the Authority invested \$113 million in capital improvements, funded primarily from the Authority's general fund and in part from grant monies received from federal and other governmental programs.

In 2021, the Authority expects to commit \$238 million for various capital projects. Approximately \$161 million will be allocated to its container terminals for continuing development of Bayport and modernization at BCT, while \$28 million is designated for channel development projects, and another \$25 million relates to improvements at the general cargo and bulk terminals. The remaining 2021 capital budget funds are planned to be used for real estate purchases, building renovations, and security and information technology investments. As described below in Major Initiatives, as local sponsor of the Houston Ship Channel the Authority will be responsible for funding a portion of the Houston Ship Channel Expansion Project beginning as early as 2021. Funding sources may include cash generated by operations, industry contributions, revenue-backed debt instruments or lines of credit of the Authority and appropriations from the federal government.

Major Initiatives

Houston Ship Channel Expansion Project

This project, labeled "Project 11" as it represents the eleventh major ship channel expansion project since the mid-nineteenth century, is critical to safely and efficiently sustaining national energy security, domestic manufacturing growth, thriving U.S. exports, and expanding job opportunities. As the local sponsor of the nation's number one busiest waterway, the Authority is partnering with the U.S. Army Corps of Engineers as well as private industry on a

plan to expand the channel at an accelerated pace. Project 11 will widen the channel by 170 feet along its Galveston Bay reach, from 530 feet to 700 feet. It will also deepen upstream segments to 45 feet, make other safety and efficiency improvements, and craft new environmental features. With the help of industry partners, the plan is to begin this work as early as 2021, making the channel safer and more efficient and ensuring this waterway will continue to remain the national economic treasure it is today.

Strategic Plan

In response to new challenges and opportunities, and in accordance with the statutory requirement to re-evaluate the strategic plan every five years, the Authority engaged in a collaborative and comprehensive evaluation of its priorities in 2019.

The Authority's new Strategic Plan, designed and approved by the Port Commission in 2020, defines success and provides a roadmap for optimal alignment of staff and resources under the strategic goals of *People, Infrastructure, Partnerships* and *Stewardship*. This plan guides staff decision-making to maintain the Authority's sustainability and competitive advantage, in pursuit of its mission, to *Move the World and Drive Regional Prosperity*, and vision, to become *America's Distribution Hub for the Next Generation*.

Terminal Improvements

The Authority evaluates its strategic plans to help ensure a competitive position in the global marketplace. This can only be accomplished by focusing on consistent and quality levels of service to all customers and stakeholders, optimizing expansion and redevelopment activities, and investing in terminal infrastructure and technologies. Containerized cargo is handled by the Authority at the BCT and Bayport terminals, which have a combined 24 operating ship-to-shore ("STS") cranes, 107 rubber-tired gantry ("RTG") cranes, 11 empty container handling machines, additional heavy-duty tractors, and other cargo handling equipment.

In 2020, work at Bayport continued with the new 50-acre grounded and wheeled container storage and marshaling area known as Container Yard 7 ("CY7"). CY 7 construction was complete in Q4 2020 and concluded expansion on the west end of the terminal. In 2020, the Authority also saw the continued expansion of container storage and marshaling at Container Yard 2 South ("CY 2 South"). The leased CY 2 South site consists of approximately 17 acres with a footprint similar to that of CY 7. The tenant that carried out this work also returned 19 acres to the Authority; that formerly leased site will now be transitioned to its master planned usage as additional grounded container storage for loaded cargo.

Redevelopment of Wharf 5 also began in Q2 2020, to accommodate three STS cranes under construction and set for delivery to Bayport in Q3 2021. Upon their delivery and commissioning, three on-site STS cranes will be relocated from Bayport to BCT. While the fleet size at Bayport will remain at 12 STS cranes, these new three STS cranes will be the largest on the Gulf Coast, with the current total of six Post Panamax and six Super Post Panamax cranes updating to three Post Panamax and nine Super Post Panamax cranes.

In 2019 the Authority ordered nine hybrid RTG cranes that were delivered in Q4 2020, which raised the total fleet size to 57. Ordered in 2020, Q3 2021 is expected to see delivery of another nine hybrid RTG cranes currently under construction, bringing the total at Bayport to 66.

The entry gate into the Bayport complex was also expanded in 2020 from one lane to two, to accommodate increasing container volumes. South of Port Road, the Bayport South Rail Spur project continued construction throughout 2020 with an anticipated completion date in 2021,

and pre-development work began on more than 180 acres of land for future container terminal support. This site is expected to be dedicated to tenant-leased property that could be used for warehousing, intermodal opportunities, and maintenance and repair facilities.

At BCT, the reconstruction of Container Yard 1 and 2 North was completed in Q4 2020, with redevelopment of over 15 acres of the most utilized container yard at BCT, located in close proximity to facility wharves. Meanwhile, the reconstruction of Wharf 3 continued throughout 2020, with completion scheduled for Q1 2021.

The delivery of three STS cranes from Bayport will accompany the reconstruction effort of Wharf 3, raising the fleet size of 100-gage cranes to 10, and the overall fleet count at BCT to 15. Following a predetermined phasing plan, two older 50-gage cranes were taken out of service in 2020 to allow for the arrival of the incoming three 100-gage cranes. When complete, BCT will house seven 100-gage Super Post Panamax, three 100-gage Post Panamax and five 50-gage Post Panamax STS cranes.

Eight hybrid RTG cranes were delivered to BCT in Q1 2020. This brought the total fleet size at BCT to 50. These cranes utilize the latest hybrid technology available, growing to a total of 24 the Authority's hybrid fleet serving both terminals. There were also seven empty container handling machines delivered in Q1 2020, growing that fleet size to 11. An additional seven empty container handling machines are expected to be delivered in Q1 2021 to support anticipated empty container volume growth.

Finally, BCT Entry Gate Facility expansion and construction continued throughout 2020. When completed in Q1 2022, this gate will consist of 29 entry lanes, to increase velocity into the terminal and support the future growth of the facility. This will also transition the entry gate from a two-stage complex to one stage, mirroring the processing found at Bayport today.

Port Security and Emergency Operations (PSEO)

The Port Security and Emergency Operations ("PSEO") division worked alongside other divisions and departments during 2020 and into 2021 to minimize the impacts of the COVID-19 outbreak. Thermal scanners were installed at building entrances; critical supplies such as masks, gloves, disinfectant wipes, and hand sanitizer were located and purchased in a very competitive market; a contract for building disinfection was put in place and repeatedly put into use; and preventative procedures were formulated in conjunction with the People Division and a cross-functional team. A few statistics to illustrate the efforts expended for this unprecedented crisis include 283 gallons of hand sanitizer, 154,760 disinfectant wipes (over 18 miles when stacked end to end), and 33,513 masks distributed to Authority employees.

Cybersecurity, a shared responsibility among several divisions including Information Technology and PSEO, took another step forward with the establishment of a local Information Sharing ("ISAO") mechanism for cybersecurity. Using a membership in a cyber ISAC ("Information Sharing and Analysis Center"), purchased by the Authority's partners at the Houston Ship Channel Security District, timely information is distilled by Authority staff for dissemination to facilities along the Channel, enhancing cybersecurity for the entire Port of Houston.

Environment

The Environmental Affairs Department manages the Authority's environmental affairs through the administration of an environmental management system ("EMS") and various environmental programs, including air quality, waste management, drinking water, storm water, wastewater, remediation, and compliance auditing. The Authority was the world's first

publicly owned port to certify its EMS under the newest international standard, ISO 14001:2015. The Authority has also committed to receiving 100% renewable energy through a 10-year electricity contract entered into in 2020.

Tenants operating on Authority property are audited periodically for compliance with the environmental terms of their leases. In 2020, the Authority conducted 31 compliance audits of tenant and Authority facilities.

Technology

The principal responsibility of the Technology Division is to support Authority-wide applications, infrastructure, and information security. The Information Technology Master Plan for 2020-2022 is the blueprint for the division as an internal service provider. With support from Port Security Grants for cybersecurity and security camera replacements, multi-project programs continue to be in flight and aligned to the Authority's Strategic Plan.

Financial Information

The accounting policies of the Authority and this report conform to accounting principles generally accepted in the United States for local governmental units as prescribed by the Governmental Accounting Standards Board. A summary of significant accounting policies can be found in Note 1 of the financial statements.

It is the policy of the Authority to record nonoperation-related sources of income and expense outside of the Operating income section of the Statements of Revenues, Expenses and Changes in Net Position. Accordingly, during 2020 the Authority recognized \$235,000 of contributions to state and local agencies in the Nonoperating revenues (expenses) section of the statements.

The integrity and accuracy of data in these financial statements and supplemental schedules, including estimates and judgments relating to matters not concluded at year-end, are the responsibility of the management of the Authority. However, by state statute, the Harris County Treasurer serves as the treasurer of the Authority with certain responsibilities related to bank accounts and funds of the Authority and tax bonds issued by the Authority.

We direct the reader's attention to the Management's Discussion and Analysis ("MD&A") section immediately following the independent auditor's report, which provides an analytical overview of the Authority's financial activities and serves as an introduction to the basic financial statements.

Internal Control

Management, with oversight from the Audit Committee of the Port Commission, is responsible for establishing and maintaining internal controls. The Authority's Internal Audit Department ("IAD") enhances focus and provides structure to this function. The IAD adheres to the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors (commonly referred to as the "Red Book"), and the Government Auditing Standards (commonly referred to as the "Yellow Book") as promulgated by the Government Accountability Office. Management utilizes IAD's annual internal audit plan, supported by an enterprise risk assessment, as a tool in fulfilling its responsibilities. Management also utilizes its best estimates and judgment to assess the expected benefits and related costs of controls.

In developing and evaluating the Authority's accounting system, consideration is given to the adequacy of internal accounting controls. The objectives of internal controls are to provide

management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States. Due to inherent limitations in any internal controls, misstatements arising from error or fraud may occur and not be detected. Also, projections of any evaluation of internal controls to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

All internal control evaluations occur within the above framework. Management believes the Authority's financial accounting controls, with ongoing internal audit reviews and statutory audit functions, adequately safeguard assets and provide reasonable assurance of properly recorded financial transactions.

Independent Audit

The financial statements for the years ended December 31, 2020 and 2019 listed in the foregoing Table of Contents were audited by independent audit firms appointed by the Port Commission. The audit opinion rendered by BKD, LLP for December 31, 2020 is included in the Financial Section of this report.

Certificates of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2019. This was the 46th consecutive year that the Authority has achieved this award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Annual Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. Management believes the current report continues to meet the Certificate of Achievement Program's requirements.

The Government Treasurers' Organization of Texas ("GTOT") sponsors an Investment Policy Certification Program designed to provide assistance to local governments in developing policies that fully comply with the Texas Public Funds Investment Act, and to recognize outstanding examples of written investment policies. The Authority was first awarded a Certificate of Distinction for its investment policy in March 2013 and received additional certificates every 2 years thereafter, including March of 2021. The GTOT certificate is valid for two years.


Acknowledgements

We express our appreciation to all who assisted and contributed to the preparation of this report.

In addition, we would like to thank the members of the Port Commission and the staff of the Authority for their support in planning and conducting the financial affairs of the Authority in a responsible and progressive manner, to ensure fiscal transparency and accountability, and to maintain the Authority's financial statements in conformance with the highest professional standards.



Roger Guenther
Executive Director



Tim Finley
Chief Financial Officer



Curtis Duncan
Controller



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Port of Houston Authority
Texas**

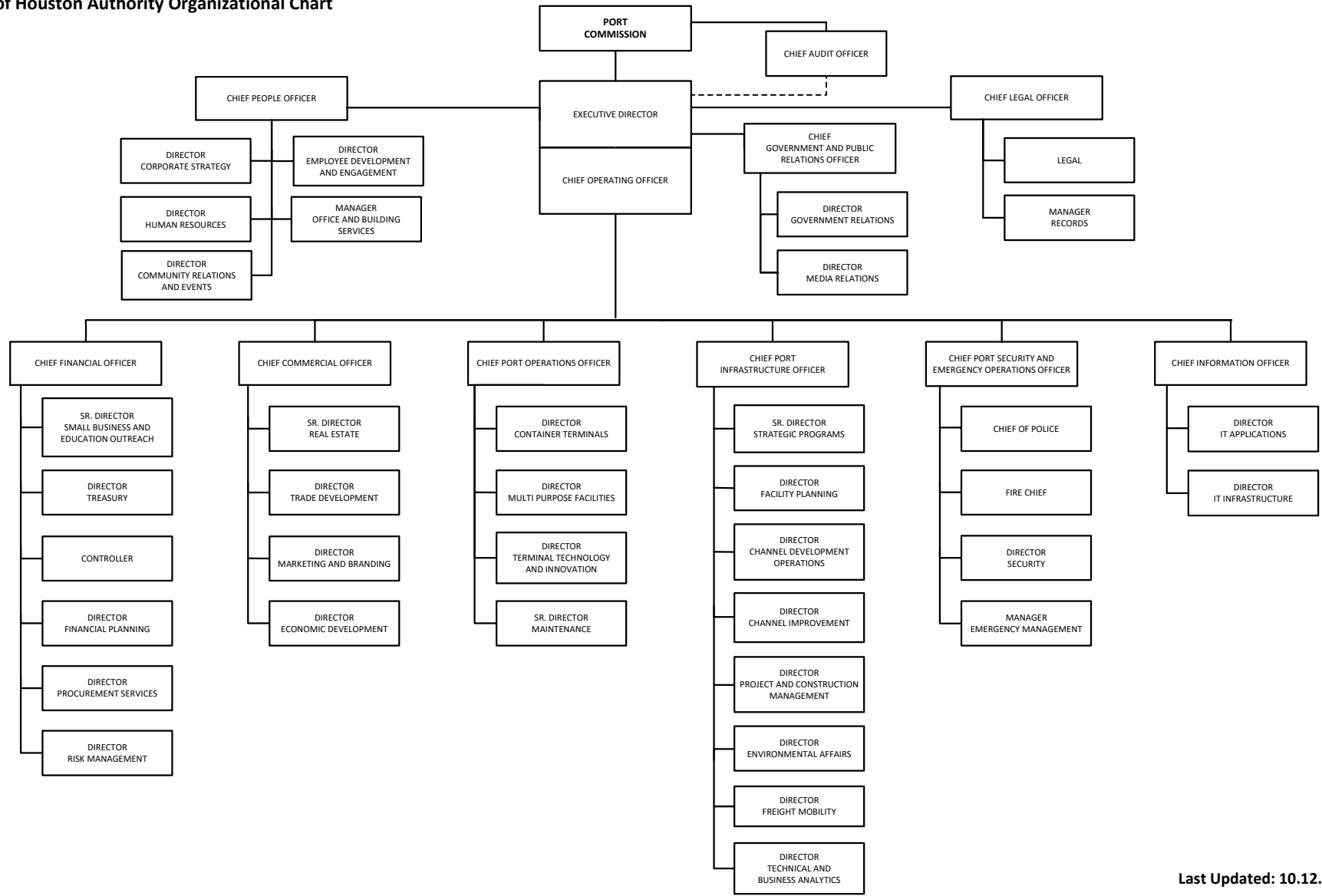
For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

December 31, 2019

Christopher P. Morill

Executive Director/CEO

Port of Houston Authority Organizational Chart



Last Updated: 10.12.2020

**Port of Houston Authority of Harris County, Texas
Directory of Officials**

Port Commission

Ric Campo, Chairman
Dean E. Corgey, Commissioner
Clyde E. Fitzgerald, Commissioner
Stephen H. DonCarlos, Commissioner
Roy D. Mease, Commissioner
Wendolynn "Wendy" Montoya Cloonan, Commissioner
Cheryl D. Creuzot, Commissioner

Other Officials

Roger D. Guenther, Executive Director
Thomas J. Heidt, Chief Operating Officer
Rich Byrnes, Chief Port Infrastructure Officer
Jeff Davis, Chief Port Operations Officer
Erik A. Eriksson, Secretary and Chief Legal Officer
Tim Finley, Chief Financial Officer
Kerrick Henny, Chief Government and Public Relations Officer
John Moseley, Chief Commercial Officer
Jessica Shaver, Chief People Officer
Charles Thompson, Chief Information Officer
Marcus Woodring, Chief Port Security and Emergency Operations Officer
Maxine N. Buckles, Chief Audit Officer
Curtis E. Duncan, Controller
Dylan Osborne, County Treasurer



FINANCIAL SECTION



Independent Auditor's Report

Port Commission
Port of Houston Authority of Harris County, Texas
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of Port of Houston Authority of Harris County, Texas (the Authority), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Port Commission
Port of Houston Authority of Harris County, Texas

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of the Port of Houston Authority of Harris County, Texas as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other postemployment information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, supplementary information and statistical section as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Port Commission
Port of Houston Authority of Harris County, Texas

The introductory section and statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Audited by Other Auditors

The 2019 financial statements were audited by other auditors, and their report thereon, dated April 21, 2020, expressed an unmodified opinion.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated May 5, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Houston, Texas
May 5, 2021

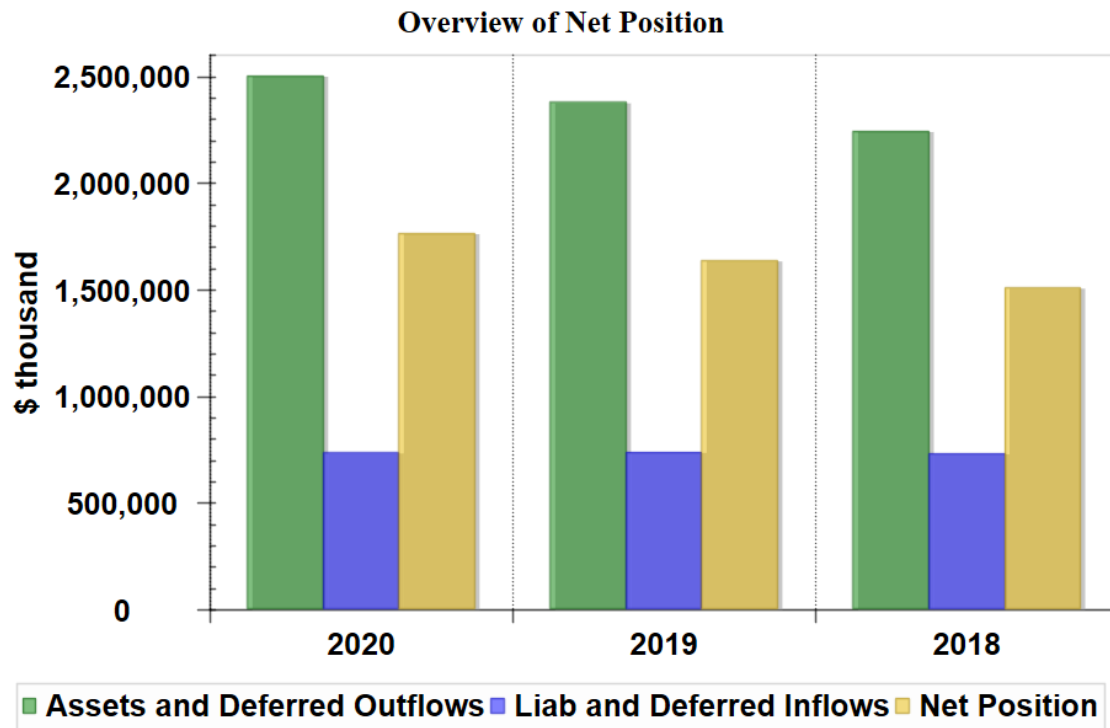


Port of Houston Authority of Harris County, Texas
Management's Discussion and Analysis
For the Years Ended December 31, 2020 and 2019
(unaudited)

The following Management's Discussion and Analysis ("MD&A") of the Port of Houston Authority of Harris County, Texas ("Authority") provides an overview of the activities and financial performance for the fiscal years ended December 31, 2020 and 2019.

The MD&A supplements the basic financial statements by presenting certain information regarding the statements and an analysis of the Authority's overall financial position and results of operations. Additionally, this section contains information surrounding capital assets and long-term debt activity during the year and concludes with a discussion regarding budgeting and economic factors effecting the Authority.

The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the accompanying notes, which follow this section and are integral to the data contained in the financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.



Net position is the difference between the Authority's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Over time, increases or decreases in net position may serve as an indicator of whether the Authority's financial position is improving or deteriorating.

Financial highlights for fiscal year 2020

- The net position of the Authority at December 31, 2020 was \$1,766,779, increasing \$127,846 or 8% over the prior year.
- The Authority's total assets and deferred outflows of resources increased by \$124,934 or 5% during the fiscal year ended December 31, 2020. The majority of this change stems from an increase in capital assets of \$150,963, an increase in Net Other Postemployment Benefits ("OPEB") assets of \$18,141, and an increase in receivables (net of allowance of uncollectibles) of \$9,759. These are offset by a decrease in cash and investments of \$47,154, a decrease in prepaid and other noncurrent assets of \$4,095 and a decrease in deferred outflows of resources related to bond refunding of \$3,729.
- The Authority's total liabilities and deferred inflows of resources decreased by \$2,912 or less than one percent; the majority of this change stems from a decrease in long-term debt, net of current maturities of \$37,343, offset by an increase of \$16,634 in Accounts payable and other current liabilities, an increase of \$11,754 in deferred inflows of resources related to OPEB, an increase of \$8,061 in deferred gain on bond refunding and an increase in other noncurrent liabilities of \$3,055.
- Current assets exceeded current liabilities by \$339,864.
- Net investment in capital assets (net of accumulated depreciation and debt) grew 16% to \$1,294,888.
- Operating revenues were \$390,732, reflecting a less than one percent decline from the prior year.
- Total operating expenses were \$302,660, reflecting a less than one percent increase over the prior year.
- The Authority generated operating income of \$88,072 in 2020 and \$89,876 in 2019.

Overview of the Financial Statements

The Authority's basic financial statements consist of the following: 1) Statements of Net Position, 2) Statements of Revenues, Expenses, and Changes in Net Position, 3) Statements of Cash Flows, and 4) Notes to the Financial Statements. Fiduciary fund statements associated with the Authority's Defined Contribution and OPEB plans (each, a "Fiduciary Trust Fund") are included as well. This report also contains required supplementary information.

The Statements of Net Position present information on all of the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position.

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the Authority's net position changed during the fiscal year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that are expected to result in cash flows in future fiscal periods (e.g., uncollected property taxes and earned but unused vacation leave).

The Authority follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of Governmental Accounting Standards Board ("GASB") pronouncements, hence there are Statements of Cash Flows included as part of the basic financial statements.

Financial Analysis

The largest portion of the Authority's net position (73%) reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets. The Authority uses these assets to provide services to its customers; consequently these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Authority's net position (4%) represents resources that are restricted for debt service and net OPEB assets. The remaining balance of unrestricted net position (22%) may be used to meet the Authority's ongoing obligations.

Port of Houston Authority of Harris County, Texas Condensed Statements of Net Position (in thousands)

	2020	2019	2018
Assets			
Current and other assets	\$ 600,492	\$ 623,109	\$ 529,199
Capital assets	1,892,430	1,741,467	1,697,616
Total Assets	2,492,922	2,364,576	2,226,815
 Deferred Outflows of Resources	 12,204	 15,616	 19,040
Total Assets and Deferred Outflows of Resources	2,505,126	2,380,192	2,245,855
 Liabilities			
Long-term liabilities (including current portion)	616,630	650,123	676,312
Other liabilities	91,335	79,121	54,869
Total Liabilities	707,965	729,244	731,181
 Deferred Inflows of Resources	 30,382	 12,015	 3,316
Total Liabilities and Deferred Inflows of Resources	738,347	741,259	734,497
 Net Position			
Net investment in capital assets	1,294,888	1,119,856	1,050,604
Restricted	75,386	56,851	44,646
Unrestricted	396,505	462,226	416,108
Total Net Position	\$ 1,766,779	\$ 1,638,933	\$ 1,511,358

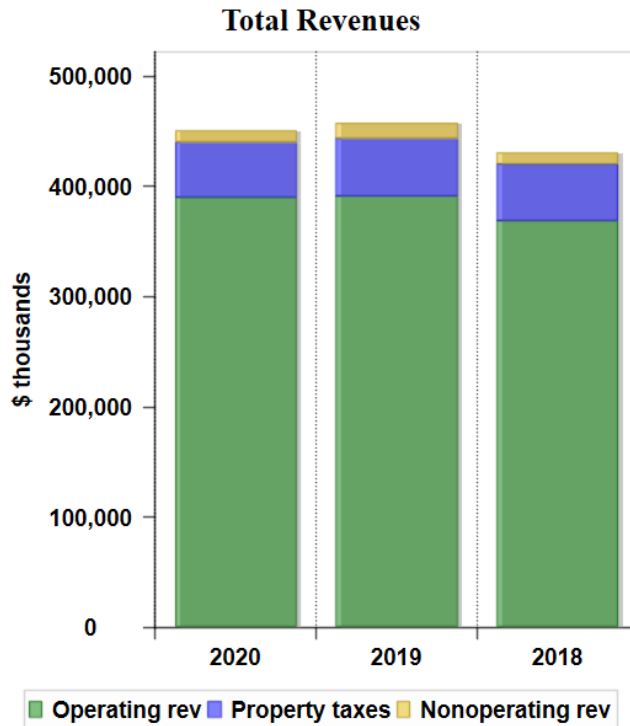
The Authority's net position increased by \$127,846 during the fiscal year ended December 31, 2020. Net investment in capital assets increased \$175,032 resulting primarily from a net increase in capital assets of \$150,963 and a decrease in outstanding bonds payable of \$36,073. During fiscal year 2020, restricted net position increased \$18,535 resulting in an increase in net OPEB assets of \$18,141, while unrestricted net position decreased \$65,721.

The Authority's net position increased by \$127,575 during the fiscal year ended December 31, 2019. Net investment in capital assets increased \$69,252, resulting primarily from a net increase in capital assets of \$43,851 and a decrease in outstanding bonds payable of \$27,236. During fiscal year 2019, the restricted net position increased \$12,205 resulting in an increase in net OPEB assets of \$11,505, while the unrestricted net position increased \$46,118.

Key elements of these increases in net position are identified in the following schedule of Changes in Net Position and related explanations.

Port of Houston Authority of Harris County, Texas
Changes in Net Position
(in thousands)

	2020	2019	2018
	<u> </u>	<u> </u>	<u> </u>
Operating revenues:			
Vessel and cargo services	\$ 357,386	\$ 365,086	\$ 344,272
Rental of equipment and facilities	21,665	18,065	18,079
Grain elevator	1,263	1,439	1,182
Bulk materials	3,911	4,265	4,131
Other	6,507	2,582	1,652
Nonoperating revenues:			
Investment income	9,810	13,017	9,319
Other	833	1,282	345
Nonoperating revenues related to property taxes:			
Property taxes	48,965	51,060	50,951
Investment income on bond proceeds	349	967	721
Total Revenues	<u>450,689</u>	<u>457,763</u>	<u>430,652</u>
Operating expenses:			
Maintenance and operations of facilities	178,606	177,121	157,524
General and administrative	46,225	50,420	49,608
Depreciation and amortization	77,829	74,020	72,027
Nonoperating expenses:			
Contributions to state and local agencies	235	4,327	2,095
Loss on disposal of assets	126	4	1
Other	-	107	1,440
Nonoperating expenses related to property taxes:			
Interest expense on unlimited tax bonds	23,526	24,451	28,927
Property tax collection expense	1,100	1,100	1,100
Other	384	410	420
Total Expenses	<u>328,031</u>	<u>331,960</u>	<u>313,142</u>
Income before capital contributions	122,658	125,803	117,510
Capital contributions from federal agencies	5,188	1,772	5,219
Changes in net position	127,846	127,575	122,729
Net position, January 1	<u>1,638,933</u>	<u>1,511,358</u>	<u>1,388,629</u>
Net position, December 31	<u>\$ 1,766,779</u>	<u>\$ 1,638,933</u>	<u>\$ 1,511,358</u>



In 2020, operating revenues decreased \$705 to \$390,732 reflecting a less than one percent decline from prior year. This is due primarily to a decrease in Vessel and cargo services revenue, partially offset by other operating revenue. The Authority's container facilities' volume remained at 3.0 million twenty-foot equivalent units ("TEUs") for the year, with a slight decrease of less than 1% from 2019, while total Authority tonnage decreased 3% to 46.9 million tons in 2020. This decrease is primarily due to the worldwide pandemic. Other operating revenues increased \$3,925 or 152% primarily due to Submerged Land revenue.

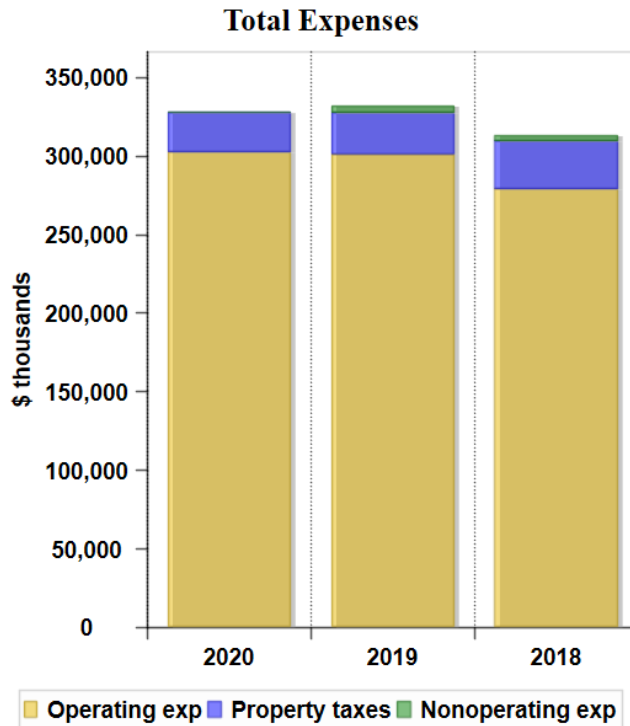
Nonoperating revenues related to property taxes in fiscal 2020 decreased \$2,713 due to a decrease in property valuations and a decline in tax rates from \$0.01074 in 2019 to \$0.00991 in 2020 per \$100 assessed valuation. This is primarily due to the bond refunding highlighted in Note 6.

Nonoperating revenues in 2020 decreased \$3,656 due primarily to lower interest income as a result of lower interest rates.

In 2019, operating revenues increased \$22,121 or 6% to \$391,437 due primarily to an increase in Vessel and cargo services revenue. The Authority's container facilities' volume increased to 3.0 million TEUs for the year, an increase of 11% from 2018, while total Authority tonnage increased 2% to 48.1 million tons in 2019. Other operating revenues increased \$930 or 56% primarily due to a rise in dredge material placement fees, as well as in pipeline license fees.

Nonoperating revenues related to property taxes in fiscal 2019 increased \$355 due to an increase in property valuations, though tax rates declined slightly from \$0.01155 in 2018 to \$0.01074 in 2019 per \$100 assessed valuation.

Nonoperating revenues in 2019 increased \$4,635 due primarily to improved interest income and higher market valuation of investments.



For fiscal 2020, Operating expenses increased \$1,099 or less than 1%.

Nonoperating expenses related to property taxes, reflecting predominantly interest expense on unlimited tax bonds, decreased \$951 over 2019.

Nonoperating expenses in 2020 decreased \$4,077 due to fewer contributions for projects.

For fiscal 2019, Operating expenses increased by \$22,402 or 8%, primarily due to higher maintenance and operation of facilities expenses resulting from growth in container volumes. General and administrative expenses increased by \$812 or 2% primarily due to investments in information technology and related initiatives. Depreciation increased by \$1,993 or 3% due primarily to new assets at the container terminals.

Nonoperating expenses related to property taxes, reflecting predominantly interest expense on unlimited tax bonds, decreased \$4,486 over 2018.

Nonoperating expenses in 2019 increased \$902 due to contributions for projects.

Capital Assets

The Authority's investment in capital assets as of December 31, 2020 totaled \$1,892,430 (net of accumulated depreciation), an increase of \$150,963 or 8.7% over the prior year.

Major capital asset activity (before depreciation) during 2020 included the following:

- Land and channel improvements and land use rights increased by \$5,819 primarily due to the purchase of wetland mitigation credits and land acquisitions of eight acres at Turning Basin and nine acres at Bayport.
- Improvements other than buildings increased \$60,422 primarily due to construction at Container Yard 7 at Bayport and Wharf 46 pavement stabilization at Turning Basin.
- Machinery and equipment net increase totaled \$20,662 in 2020. This increase primarily consisted of the purchase of eight rubber tired gantry ("RTG") cranes and six container handlers at Barbours Cut, and the purchase of vehicles Authority-wide.
- Intangible assets increased \$2,955 primarily due to the Smart GATE-3 Operating Systems at the container terminals, the PSIM Situational Awareness Software, and JD Edwards and Navis N4 improvements.
- Construction-in-progress increased \$125,651 in 2020 due to various projects including Wharf 3 reconstruction, gate expansion, and the Container Yard 1 & 2 rehabilitation at Barbours Cut, and additionally, three container wharf cranes at Bayport and Houston Ship Channel Expansion project expenditures.
- Accumulated depreciation net of retirements increased by \$64,546 in 2020.

The Authority's investment in capital assets as of December 31, 2019, was \$1,741,467 (net of accumulated depreciation), an increase of \$43,851 or 2.6% over the prior year.

Major capital asset activity (before depreciation) during 2019 included the following:

- Land and channel improvements and land use rights increased by \$4,379, primarily due to land acquisitions: seven acres at Bayport and five acres at Turning Basin.
- Improvements other than buildings increased \$9,253 primarily due to Wharf 2 construction at Bayport and Wharf 17 fender system construction at Turning Basin.
- Buildings increased \$274 due to C-1 building renovations at Barbours Cut.
- Machinery and equipment net increase totaled \$16,944 in 2019. This increase consisted primarily of the purchase of a wharf crane at Bayport and the purchase of vehicles Authority-wide.
- Intangible assets increased \$970 due to the SharePort records management system.
- Construction-in-progress increased \$82,226 due to various projects including Container Yard 7 and the Rail Spur at Bayport; additionally, Wharf 3 reconstruction and eight RTG cranes at Barbours Cut.
- Accumulated depreciation net of retirements increased by \$70,195 in 2019.

Port of Houston Authority of Harris County, Texas

Capital Assets

(net of depreciation)

(in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Land and channel improvements	\$ 487,273	\$ 483,987	\$ 479,950
Land use rights - intangible	15,861	13,328	12,986
Buildings	57,890	62,548	67,247
Improvements other than buildings	793,806	773,494	803,509
Railroads	19,250	20,533	21,833
Machinery and equipment	247,121	243,365	249,928
Computer software - intangible	3,302	1,936	2,113
Construction-in-progress	<u>267,927</u>	<u>142,276</u>	<u>60,050</u>
Total Capital Assets, net	<u>\$ 1,892,430</u>	<u>\$ 1,741,467</u>	<u>\$ 1,697,616</u>

Additional information on the Authority's capital assets can be found in Note 4 in the accompanying notes to the financial statements.

Debt

At the end of 2020, the Authority had total debt outstanding of \$587,154 (net of premiums/discounts), consisting of Unlimited Tax Refunding Bonds ("General Obligation Bonds"), for which debt service is funded from ad valorem taxes approved by Harris County taxpayers, levied by the Harris County Commissioners Court on behalf of the Authority, and collected by the Harris County Tax Assessor-Collector.

At the end of 2019, the Authority had total debt outstanding of \$623,227 (net of premiums/discounts), consisting of General Obligation Bonds.

Port of Houston Authority of Harris County, Texas

Outstanding Debt

General Obligation Bonds

(net of premiums/discounts)

(in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
General Obligation Bonds			
Unlimited Tax Port Improvement Bonds	\$ -	\$ 89,694	\$ 89,831
Unlimited Tax Refunding Bonds	<u>587,154</u>	<u>533,533</u>	<u>560,632</u>
Total General Obligation Bonds	587,154	623,227	650,463
Less Current Maturities	<u>(23,005)</u>	<u>(21,735)</u>	<u>(21,185)</u>
Long-Term Debt (net of unamortized premiums/discounts)	<u>\$ 564,149</u>	<u>\$ 601,492</u>	<u>\$ 629,278</u>

During 2020, the authority issued \$248,965 par value of Series 2020A-1, Series 2020A-2, and Series 2020B unlimited tax refunding bonds at a premium for substantial net present value

savings (see Note 6). The bond proceeds net of issuance cost were used to current refund \$287,825 par value relating to Series 2010B, 2010C, 2010D1, 2010D2, 2010E, and advance refund \$19,535 par value related to Series 2011A. Interest expense for 2020 on the unlimited tax bonds decreased by \$925.

The Authority's total debt principal outstanding decreased \$80,130 during 2020. The key factors for this decrease were the scheduled debt service payment of \$21,735 and the refunding of \$307,360 of General Obligation Bonds, partially offset by the issuance of \$248,965 related to Series 2020A-1, 2020A-2, and 2020B.

During 2019, the Authority issued no new debt. The Authority's total debt principal outstanding decreased \$21,185 during 2019 due to scheduled debt service payments. Interest expense for 2019 on the unlimited tax bonds decreased by \$4,476.

A summary of the Authority's General Obligation bond ratings is provided in the table below:

<u>Year</u>	<u>Fitch</u>	<u>Moody's</u>	<u>S & P</u>
2020	AA	Aaa	AAA
2019	AA	Aaa	AAA

In December 2018, the Authority entered into a five-year \$100 million note purchase financing agreement. As of December 2020, this line of credit was outstanding and unused.

Additional information on the Authority's debt can be found in Note 6 in the accompanying notes to the financial statements.

Economic Factors

Several factors were considered in preparing the Authority's operating budget for the 2021 fiscal year, including the anticipated rate of recovery domestically and globally from the COVID-19 pandemic; related cargo and tonnage projections; and expected growth in domestic and international trade. The Authority's budgets and other financial information are made available on its website (<https://porthouston.com>), as part of its commitment to financial transparency.

The Authority reviews information published by various research and advisory organizations, including the International Monetary Fund ("IMF") World Economic Outlook, the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, and the Federal Reserve Bank of Dallas Regional and U.S. Economic Updates.

In 2021, the IMF is projecting global GDP to grow a strong 5.5%, despite uncertainty over COVID-19 and the global vaccine rollout. Growth is expected to vary significantly across countries and fiscal policies, bolstered in part by strong policy measures in the U.S. and Japan and high levels of pent-up demand. Global growth for 2022 is forecast to be 4.2%.

The Consumer Price Index ("CPI") for all items increased 1.4% in 2020. The index for all items less food and energy also rose 1.6% percent over the 12-month period. The food index increased 3.9% in 2020, a larger increase than the 2019 rise of 1.8%. The energy index declined 7.0% in 2020 after rising 3.4% in 2019. The Authority uses a CPI measure as the basis for periodic rate adjustments in many lease agreements and marine terminal services agreements.

The Authority's 2021 budget reflects expected growth of container export loads above 2020 levels at 3% and import loads at 6%, with a 14% increase in empty container volume. Steel tonnage is expected to increase by 13% in 2021, while general cargo growth is projected at a 3% increase.

Requests for Information

The financial report is designed to provide an overview of the Authority's finances for those with an interest in the Authority's finances. Questions concerning the information provided in this report, or requests for additional information, should be addressed to the Office of the Controller, Port of Houston Authority, 111 East Loop North, Houston, Texas 77029.

Port of Houston Authority of Harris County, Texas

Statements of Net Position

As of December 31, 2020 and 2019

(in thousands)

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 222,202	\$ 175,160
Short-term investments	109,920	130,530
Receivables (net of allowance for uncollectibles)	53,035	43,276
Restricted assets		
Cash and cash equivalents	15,114	18,290
Property tax receivables	46,445	44,417
Prepaid and other current assets	7,488	8,784
Total Current Assets	454,204	420,457
Noncurrent Assets		
Investments	109,619	180,029
Net OPEB asset	29,646	11,505
Prepaid and other noncurrent assets	7,023	11,118
Capital Assets (net of accumulated depreciation)		
Land and channel improvements	487,273	483,987
Land use rights - intangible	15,861	13,328
Buildings	57,890	62,548
Improvements other than buildings	793,806	773,494
Railroads	19,250	20,533
Machinery and equipment	247,121	243,365
Computer software - intangible	3,302	1,936
Construction-in-progress	267,927	142,276
Total Capital Assets, net	1,892,430	1,741,467
Total Noncurrent Assets	2,038,718	1,944,119
Total Assets	2,492,922	2,364,576
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	11,447	11,130
Deferred loss on bond refunding	757	4,486
Total Deferred Outflows of Resources	12,204	15,616
Total Assets and Deferred Outflows of Resources	\$ 2,505,126	\$ 2,380,192

See accompanying notes to the financial statements.

Port of Houston Authority of Harris County, Texas

Statements of Net Position As of December 31, 2020 and 2019 (in thousands)

	2020	2019
Liabilities		
Current Liabilities		
Accounts payable and other current liabilities	\$ 75,244	\$ 58,610
Fees received in advance and other reserves	10,457	13,498
Liabilities payable from restricted assets:		
Current maturities of long-term debt		
Unlimited tax bonds	23,005	21,735
Accrued interest payable		
Unlimited tax bonds	5,634	7,013
Total Current Liabilities Payable from Restricted Assets	28,639	28,748
Total Current Liabilities	114,340	100,856
Noncurrent Liabilities		
Long-term debt, net of current maturities	564,149	601,492
Net pension liability	12,526	13,001
Other noncurrent liabilities	16,950	13,895
Total Noncurrent Liabilities	593,625	628,388
Total Liabilities	707,965	729,244
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	578	2,026
Deferred inflows of resources related to OPEB	19,693	7,939
Deferred gain on bond refunding	10,111	2,050
Total Deferred Inflows of Resources	30,382	12,015
Total Liabilities and Deferred Inflows of Resources	738,347	741,259
Net Position		
Net investment in capital assets	1,294,888	1,119,856
Restricted for:		
Debt Service	45,740	45,346
Net OPEB asset	29,646	11,505
Unrestricted	396,505	462,226
Total Net Position	1,766,779	1,638,933
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 2,505,126	\$ 2,380,192

See accompanying notes to the financial statements.

Port of Houston Authority of Harris County, Texas
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2020 and 2019
(in thousands)

	2020	2019
Operating revenues		
Vessel and cargo services	\$ 357,386	\$ 365,086
Rental of equipment and facilities	21,665	18,065
Grain elevator	1,263	1,439
Bulk materials	3,911	4,265
Other	6,507	2,582
Total operating revenues	390,732	391,437
Operating expenses		
Maintenance and operations of facilities	178,606	177,121
General and administrative	46,225	50,420
Depreciation and amortization	77,829	74,020
Total operating expenses	302,660	301,561
Operating income	88,072	89,876
Nonoperating revenues (expenses)		
Investment income	9,810	13,017
Contributions to state and local agencies	(235)	(4,327)
Loss on disposal of assets	(126)	(4)
Other, net	833	1,175
Total nonoperating revenues	10,282	9,861
Income before nonoperating revenues (expenses) related to property taxes	98,354	99,737
Nonoperating revenues (expenses) related to property taxes		
Property taxes, net of estimated uncollectible amounts	48,965	51,060
Investment income on bond proceeds	349	967
Interest expense on unlimited tax bonds	(23,526)	(24,451)
Property tax collection expense	(1,100)	(1,100)
Other, net	(384)	(410)
Total nonoperating revenues related to property taxes	24,304	26,066
Income before capital contributions	122,658	125,803
Capital contributions from federal agencies	5,188	1,772
Change in net position	127,846	127,575
Net position, January 1	1,638,933	1,511,358
Net position, December 31	\$ 1,766,779	\$ 1,638,933

See accompanying notes to the financial statements.



Port of Houston Authority of Harris County, Texas
Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019
(in thousands)

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 387,132	\$ 390,870
Cash paid to suppliers for goods and services	(61,342)	(54,049)
Cash paid to employees for services	(108,569)	(100,367)
Cash paid for employee benefits	(56,267)	(55,460)
Cash received for other services	4,166	3,196
Cash received for other purposes	7,606	196
Net cash provided by operating activities	172,726	184,386
Cash flows from noncapital financing activities:		
Contributions paid to others	(235)	(4,327)
Property tax collection expenses paid	(1,791)	(1,561)
Other non operating revenue	597	1,140
Net cash provided by noncapital financing activities	(1,429)	(4,748)
Cash flows from capital and related financing activities		
Property taxes received	47,416	47,423
Contributions received from federal agencies	946	2,165
Interim financing costs	(1,742)	(111)
Repayment of long-term debt and funding of escrow	(329,095)	(21,185)
Proceeds from issuance of debt	299,080	-
Interest on long-term debt	(17,431)	(29,098)
Acquisition and construction of capital assets	(228,920)	(115,591)
Proceeds from retirement of assets	237	93
Net cash used in capital financing activities	(229,509)	(116,304)
Cash flows from investing activities:		
Purchase of investments	(217,430)	(334,815)
Proceeds from maturities of investments	309,595	359,657
Interest on investments	9,913	12,092
Net cash provided by investing activities	102,078	36,934
Net increase in cash and cash equivalents	43,866	100,268
Cash and cash equivalents, January 1	193,450	93,182
Cash and cash equivalents, December 31	\$ 237,316	\$ 193,450
Cash and cash equivalents Unrestricted	\$ 222,202	\$ 175,160
Cash and cash equivalents Restricted	15,114	18,290

See accompanying notes to the financial statements.

Port of Houston Authority of Harris County, Texas

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

(in thousands)

	2020	2019
Reconciliation of net income to net cash provided by operating activities:		
Operating Income	\$ 88,072	\$ 89,876
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	77,829	74,020
Provision for doubtful accounts	812	191
Pension\OPEB deferred inflows	10,306	5,076
Pension\OPEB deferred outflows	(316)	3,118
Changes in assets and liabilities		
(Increase) in trade and other receivables	(7,226)	(22)
Decrease \ (increase) in prepaids and other current assets	1,465	(4,681)
Decrease in dredging expenses paid in advance	3,911	2,920
Increase in accounts payable and other liabilities	16,677	26,169
(Decrease) in net pension\OPEB liability and compensated absences	(22,841)	(12,243)
Increase / (decrease) in fees received in advance	4,037	(38)
Net cash provided by operating activities	\$ 172,726	\$ 184,386
Noncash investing, capital and financing activities		
Increase in fair value of investments	\$ (28)	\$ (1,024)
Capital contributions from federal agencies	7,090	2,848
Capital asset acquisitions included in accounts payable	8,966	23,208

See accompanying notes to the financial statements.

Port of Houston Authority of Harris County, Texas
Statements of Fiduciary Net Position
As of December 31, 2020 and 2019
(in thousands)

Pension (and other employee benefit) Trust Funds

	2020	2019
Assets		
Cash and cash equivalents	\$ 3,020	\$ 3,599
Investment Securities		
Domestic Equity	115,649	120,891
International Equity	27,294	23,696
Fixed Income	130,915	118,042
Balanced Funds*	13,438	2,517
Accrued investment income	371	821
Total Assets	290,687	269,566
Liabilities		
Administrative fees	-	-
Investment Expenses	52	56
Total Liabilities	52	56
Net position restricted for pension / OPEB**	\$ 290,635	\$ 269,510

* Mutual Funds that include both equity and fixed income securities

**Net position restricted for OPEB	\$ 95,148	\$ 82,262
Net position restricted for Defined Contribution	4,236	2,840
Net Position restricted for Pension	191,251	184,408
	\$ 290,635	\$ 269,510

See accompanying notes to the financial statements.

Port of Houston Authority of Harris County, Texas
Statements of Changes in Fiduciary Net Position
For the Years Ended December 31, 2020 and 2019
(in thousands)

	Pension (and other employee benefit) Trust Funds	
	<u>2020</u>	<u>2019</u>
Additions:		
Employer contributions	\$ 17,130	\$ 10,379
Net investment income	<u>17,509</u>	<u>17,243</u>
Total additions	34,639	27,622
Deductions:		
Benefit payments and withdrawals	(13,196)	(10,494)
Administrative expenses	<u>(318)</u>	<u>(336)</u>
Total deductions	<u>(13,514)</u>	<u>(10,830)</u>
Net increase in net position	21,125	16,792
Net position restricted for pension / OPEB, beginning of year	<u>269,510</u>	<u>252,718</u>
Net position restricted for pension / OPEB, end of year	<u><u>\$ 290,635</u></u>	<u><u>\$ 269,510</u></u>

See accompanying notes to the financial statements.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies

Reporting Entity

The Port of Houston Authority of Harris County, Texas ("Authority") is an independent political subdivision of the State of Texas, operating as a navigation district pursuant to Chapter 5007 of the Texas Special District Laws Code. The Port Commission, composed of seven commissioners, governs the Authority. Harris County, Texas ("County") and the City of Houston each appoint two commissioners to the Port Commission and jointly appoint the chairman. The City of Pasadena and the Harris County Mayors' and Councils' Association ("Association") each appoint one commissioner. Under state law, the County Treasurer serves as the treasurer of the Authority. The Authority is not a component unit of the County, the City of Houston, the City of Pasadena, or the Association, since none of these entities exercises financial control over the Authority. The Authority is considered a primary government entity satisfying the following criteria: (a) no entity appoints a voting majority of its governing body; (b) it is legally separate from other entities; and (c) it is fiscally independent of other state and local governments. Each Fiduciary Trust Fund is not included as part of the primary government as its activities are fiduciary in nature.

The financial statements of the Authority include operations and activities of the Authority, and its blended component unit for which the Port Commission has financial accountability as defined below and its fiduciary component units, as described below. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended Component Unit

The Port Development Corporation ("PDC") was organized by the Authority under the State of Texas Development Corporation Act of 1979. PDC is a nonprofit corporation that previously issued industrial development revenue bonds to promote and develop commercial, industrial and manufacturing enterprises and to promote and encourage employment and public welfare and is currently legally active. PDC is considered a blended component unit of the Authority as the governing boards of the Authority and PDC are the same, and the Authority has operational responsibility for the PDC and is able to impose its will on PDC, as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, *"The Financial Reporting Entity,"* as amended. There has been no financial activity for PDC since 2007.

Fiduciary Component Units

The Pension Plan is for eligible retirees and Port Houston employees hired before 2012. The Pension Plan has a variety of investment accounts that support the funds

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Fiduciary Component Units (continued)

for the ongoing payment of benefits. The Other Post-Employment Benefits (OPEB) Plan primarily provides health insurance benefits for retirees. The 401(a) Plan is for eligible employees hired on or after August 1, 2012. Contributions are only made by the Authority, which also establishes the vesting schedule. In addition, contribution percentages are based on the employee's years of service.

Basis of Accounting

The Authority follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of GASB pronouncements.

Use of Estimates

The preparation of the Authority's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used to record certain transactions, such as pension benefits, other postemployment benefits, allowances for doubtful accounts, loss contingencies, and insurance recoveries. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash, highly liquid time deposits, investments in local government investment pools, money market mutual funds, and short-term investments with original maturities of three months or less when purchased are classified herein as cash and cash equivalents.

The requirements of GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*" (GASB 79), are applicable to the Authority. GASB 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes, and further outlines additional note disclosure requirements for governmental entities that participate in those pools.

GASB 79 delinks money market local government investment pools from Securities

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents (continued)

and Exchange Commission Rule 2a-7, enabling such pools to continue to utilize amortized cost for valuation and financial reporting, so that the \$1.00 per unit value they pursue will not need to change to a fluctuating price. As a prerequisite to the continued use of amortized cost, GASB 79 puts forth risk-mitigating measures such as limits on certain repurchase collateral investments, daily and weekly liquidity buckets, and “Know Your Customer” provisions, among others. The Port adheres to these provisions.

Investments

The Authority's cash equivalents, excluding certain investments in local government investment pools, and investments are recorded at fair value based upon quoted market prices in active or inactive markets for similar assets with the difference between the purchase price and market price being recorded as investment income. Gains or losses due to market valuation changes as well as realized gains or losses are recognized in the Statements of Revenues, Expenses, and Changes in Net Position.

Accounts Receivable

Trade receivables are shown net of an allowance for uncollectible accounts. Allowances are estimated at approximately 4% of total accounts receivable, based on historical experience. Bad debts are written off against the accounts receivable allowance when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of expenses when received.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Maintenance Dredging

The cost of periodic maintenance dredging of berthing areas adjacent to the Authority's wharves, and of certain ship channels not maintained by the federal government, is capitalized in prepaid and other current assets and amortized over two years. Amortization for 2020 and 2019 amounted to \$5,351 and \$3,014, respectively, and is included in depreciation and amortization in the Statements of Revenues, Expenses and Changes in Net Position.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Property Taxes

Property taxes (net of collection expenses) are used to pay debt service on outstanding General Obligation Bonds. Property is appraised, and a lien on such property becomes enforceable, as of January 1, subject to certain procedures generally in accordance with Harris County Appraisal District rules for rendition, appraisal, appraisal review, and judicial review. Property taxes are generally levied in October or November for the year in which assessed. Taxes become delinquent February 1 of the following year and are subject to interest and penalty charges. Property tax levied revenue and associated receivable is accrued evenly throughout the year and as property taxes are paid the receivable is reduced. The Harris County Tax Assessor-Collector bills and collects property taxes of the Authority for a fee and remits collections to the Authority. Property tax collection expenses incurred by the Authority for the years ended December 31, 2020 and 2019 were \$1,100 and \$1,100, respectively. These expenses are reflected as property tax expense in the Statements of Revenues, Expenses and Changes in Net Position. The tax rates levied on behalf of the Authority for the years ended December 31, 2020 and 2019 were \$0.00991 and \$0.01074, respectively, per one hundred dollars of assessed valuation.

Restricted Assets

Assets which are use-restricted to specific purposes by bond indenture or otherwise are segregated on the Statements of Net Position. These assets, which may include cash and investments, are primarily restricted for construction and debt service purposes.

Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life of three years or greater. Property constructed or acquired by purchase is stated at cost. Property received as a contribution is stated at estimated acquisition value on the date received. Donated assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are expensed. The Authority capitalizes, as a cost of its constructed assets, the weighted average interest expense applied to average cumulative expenditures. No interest was capitalized in 2020 and 2019.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Depreciation is computed using the straight-line method over the following useful lives:

Railroads	25-40 years
Buildings	10-40 years
Improvements other than buildings	10-50 years
Machinery and equipment	3-20 years
Computer software - intangible	5 years

Premiums (Discounts) on Bonds Payable and Issuance Costs

Bond premiums and discounts are amortized using the effective interest method. Bond issuance costs are expensed as incurred. Bonds payable are reported net of the applicable bond premium or discount.

Deferred Compensation

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan, which is administered by the Nationwide Trust Company, permits employees to defer income taxation on retirement savings into future years. Amounts deferred under the plan are not available to employees until termination, retirement, death, or unforeseeable emergency.

Compensated Absences

Compensated absences, which include unpaid accrued vacation and sick leave, are accumulated during employment and are accrued over the first nine months of the calendar year. Employees earn vacation at rates of 10 to 25 days per year and may accumulate a maximum of 20 to 50 days, depending on their length of employment. Upon termination or retirement, employees are paid for any unused accumulated vacation days at their current pay rate. Employees earn sick leave at the rate of 12 days per year. Upon termination or retirement, employees are paid for any unused sick leave days at their current pay rate up to a maximum of 60 days. With sufficient accruals, employees are allowed to receive payments following year-end of up to a maximum of 12 days of their unused sick leave, at their current pay rate.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Statements of Net Position includes a separate section for deferred outflows and deferred inflows of resources. These separate financial statement elements represent consumption (outflow or asset) or acquisition (inflow or liability) of net position that applies to a future reporting period.

The Authority has several types of deferred outflows of resources that are included in this category: deferred losses on bond refundings, pension contributions made after measurement date, differences between expected and actual experience, net difference between projected and actual earnings and changes of assumptions. Deferred inflows of resources include: deferred gains on bond refunding, the differences between expected and actual experience, net difference between projected and actual earnings and changes of assumptions.

Net Position

Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of three sections: net investment in capital assets; restricted; and unrestricted. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. Net position is reported as restricted when constraints are imposed by third parties and consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The remaining net position that does not meet the definition of net investment in capital assets or restricted is classified as unrestricted. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources, as they are needed.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from non-exchange transactions or ancillary activities.

The Authority's operating revenues for vessel and cargo services are collected from

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Operating Revenues and Expenses (continued)

charges assessed pursuant to its tariffs and from lease revenues associated with facilities located within the operating terminals. These revenues are recognized and accrued during the period earned. Revenues from rental of equipment and facilities are derived from leases outside of the operating terminals combined with fees associated with an agreement with respect to use of railroad rights-of-way. These revenues are recognized during the period earned by accrual or prepayment amortization, as appropriate pursuant to agreement terms.

Current Year Accounting Pronouncements

In June 2018, GASB issued Statement No. 89, *“Accounting for Interest Cost incurred Before the End of a Construction Period.”* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The Authority elected to early implement this standard in fiscal year 2020.

GASB Statement No. 92, *Omnibus 2020* addresses reinsurance recoveries for public entity risk pools and terminology used to refer to derivative instruments. The Authority implemented GASB 92, paragraphs 11 and 13. Paragraph 11 notes reinsurance recoveries are risk financing and insurance-related activities of public entity risk pools which have amounts that are recoverable from reinsurers or excess insurers and relate to paid claims and claim adjustment expenses which may, but are not required to be, reported as reductions of expense. The Authority has reviewed and modified all applicable Notes to Financial Statements accordingly. The remainder of GASB 92 is effective in future years and is discussed later in further detail.

In May 2020, GASB issued Statement No. 95, *“Postponement of the Effective Dates of Certain Authoritative Guidance.”* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Current Year Accounting Pronouncements (continued)

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Terminology used to refer to derivative instruments.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*.

The Authority implemented GASB 84 and GASB 88 on the original effective date.

Future Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, “*Leases*.” The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Authority is currently evaluating potential changes to the financial statements as a result of implementation of this statement.

In May 2019, GASB issued Statement No. 91, "*Conduit Debt Obligations*." The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement also addresses arrangements, often characterized as leases, that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements. The Authority is currently evaluating potential changes to the financial statements as a result of implementation of this statement.

In January 2020, GASB issued Statement No. 92, "*Omnibus 2020*." The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations ("AROs") in a government acquisition
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.

In March 2020, GASB issued Statement No. 93, "Replacement of Interbank Offered Rates." Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate ("IBOR")—most notably, the London Interbank Offered Rate ("LIBOR"). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of *reference rate*, as it is used in Statement 53, as amended

Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The Authority is currently assessing the impact of this statement in fiscal year 2021, except for paragraphs 11b, 13, and 14 which are effective in fiscal year 2022.

In March 2020, GASB issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements ("PPPs"). As used in that statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement ("SCA"), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The Authority will assess the impact of this statement in fiscal year 2023.

In May 2020, GASB issued Statement No. 96, "Subscription-Based Information Technology Arrangements." This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITAs") for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology ("IT") software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will *not* exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods. The Authority will assess the impact of this statement in fiscal year 2023.

In June 2020, GASB issued Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No.14 and No 84, and A Supersession of GASB Statement No.32." The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of *all* Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances. The Authority will assess the impact of this statement in fiscal year 2022.

Revisions

Certain immaterial revisions have been made to the 2019 financial statements for the presentation of property taxes received on the cash flow statement. \$47,423 of property taxes received has been moved from cash flows from noncapital financing activities to cash flows from capital and related financing activities. This revision did not have an impact on the total change in cash and cash equivalents.

2. Cash and Investments

The Authority's cash and cash equivalents of \$237,316 and \$193,450 as of December 31, 2020 and 2019, respectively, are maintained in demand deposit accounts and local government investment pools. Pursuant to the Texas Public Funds Collateral Act, Chapter 2257, Texas Government Code, the demand deposit account balances are fully covered by the Federal Deposit Insurance Corporation ("FDIC") or collateralized with securities deposited by the Authority's depository institution in a safekeeping account at the Federal Reserve Bank in the Authority's name and under the Authority's control.

In accordance with its Investment Policy and the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code ("PFIA"), the Authority may invest in fully-collateralized or insured time deposits, direct debt securities of the United States or its agencies, municipal and state obligations, commercial paper, money market

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

2. Cash and Investments (continued)

mutual funds, guaranteed investment contracts, bankers' acceptances, collateralized mortgage obligations (the underlying security for which is guaranteed by an agency of the United States) and local government investment pools.

The Authority's Investment Policy is formally reviewed and approved at least annually by the Port Commission. The policy emphasizes safety of principal and liquidity, outlines investment strategies by fund group, and includes guidelines for diversification, risk tolerance, yield, and maturity of investments. All investment transactions, except for demand and time deposits, investment pools and mutual funds, are settled on a delivery versus payment basis, with safekeeping at the Authority's custodian, JPMorgan Chase Bank N.A. A copy of the Investment Policy is available for download from the Authority's website (<http://porthouston.com>).

During 2019 and 2020, the Authority made investments in the Local Government Investment Cooperative ("LOGIC"), Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"), and the Texas Local Government Investment Pool ("TexPool Prime"). Also in 2020, the Authority made investments in a local government investment pool organized under the Interlocal Cooperation Act Texas Short Term Asset Reserve Program ("TexSTAR"). These local government investment pools are subject to the PFIA, which requires the pools to have the following investment objectives, in order of priority: (i) preservation and safety of principal; (ii) liquidity; and (iii) yield. The investment policies for the pools specify that they will seek to maintain a "AAAm" credit rating by at least one nationally-recognized rating service. As they offer daily liquidity similar to money market mutual funds, the pools are classified as cash and cash equivalents. Deposits in the investment pools are not insured or guaranteed by any government or government agency. Authorized investments include U.S. government and agency securities, repurchase agreements, certain mutual funds, commercial paper, and certificates of deposit.

LOGIC assets are valued using the amortized cost valuation technique, which generally approximates the market value of the assets and has been deemed to be a proxy for fair value which meets criteria under GASB 79.

Texas CLASS utilizes Financial Accounting Standards Board ("FASB") Accounting Standards Topic (ASC) 820 *"Fair Value Measurement and Disclosure"* to define fair value, establish a framework for measuring fair value and expand disclosure requirements regarding fair value measurements. ASC 820 does not require new fair value measurements but is applied to the extent that other accounting pronouncements require or permit fair value measurements. The standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

2. Cash and Investments (continued)

TexPool Prime uses amortized cost to value portfolio assets, consistent with the criteria and guidance established by GASB 79. Generally, it seeks to preserve principal and minimize market and credit risks by investing in a diversified pool of assets of high credit quality, with adequate collateralization and use of delivery versus payment procedures. The maturities of the investments are distributed such that there is a continuing stream of securities maturing at frequent intervals.

TexSTAR assets are valued using the amortized cost valuation technique, which generally approximates the market value of the assets and has been deemed to be a proxy for fair value which meets criteria under GASB 79.

At December 31, 2020, the Authority had investments in LOGIC, Texas CLASS, TexSTAR, and TexPool Prime of \$71,165, \$68,268, \$100, and \$69,377, respectively.

At December 31, 2019, the Authority had investments in LOGIC, Texas CLASS, and TexPool Prime of \$47,247, \$53,488, and \$63,788, respectively.

In accordance with GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*," the Authority's financial statements are required to address credit risk, concentration of credit risk, interest rate risk and foreign currency risk of investments.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize this risk, the Authority's Investment Policy establishes minimum acceptable credit ratings for fixed income securities of "A" or its equivalent. U.S. government and agency securities are currently rated "AA+" by Standard & Poor's and "Aaa" by Moody's Investors Service. Commercial paper must be rated not less than "A-1", "P-1", or the equivalent by at least two nationally recognized credit rating organizations or must be rated at least "A-1", "P-1" or the equivalent by at least one nationally recognized credit rating agency and be fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof.

Obligations of states, agencies, counties, cities, and other political subdivisions of any state must be rated not less than single "A" or its equivalent. Ratings of "SP-1" by Standard & Poor's or "MIG-1" by Moody's Investors Service are acceptable, as those are the highest ratings assigned to short-term municipal securities. Money market mutual funds and public funds investment pools must be rated "AAA" or its equivalent by at least one nationally recognized rating firm.

Concentration of Credit Risk – Concentration of credit risk exists when investments are concentrated in the securities of a few issuers. The Authority mitigates such risks

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

2. Cash and Investments (continued)

by emphasizing the importance of a diversified portfolio. The Authority's investments at December 31, 2020 and 2019 included the following securities which comprised more than 5% of the total portfolio (excluding cash and cash equivalents):

	<u>2020</u>	<u>2019</u>
Commercial Paper:		
Banco Santander SA/NY	7%	13%
Exxon Mobil	7%	-
MUFG Bank	-	5%
Natixis NY	9%	-
Royal Bank of Canada	5%	-
Santander UK PLC	-	10%
Municipal Bonds:		
Connecticut ST	-	8%
Florida St Brd Admin	10%	7%
New York City, NY	-	5%
NYC Transitional Fina Auth	10%	14%
U.S. Agency Securities:		
Federal Farm Credit Banks	11%	-
Federal Home Loan Bank	-	5%
Federal National Mortgage Association	11%	5%

These securities meet the diversification and credit quality requirements specified in the Investment Policy, including provisions requiring that no more than 20% of the overall portfolio may be invested in a single municipal security or commercial paper issuer, and no more than 30% in a single government agency issuer.

Interest Rate Risk - Interest rate risk occurs when changes in interest rates adversely affect the fair value of the Authority's investments. Generally speaking, the fair value of longer-dated securities have greater sensitivity to changes in market interest rates. The Authority minimizes its exposure to this risk by purchasing a mix of shorter-term investments and longer-term securities with maturities largely staggered to avoid undue concentration of assets in a specific maturity sector, and by structuring the portfolio to provide for stability of income and reasonable liquidity necessary to meet operational and capital needs.

The Investment Policy includes a general objective to hold investments to maturity, with final maturity of up to five years for certain instruments, and no more than 40% of the portfolio invested beyond two years at the time of purchase. It also provides that the maximum weighted average maturity of the overall portfolio shall not exceed two years. See the tables on the following pages showing fair value and weighted

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

2. Cash and Investments (continued)

average maturity of the Authority's investments for the fiscal years ended December 31, 2020 and 2019.

Foreign Currency Risk – Foreign currency risk occurs when changes in exchange rates adversely affect the fair value of an investment or a deposit. As of December 31, 2020 and 2019, the Authority had no foreign currency risk in its general cash and investment portfolio, which is denominated in U.S. dollars. The Authority's defined benefit plan and its OPEB Plan, as described in Notes 8 and 9 in the accompanying notes to the financial statements, respectively, have indirect exposure to foreign currency risk due to investments in American Depositary Receipts ("ADRs"); however, they are not included in foreign currency as they are denominated in U.S. dollars and accounted for at fair value. As of December 31, 2020 and 2019, the indirect exposure to foreign currency risk for the defined benefit plan was \$15,303 and \$14,055, respectively, and for the OPEB Plan, the indirect currency exposure was \$7,762 and \$6,543, respectively.

The Authority has estimated the fair value of financial instruments in accordance with the guidance provided in GASB Statement No. 72, "*Fair Value Measurement and Application*," ("GASB 72") which requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Determining the level at which an asset falls within the hierarchy requires significant judgment considering the lowest level input that is significant to the fair value measurement as a whole. The hierarchy consists of three broad levels, as shown on following page, with Level 1 being the most observable:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Quoted market prices in active or inactive markets for similar assets or liabilities and inputs other than quoted prices that are observable.
- Level 3 - Unobservable inputs for an asset or liability, which reflect those that market participants would use.

For its cash and investments, the Authority utilizes the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. Within this approach, the matrix pricing technique is used principally to value some types of

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2. Cash and Investments (continued)

financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities. Instead, matrix pricing relies on the securities' relationship to other benchmark quoted securities.

The Authority's significant financial instruments consist of cash and cash equivalents, and investment securities. As of December 31, 2020 and December 31, 2019, the Authority had the following recurring fair value measurements for such financial instruments:

- Local Government Investment Pools as of December 31, 2020 and December 31, 2019 totaling \$208,910 and \$164,523, respectively.
- U.S. Agency Securities, Municipal Bonds, and Commercial Paper as of December 31, 2020 and 2019, are valued using the matrix pricing technique with quoted prices for similar assets in active markets, provided by SVC, IDC and other pricing sources (Level 2 inputs).

The Authority had no nonrecurring fair value measurements at December 31, 2020, nor any changes in valuation technique with a significant impact to fair value.

The following table summarizes the Authority's investments that are measured at fair value as of December 31, 2020 and 2019, and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value.

Security Type	Level 1 12/31/20	Level 2 12/31/20	Level 3 12/31/20	Total
U.S. Agency Securities	\$ -	\$ 50,079	\$ -	\$ 50,079
Commercial Paper	-	59,929	-	59,929
Municipal Bonds	-	109,531	-	109,531
Total	<u>\$ -</u>	<u>\$ 219,539</u>	<u>\$ -</u>	<u>\$ 219,539</u>

Security Type	Level 1 12/31/19	Level 2 12/31/19	Level 3 12/31/19	Total
U.S. Agency Securities	\$ -	\$ 42,418	\$ -	\$ 42,418
Commercial Paper	-	84,270	-	84,270
Municipal Bonds	-	183,871	-	183,871
Total	<u>\$ -</u>	<u>\$ 310,559</u>	<u>\$ -</u>	<u>\$ 310,559</u>

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2. Cash and Investments (continued)

The following table summarizes the Authority's fiduciary net position investments that are measured at fair value at their respective fiscal year end, for fiscal 2020 and 2019, and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Level 1 2020	Level 2 2020	Level 3 2020	Total
Domestic Equity	\$ 73,379	\$ -	\$ -	\$ 73,379
International Equity	7,955	-	-	7,955
Mutual Funds	80,932	-	-	80,932
U.S. Treasuries	16,097	-	-	16,097
U.S. Corporate Obligations	-	70,095	-	70,095
Municipal Obligations	-	1,863	-	1,863
U.S. Government Agencies	-	20,283	-	20,283
International Fixed Income	-	8,628	-	8,628
Master Limited Partnerships	4,345	-	-	4,345
Target Date Mutual Funds	-	3,718	-	3,718
Total	\$ 182,708	\$ 104,587	\$ -	\$ 287,295

	Level 1 2019	Level 2 2019	Level 3 2019	Total
Domestic Equity	\$ 66,247	\$ -	\$ -	\$ 66,247
International Equity	4,699	-	-	4,699
Mutual Funds	68,947	-	-	68,947
U.S. Treasuries	16,710	-	-	16,710
U.S. Corporate Obligations	-	50,114	-	50,114
Municipal Obligations	-	1,095	-	1,095
U.S. Government Agencies	-	29,769	-	29,769
International Fixed Income	-	6,664	-	6,664
Master Limited Partnerships	18,384	-	-	18,384
Target Date Mutual Funds	-	2,517	-	2,517
Total	\$ 174,987	\$ 90,159	\$ -	\$ 265,146



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2. Cash and Investments (continued)

The following table details the U.S. Dollar holdings (excluding cash and cash equivalents) and their weighted average maturity as of December 31, 2020.

Security Type	<u>Ratings</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (In Years)</u>
Agency Securities:			
FNMA NOTE	AA+/Aaa	\$ 25,062	2.32
FFCB NOTE	AA+/Aaa	<u>25,017</u>	2.32
Total		<u>50,079</u>	
Commercial Paper:			
Banco Santander SA/NY	A-1/P-1	14,987	0.12
Exxon Mobil	A-1/P-1	14,978	0.17
Natixis	A-1/P-1	9,992	0.07
Natixis	A-1/P-1	9,986	0.11
Royal Bank of Canada	A-1/P-1	<u>9,986</u>	0.11
Total		<u>59,929</u>	
Municipal Bonds			
Bartow Cty, GA Dev Auth	AA-/Aa2	710	0.00
City of Bloomington, MN	AA+	4,156	0.10
City of Derby, CT	A+	1,135	0.02
City of Derby, CT	A+	819	0.02
City of Frisco, TX	AAA/Aaa	2,859	0.03
City of Gardner, KS	SP-1+	2,511	0.02
City of Lawrenceville, GA	AA+/Aa3	1,056	0.02
City of New Britain, CT	AA+/Aaa	808	0.00
City of Suffolk, VA	AAA/Aaa	1,286	0.02
City of Suffolk, VA	AAA/Aaa	1,355	0.04
City of Wausau, WI	MIG1	8,071	0.17

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2. Cash and Investments (continued)

Security Type	<u>Ratings</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (In Years)</u>
Municipal Bonds:			
FL SBA Rev	AA/Aa3	22,082	0.10
Honolulu City & Cnty, HI	Aa1	2,090	0.05
Honolulu City & Cty, HI	Aa3	1,701	0.01
Hurst-Euless-Bedford ISD	AAA	1,014	0.01
Milwaukee Cty, WI	AA/Aa2	1,039	0.02
NYC Transitional Fina Auth	AA/Aa3	10,146	0.05
NYC Transitional Fina Auth	AAA/Aa1	12,239	0.21
Omaha-Douglas Bldg Comm	AA+/Aa3	1,259	0.02
Palm Beach Cty, FL	AA+/Aa2	1,014	0.01
State of CA	AA-	4,100	0.01
State of CA	AA-	1,640	0.02
State of CT	A/A1	7,478	0.07
Town of Oxford, CT	Aa2	1,050	0.02
Town of Oxford, CT	Aa2	1,410	0.05
Village of Waterford, WI	A+	5,427	0.16
West Haymarket Jt Pub Agcy, NE	AAA/Aa1	2,294	0.06
West Orange, NJ	SP-1+	6,329	0.01
Ypsilanti Cmnty Schools, MI	AA	<u>2,453</u>	0.05
Total		<u>109,531</u>	
Total Investment Fair Value		<u>\$ 219,539</u>	
Portfolio Weighted Average Maturity			1.88

The above calculation excludes cash and cash equivalents. As of December 31, 2020, the Authority's weighted average maturity of the portfolio as defined in the Investment Policy including cash and cash equivalents was 0.92 years.

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2. Cash and Investments (continued)

The following table details the U.S. Dollar holdings (excluding cash and cash equivalents) and their weighted average maturity as of December 31, 2019.

Security Type	<u>Ratings</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (In Years)</u>
Agency Securities:			
FNMA NOTE	AA+/Aaa	\$ 15,004	1.66
FHLMC NOTE	AA+/Aaa	12,415	1.44
FHLB NOTE	AA+/Aaa	<u>14,999</u>	1.67
Total		<u>42,418</u>	
Commercial Paper:			
Banco Santander SA/NY	A-1/P-1	24,865	0.09
Banco Santander SA/NY	A-1/P-1	14,833	0.10
MUFG Bank	A-1/P-1	14,836	0.10
Santander UK PLC	A-1/P-1	14,882	0.08
Santander UK PLC	A-1/P-1	<u>14,854</u>	0.10
Total		<u>84,270</u>	
Municipal Bonds			
Atlantic Cty Imprv Auth, NJ	MIG1	5,222	0.00
Bartow Cty, GA Dev Auth	AA-/Aa2	1,075	0.00
Bartow Cty, GA Dev Auth	AA-/Aa2	715	0.00
City of Bloomington, MN	AA+	4,153	0.08
City of Derby, CT	A+	1,106	0.02
City of Derby, CT	A+	785	0.02
City of Gardner, KS	SP-1+	2,510	0.02
City of Jersey City, NJ	MIG1	13,210	0.07
City of Lawrenceville, GA	AA+/Aa3	1,031	0.02
City of New Britain, CT	AA+/Aaa	811	0.01

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Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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2. Cash and Investments (continued)

Security Type	<u>Ratings</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (In Years)</u>
Municipal Bonds:			
City of New Orleans, LA	AA+/A2	6,373	0.14
City of Suffolk, VA	AAA/Aaa	1,246	0.02
City of Suffolk, VA	AAA/Aaa	1,298	0.03
City of Wausau, WI	MIG1	8,143	0.14
City of Wausau, WI Rev	Aa3	3,609	0.04
Creek Cty ISD #33, OK	AA-	2,920	0.01
FL SBA Rev	AA/Aa3	22,103	0.18
Honolulu City & Cty, HI	Aa3	1,705	0.01
Hudson Cty, NJ Imprv Auth	SP-1+	6,519	0.01
Hudson Cty, NJ Imprv Auth	SP-1+	4,031	0.02
Hurst-Euless-Bedford ISD	AAA	1,009	0.01
Indianapolis, IN LPIBB	AA+/Aaa	3,095	0.00
Kent Cty, MI	SP-1+	2,756	0.02
New York City, NY	AA+/Aa1	14,941	0.37
NYC Transitional Fina Auth	AA+/Aa2	10,158	0.09
NYC Transitional Fina Auth	AAA/Aa1	11,969	0.18
NYC Transitional Fina Auth	AAA/Aa1	14,852	0.29
NYC Transitional Fina Auth	AAA/Aa1	4,987	0.13
Oneida Cty, NY GO	AA-/A1	750	0.00
State of CT	A/A1	6,076	0.02
State of CT	A/A1	15,614	0.17
State of CT	A/A1	1,036	0.02
State of CT	A/A1	1,039	0.03
Town of Oxford, CT	Aa2	1,033	0.01
Town of Oxford, CT	Aa2	1,360	0.03
West Haymarket Jt Pub Agcy, NE	AAA/Aa1	2,219	0.05
Ypsilanti Cmnty Schools, MI	AA	<u>2,412</u>	0.04
Total		<u>183,871</u>	
Total Investment Fair Value		<u>\$ 310,559</u>	
Portfolio Weighted Average Maturity			2.14

The above calculation excludes cash and cash equivalents. As of December 31, 2019, the Authority's weighted average maturity of the portfolio as defined in the Investment Policy including cash and cash equivalents was 1.34 years.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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3. Receivables

Receivables as of December 31, including the applicable allowances for uncollectible accounts, are as follows:

	<u>2020</u>	<u>2019</u>
Trade Receivables, Net		
Trade receivables	\$ 47,435	\$ 40,246
Damage claims receivable	742	699
Allowance for doubtful accounts	<u>(3,513)</u>	<u>(2,703)</u>
Total trade receivables, net	44,664	38,242
Other Receivables		
Interest receivable	1,135	2,034
Due from federal agencies	7,231	2,989
Other	<u>5</u>	<u>11</u>
Total other receivables	<u>8,371</u>	<u>5,034</u>
Total Receivables, Net	<u>\$ 53,035</u>	<u>\$ 43,276</u>



Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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4. Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land other than channel	\$ 112,012	\$ 3,319	\$ (33)	\$ 115,298
Land use rights - intangible	13,328	1,220	1,313	15,861
Channel land	371,975	-	-	371,975
Construction-in-progress	142,276	203,710	(78,059)	267,927
Total capital assets not being depreciated	<u>639,591</u>	<u>208,249</u>	<u>(76,779)</u>	<u>771,061</u>
Capital assets being depreciated				
Buildings	171,953	-	-	171,953
Improvements other than buildings	1,365,016	60,422	-	1,425,438
Railroads	62,140	-	-	62,140
Machinery and equipment	530,850	28,477	(7,815)	551,512
Computer software - intangible	14,934	2,955	-	17,889
Total capital assets being depreciated	<u>2,144,893</u>	<u>91,854</u>	<u>(7,815)</u>	<u>2,228,932</u>
Less accumulated depreciation for				
Buildings	(109,405)	(4,658)	-	(114,063)
Improvements other than buildings	(591,522)	(40,110)	-	(631,632)
Railroads	(41,607)	(1,283)	-	(42,890)
Machinery and equipment	(287,485)	(24,539)	7,633	(304,391)
Computer software - intangible	(12,998)	(1,589)	-	(14,587)
Total accumulated depreciation	<u>(1,043,017)</u>	<u>(72,179)</u>	<u>7,633</u>	<u>(1,107,563)</u>
Total capital assets being depreciated, net	<u>1,101,876</u>	<u>19,675</u>	<u>(182)</u>	<u>1,121,369</u>
Total capital assets, net	<u>\$ 1,741,467</u>	<u>\$ 227,924</u>	<u>\$ (76,961)</u>	<u>\$ 1,892,430</u>

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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4. Capital Assets (continued)

Capital asset activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land other than channel	\$ 108,353	\$ 3,659	\$ -	\$ 112,012
Land use rights - intangible	12,986	342	-	13,328
Channel land	371,597	378	-	371,975
Construction-in-progress	<u>60,050</u>	<u>83,340</u>	<u>(1,114)</u>	<u>142,276</u>
Total capital assets not being depreciated	<u>552,986</u>	<u>87,719</u>	<u>(1,114)</u>	<u>639,591</u>
Capital assets being depreciated				
Buildings	171,679	274	-	171,953
Improvements other than buildings	1,355,763	9,253	-	1,365,016
Railroads	62,140	-	-	62,140
Machinery and equipment	513,906	17,299	(355)	530,850
Computer software - intangible	<u>13,964</u>	<u>970</u>	<u>-</u>	<u>14,934</u>
Total capital assets being depreciated	<u>2,117,452</u>	<u>27,796</u>	<u>(355)</u>	<u>2,144,893</u>
Less accumulated depreciation for				
Buildings	(104,432)	(4,973)	-	(109,405)
Improvements other than buildings	(552,254)	(39,268)	-	(591,522)
Railroads	(40,307)	(1,300)	-	(41,607)
Machinery and equipment	(263,978)	(24,018)	511	(287,485)
Computer software - intangible	<u>(11,851)</u>	<u>(1,147)</u>	<u>-</u>	<u>(12,998)</u>
Total accumulated depreciation	<u>(972,822)</u>	<u>(70,706)</u>	<u>511</u>	<u>(1,043,017)</u>
Total capital assets being depreciated, net	<u>1,144,630</u>	<u>(42,910)</u>	<u>156</u>	<u>1,101,876</u>
Total capital assets, net	<u>\$ 1,697,616</u>	<u>\$ 44,809</u>	<u>\$ (958)</u>	<u>\$ 1,741,467</u>

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Notes to the Financial Statements
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5. Operating Leases

The Authority leases office equipment as lessee under a variety of agreements. Operating lease payments are recorded as expenses during the life of the lease. Rental expenses related to operating leases for the year ended December 31, 2020 and 2019 were \$227 and \$273, respectively. As of December 31, 2020, future minimum rental obligations to be paid by the Authority under noncancelable operating leases are as follows:

<u>Year Ending</u>	<u>Future Minimum Lease Payments</u>
2021	\$ 250
2022	194
2023	17
Total	<u>\$ 461</u>

Additionally, the Authority leases certain assets as lessor to others. These leases pertain to land, buildings and improvements, and cargo handling equipment. As of December 31, 2020, future minimum rentals anticipated to be received by the Authority under the operating leases with initial or remaining noncancelable lease terms in excess of one year are as follows:

<u>Year Ending</u>	<u>Future Minimum Lease Rentals</u>
2021	\$ 32,050
2022	27,834
2023	23,240
2024	18,312
2025	16,989
Thereafter	275,906
Total	<u>\$ 394,331</u>



Port of Houston Authority of Harris County, Texas

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6. Long-Term Debt and Noncurrent Liabilities

The following is a summary of bonds payable and other noncurrent liabilities, and the changes therein, which comprise the Authority's long-term liabilities for the years ended December 31, 2020 and 2019.

Long-term liability activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable					
Unlimited tax bonds	\$ 572,569	\$ 248,965	\$(329,095)	\$ 492,439	\$ 23,005
Accreted interest on capital appreciation bonds	821	214	-	1,035	-
Less unamortized premiums / discounts, net	<u>49,837</u>	<u>50,115</u>	<u>(6,272)</u>	<u>93,680</u>	<u>-</u>
Total Bonds Payable	<u>\$ 623,227</u>	<u>\$ 299,294</u>	<u>\$(335,367)</u>	<u>\$ 587,154</u>	<u>\$ 23,005</u>
Net Pension Liability	<u>\$ 13,001</u>	<u>\$ 5,667</u>	<u>\$ (6,142)</u>	<u>\$ 12,526</u>	<u>\$ -</u>
Other Noncurrent Liabilities					
Compensated absences	7,212	6,584	(5,408)	8,388	5,400 *
Fees received in advance	6,391	5,007	(3,352)	8,046	1,593 *
Claims liability	<u>7,309</u>	<u>1,917</u>	<u>(908)</u>	<u>8,318</u>	<u>809 *</u>
Total Other Noncurrent Liabilities	<u>\$ 20,912</u>	<u>\$ 13,508</u>	<u>\$ (9,668)</u>	<u>\$ 24,752</u>	<u>\$ 7,802</u>

* Included in fees received in advance and other reserves

The Authority's long-term debt consists of Unlimited Tax Refunding Bonds ("General Obligation Bonds"). Repayment of the outstanding principal of these General Obligation Bonds and interest thereon is made solely from property taxes and not from the Authority's general funds. Additional information on property taxes can be found in Note 1.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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6. Long-Term Debt and Noncurrent Liabilities (continued)

Long-term liability activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable					
Unlimited tax bonds	\$ 593,754	\$ -	\$ (21,185)	\$ 572,569	\$ 21,735
Accreted interest on capital appreciation bonds	646	175	-	821	-
Less unamortized premiums / discounts, net	<u>56,063</u>	<u>-</u>	<u>(6,226)</u>	<u>49,837</u>	<u>-</u>
Total Bonds Payable	<u>\$ 650,463</u>	<u>\$ 175</u>	<u>\$ (27,411)</u>	<u>\$ 623,227</u>	<u>\$ 21,735</u>
Net Pension Liability	<u>\$ 5,343</u>	<u>\$ 8,403</u>	<u>\$ (745)</u>	<u>\$ 13,001</u>	<u>\$ -</u>
Net OPEB Liability	<u>\$ 8,884</u>	<u>\$ -</u>	<u>\$ (8,884)</u>	<u>\$ -</u>	<u>\$ -</u>
Other Noncurrent Liabilities					
Compensated absences	6,723	6,305	(5,816)	7,212	5,500 *
Fees received in advance	5,287	3,570	(2,466)	6,391	1,204 *
Claims liability	<u>6,095</u>	<u>1,746</u>	<u>(532)</u>	<u>7,309</u>	<u>313 *</u>
Total Other Noncurrent Liabilities	<u>\$ 18,105</u>	<u>\$ 11,621</u>	<u>\$ (8,814)</u>	<u>\$ 20,912</u>	<u>\$ 7,017</u>

* Included in fees received in advance and other reserves

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6. Long-Term Debt and Noncurrent Liabilities (continued)

Long-term debt is summarized as follows (in thousands):

Outstanding Long-Term Debt				<u>December 31</u>		
	<u>Original Issue</u>	<u>Interest Rate % *</u>	<u>Issue Date</u>	<u>Maturity</u>	<u>2020</u>	<u>2019</u>
General Obligation Bonds						
Unlimited Tax Refunding Bonds						
Series 2010B	\$ 22,930	1.00-5.00	2/17/2010	2026	\$ -	\$ 9,025
Series 2010C	30,254	2.00-5.00	2/3/2010	2038	119	27,079
Series 2010D-1	147,940	5.00	8/19/2010	2035	-	147,940
Series 2010E	22,330	2.00-5.00	8/19/2010	2038	15	20,555
Series 2011A	47,345	1.00-5.00	10/20/2011	2026	3,360	26,085
Series 2015A	62,805	3.125-5.00	8/26/2015	2031	44,020	57,720
Series 2015B	25,905	5.00	8/26/2015	2023	1,600	1,600
Series 2015C	27,260	3.054-5.00	8/26/2015	2026	17,805	20,345
Series 2018A	176,555	3.00-5.00	7/18/2018	2038	176,555	176,555
Series 2020A-1	6,550	5.00	8/12/2020	2026	6,550	-
Series 2020A-2	222,925	3.00-5.00	8/12/2020	2039	222,925	-
Series 2020B	19,490	2.25	8/12/2020	2026	19,490	-
					<u>492,439</u>	<u>486,904</u>
Unamortized premiums / (discounts), net					93,680	45,808
Series 2010C and 2010E CAB Accretion, net					<u>1,035</u>	<u>821</u>
Unlimited Tax Refunding Bonds, net					<u>587,154</u>	<u>533,533</u>
Unlimited Tax Port Improvement Bonds						
Series 2010D-2	85,665	5.00	8/19/2010	2039	-	85,665
Total Unlimited Tax Port Improvement Bonds					-	85,665
Unamortized premiums / (discounts), net					-	4,029
Unlimited Tax Port Improvement Bonds, net					<u>-</u>	<u>89,694</u>
Total Debt					<u>587,154</u>	<u>623,227</u>
Less Current Maturities					<u>(23,005)</u>	<u>(21,735)</u>
Long - Term Debt (net of unamortized premiums / (discounts))					<u>\$ 564,149</u>	<u>\$ 601,492</u>

* Interest rate of original issue

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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6. Long-Term Debt and Noncurrent Liabilities (continued)

Debt Service Requirements

Total debt service requirements for outstanding bonds as of December 31, 2020 are as follows:

<u>Year Ending December 31</u>	<u>Bond Principal</u>	<u>Capital Appreciation Bond</u>	<u>Bond Interest</u>	<u>Total</u>
	<u>General Obligation</u>	<u>Accreted Interest</u>	<u>General Obligation</u>	
2021	\$ 23,005	\$ -	\$ 22,536	\$ 45,541
2022	23,685	-	21,386	45,071
2023	19,615	-	20,303	39,918
2024	19,625	-	19,484	39,109
2025	20,435	-	18,665	39,100
2026-2030	120,505	-	78,361	198,866
2031-2035	133,444	17,976	47,270	198,690
2036-2039	132,125	-	12,743	144,868
	<u>\$ 492,439</u>	<u>\$ 17,976</u>	<u>\$ 240,748</u>	<u>\$ 751,163</u>

General Obligation Bonds

The Authority's cash flows from operations fully support its operating needs and a significant portion of its capital infrastructure investments required for its mandate to maintain the flow of cargo, job creation and positive economic impact for the region. At times, when the projected cash flow is inadequate to fully cover the capital improvement plan, the Authority has obtained approval from voters at bond elections for issuance of unlimited ad valorem tax General Obligation Bonds or unlimited ad valorem tax short-term commercial paper notes to supply the shortfall. At the last bond referendum held in 2007, voters authorized the issuance of \$250 million in General Obligation Bonds.

The proceeds of past General Obligation Bond issuances have been applied towards dredging of the Houston Ship Channel, acquisition of wharf cranes and other major equipment, security and environmental enhancements, and construction of docks, wharves and container facilities. The support of taxpayers, industry partners, and many other stakeholders have made these capital improvements possible. Such investments contribute to the Authority's mandate for economic development.

The following table lists the Authority's bonds outstanding as of December 31, 2020, along with the stated purpose for which the debt was issued:

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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6. Long-Term Debt and Noncurrent Liabilities (continued)

General Obligation Bonds (continued)

Outstanding Bond Issue	Use of Proceeds
Unlimited Tax Refunding Bonds, Series 2010C (Non-AMT)	Refund a portion of the Unlimited Tax Refunding Bonds, Series 2008A (AMT)
Unlimited Tax Refunding Bonds, Series 2010E (Non-AMT)	Refund a portion of the Unlimited Tax Refunding Bonds, Series 2008A (AMT)
Unlimited Tax Refunding Bonds, Series 2011A (AMT)	Refund a portion of the Unlimited Tax Port Improvement Bonds, Series 2001B (AMT)
Unlimited Tax Refunding Bonds, Series 2015A (Tax Exempt Non-AMT)	Refund the Unlimited Tax Port Improvement Bonds, Series 2002A (Non-AMT), Unlimited Tax Refunding Bonds, Series 2005B (Non-AMT), and Unlimited Tax Refunding Bonds, Series 2006C (Non-AMT)
Unlimited Tax Refunding Bonds, Series 2015B (AMT)	Refund the Unlimited Tax Refunding Bonds, Series 2005A (AMT)
Unlimited Tax Refunding Bonds, Series 2015C (Taxable)	Refund the Unlimited Tax Refunding Bonds, Series 2005A (AMT)
Unlimited Tax Refunding Bonds, Series 2018A (AMT)	Refund the Unlimited Tax Refunding Bonds, Series 2006B (AMT), and Unlimited Tax Refunding Bonds, Series 2008A (AMT)
Unlimited Tax Refunding Bonds, Series 2020A1 (Non-AMT)	Refund the Unlimited Tax Refunding Bonds, Series 2010B (Non-AMT)
Unlimited Tax Refunding Bonds, Series 2020A2 (Non-AMT)	Refund a portion of Unlimited Tax Refunding Bonds, Series 2010C (Non-AMT), Unlimited Tax Refunding Bonds, Series 2010D1 (Non-AMT), Unlimited Tax Port Improvement Bonds, Series 2010D2(Non-AMT), and Unlimited Tax Refunding Bonds, Series 2010E (Non-AMT)
Unlimited Tax Refunding Bonds, Series 2020B (Taxable)	Refund the Unlimited Tax Refunding Bonds, Series 2011A (AMT)

Bond Refundings

Bonds generally mature serially based on stated maturity dates. However, bonds may be redeemed prior to their maturities, if so provided for under the applicable bond indenture. At various times the Authority has defeased certain bonds by placing the proceeds of new bonds, together with other available funds, in an irrevocable escrow with a trustee to provide for future debt service on the refunded bonds.

During 2020, the Authority issued Unlimited Tax Refunding Bonds, Series 2020A-1 (NON-AMT) and 2020A-2 (NON-AMT) to current refund \$287,825 par value of bonds outstanding and issued Unlimited Tax Refunding Bonds, Series 2020B (Taxable) to advance refund \$19,535 par value of bonds outstanding. The transaction resulted in net present value debt service savings of \$98,135.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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6. Long-Term Debt and Noncurrent Liabilities (continued)

Bond Refundings (continued)

The table below illustrates the cash flow effect of and the economic gain on the bond refunding during 2020:

<u>Issue</u>	<u>Type of Refunding</u>	<u>Cash Flow Difference</u>	<u>Economic Gain</u>
Series 2020A-1 (NON-AMT)	Current Refunding	\$ (1,064)	\$ 1,044
Series 2020A-2 (NON-AMT)	Current Refunding	(115,792)	95,128
Series 2020B (TAXABLE)	Advanced Refunding	(2,019)	1,963
		<u>\$ (118,875)</u>	<u>\$ 98,135</u>

The Port defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Port's financial statements. At December 31, 2020 and 2019, \$19.5 million and \$0, respectively, of bonds outstanding are considered defeased.

Bond Restrictions

The bond resolutions require that during the period in which the bonds are outstanding, the Authority must create and maintain certain segregated accounts or funds to receive the proceeds from the sale of the bonds and the ad valorem taxes levied and collected. These assets can be used only in accordance with the terms of the bond resolutions to fund the capital costs of enlarging, extending or improving the Authority's facilities or to pay the debt service cost of the related bonds.

Note Purchase Program

In December 2018, the Authority executed a five-year \$100 million senior lien variable rate revolving note purchase program with two financial institutions, to replace its previous \$300 million note program that expired in September 2018 with no borrowings since inception. The new facility provides liquidity for additional opportunities or requirements for capital infrastructure investments. No encumbrances or drawdowns against the new facility have occurred as of December 31, 2020 or 2019.

The Authority may issue either taxable or tax-exempt variable rate notes (the "Notes") in an aggregate principal amount not to exceed \$100 million. To provide security for payment of principal of and interest on the Notes, the Authority has pledged (i) the proceeds from (a) the sale or exchange of other Notes issued for the

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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6. Long-Term Debt and Noncurrent Liabilities (continued)

Note Purchase Program (continued)

purpose of refunding, refinancing, renewing, replacing, or redeeming Notes and (b) the sale of one or more series of obligations by the Authority for the purpose of refunding, refinancing, renewing, or redeeming Notes, assuming voter approval has been obtained in the case of ad valorem tax obligations, and (ii) a first lien on the net revenues of the Authority as provided in the Master Resolution adopted by the Port Commission dated November 13, 2018, as may be amended. Generally, net revenues are calculated as the gross revenues received each month less the amount of operation and maintenance expenses due in such month.

Under the program, the Authority's Notes from direct borrowings related to business-type activities have a termination event. Upon the occurrence of an event of default, the lender may cease purchasing Notes and may terminate the facility. Such events include (i) failure to pay when due any fee or expense payable under the program and such default shall continue for a period of three days after such payment is due; (ii) a final unappealable judgment or order in excess of \$10 million payable from pledged revenues shall be rendered against the Authority and such judgment or order shall continue unsatisfied for a period of sixty (60) days; (iii) default by the Authority in the payment of any Senior Lien Obligations or Junior Lien Obligations when due or within any applicable grace period; or (iv) default by the Authority in the performance or observance of any other of the covenants, agreements or conditions in the Master Resolution or First Supplemental Resolution, the Notes, or the program, and such default continues for a period of 30 days after written notice thereof.

Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the U.S. Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment, if applicable, for each issue every five years. There was no arbitrage rebate liability for tax-exempt debt subject to the Tax Reform Act as of December 31, 2020 and 2019. The estimated liability is updated annually for any tax-exempt issuance or changes in yields until payment of the calculated liability is due.

7. Bayport Facilities

Certain facilities at Bayport were acquired or constructed using the proceeds from the Special Purpose Revenue bonds, Series 1964, and advances from the developer of an adjacent industrial park. The developer also advanced to the Authority amounts necessary to cover bond repayments, and maintenance and operating expenses of these Bayport facilities.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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7. Bayport Facilities (continued)

Effective October 27, 1997, the Authority, the developer, and other operators within the Bayport area ("the Bayport operators") entered into an Agreement of Compromise and Settlement (the "Agreement") that resolved various legal disputes in connection with these arrangements.

Past liabilities under the Agreement were paid in full during fiscal 2012. The Agreement remains in effect with regards to user fees to be paid by the Bayport operators and the Authority, with such funds accumulated by the Authority in order to fund certain future capital expenditures associated with the Bayport Ship Channel.

8. Retirement Plans

Defined Benefit Plan Description

The Authority sponsors the Port of Houston Authority Restated Retirement Plan ("Plan"), a single-employer defined benefit plan covering eligible employees hired prior to August 1, 2012. Employees hired on or after that date are covered by the Port of Houston Authority Defined Contribution Plan. The Plan is a governmental plan not subject to the federal Employee Retirement Income Security Act of 1974, and contributions are solely made by the Authority. The Port Commission maintains the authority to amend the Plan and Plan's investment policy. BBVA USA serves as trustee of the Plan. The Plan issues a stand-alone financial report that is available on the Authority's website and may also be obtained by requesting such report from the Port of Houston Authority, P.O. Box 2562, Houston, TX 77252, Attention: Controller.

Plan participants become vested after completion of five (5) years of employment. Vested employees are eligible to receive benefits upon Normal Retirement, Early Retirement, or Late Retirement (capitalized terms in this paragraph are from the plan documents). The Plan also provides for disability and survivor death benefits. The Normal Retirement Benefit (equal to 2.3% of the Average Monthly Compensation multiplied by the years of benefit service not to exceed 30.435 years) is payable monthly for a minimum of five years certain and for life thereafter, with other payment options available, if an employee retires on the Normal Retirement Date after attaining age 65. The Early Retirement Benefit is available upon completion of 30 years or more of vesting service, attainment of age 62, or when the sum of the employee's age and years of service equals 85 or more and the employee has attained the age of 55 or more. Late Retirement commences when an employee works beyond the Normal Retirement Date. Benefits are adjusted for both Early Retirement and Late Retirement. Vested employees whose employment ends for reasons other than for retirement, disability, or death receive a pension benefit upon reaching the Normal Retirement Date or Early Retirement Date.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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8. Retirement Plans (continued)

Defined Benefit Plan Description (continued)

At July 31, 2020, the measurement date, the following participants were covered by the benefit terms:

	<u>2020</u>	<u>2019</u>
Retirees and beneficiaries receiving payments	560	546
Terminated vested participants not yet receiving benefits	165	170
Disabled participants	4	5
Active participants	318	340
Total	<u>1,047</u>	<u>1,061</u>

Contributions

Contributions to provide benefits under the Plan are made solely by the Authority. The Authority's funding policy adopted on September 14, 1997 prescribes a contribution equal to 100% of the actuarially determined contribution amount as provided by the plan's actuary. The funding policy was revised on July 28, 2015 to allow flexibility to fund the Plan throughout the year for an aggregate amount not to exceed 105% of the amount calculated by the actuary. The policy may be further amended by the Port Commission at its discretion. The implementation of this funding policy and the actuarial assumptions have been designed to provide sufficient funds to pay benefits as they become payable under the Plan.

In accordance with Texas Legislature Senate Bill No. 2224 (SB 2224), the Authority adopted a formal Pension Plan funding policy on December 11, 2019. This funding policy is intended to meet the requirements of SB 2224 and the guidelines set forth by the Texas Pension Review Board. SB 2224 mandates that the governing body of a public retirement system adopt a written funding policy that details the plan to achieve a funded ratio that is equal to or greater than 100%. The provisions in this funding policy cancel and supersede any conflicting provisions previously adopted by the Port Commission relating to funding of the Plan. Contributions by the Authority to the plan were \$10,625 and \$4,658 for the years ended December 31, 2020 and 2019, respectively.

Net Pension Liability

The Authority's net pension liability was measured as of July 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 1, 2019, rolled forward to the measurement date.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
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8. Retirement Plans (continued)

Actuarial assumptions. The total pension liability in the August 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.20%
Investment rate of return	6.25%

Mortality rates were based on the Pri-2012 Mortality for Employees, Healthy Annuitants, and Disabled Annuitants with generational projection per MP-2019.

These actuarial assumptions were based on the results of an actuarial experience study for the period August 1, 2009 – August 1, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future rates of return (expected returns, net of pension plan investment expense) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of arithmetic rates of return for each major asset class included in the Plan's target asset allocation as of July 31, 2020 and 2019 are summarized, respectively, in the following tables:

<u>2020</u>	<u>Target allocation</u>	<u>Long-term expected rate of return*</u>
<u>Asset Class</u>		
Core Fixed Income	40.0 %	2.5 %
High Yield Fixed Income	5.0 %	2.5 %
Large Cap US Equity	20.0 %	7.5 %
Mid Cap US Equity	7.5 %	7.5 %
Small Cap US Equity	10.0 %	7.5 %
Developed Foreign Equities	7.5 %	8.5 %
Real Estate (REITs)	5.0 %	4.5 %
Global Tactical Asset Allocation	5.0 %	5.0 %
Long-term expected (weighted) rate of return:		5.05 %
Actuarial assumed long-term investment rate of return or discount rate:		6.25 %

*Assumed rates of return utilized by the Plan's investment consultant for the 2020 and 2019 fiscal period's allocation.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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8. Retirement Plans (continued)

2019

<u>Asset Class</u>	<u>Target allocation</u>	<u>Long-term expected rate of return*</u>
Core Fixed Income	40.0 %	2.5 %
High Yield Fixed Income	5.0 %	2.5 %
Large Cap US Equity	15.0 %	7.5 %
Mid Cap US Equity	7.5 %	7.5 %
Small Cap US Equity	10.0 %	7.5 %
International Equity	7.5 %	8.5 %
Real Estate (REITs)	5.0 %	4.5 %
Master Limited Partnerships	10.0 %	7.5 %
Long-term expected (weighted) rate of return:		5.17 %
Actuarial assumed long-term investment rate of return or discount rate:		6.50 %

Discount rate. The discount rate used to measure the total pension liability was 6.25 percent and 6.50 percent, for the years ended December 31, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that the Authority's contributions will be made at rates equal to the actuarially determined contribution. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances as of January 1, 2020	\$ 197,409	\$ (184,408)	\$ 13,001
Service cost	3,424	-	3,424
Interest on total pension liability	12,782	-	12,782
Effect of economic/demographic gains or losses	1,000	-	1,000
Effect of assumption changes or inputs	(289)	-	(289)
Benefit payments	(10,549)	10,549	-
Administrative expenses	-	257	257
Expected investment income, net of investment expenses	-	(7,024)	(7,024)
Employer contributions	-	(10,625)	(10,625)
Balances as of December 31, 2020	<u>\$ 203,777</u>	<u>\$ (191,251)</u>	<u>\$ 12,526</u>

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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8. Retirement Plans (continued)

Changes in the Net Pension Liability (continued)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances as of January 1, 2019	189,631	(184,288)	5,343
Service cost	3,321	-	3,321
Interest on total pension liability	12,592	-	12,592
Effect of economic\demographic gains or losses	(1,325)	-	(1,325)
Effect of assumption changes or inputs	3,516	-	3,516
Benefit payments	(10,326)	10,326	-
Administrative expenses	-	243	243
Expected investment income, net of investment expenses	-	(6,031)	(6,031)
Employer contributions	-	(4,658)	(4,658)
Balances as of December 31, 2019	\$ 197,409	\$ (184,408)	\$ 13,001

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability (asset) of the Authority as of December 31, 2020, calculated using the discount rate of 6.25 percent, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.25 percent) or one percentage point higher (7.25 percent) than the current rate:

	1% decrease 5.25%	Current discount rate 6.25%	1% increase 7.25%
Net pension liability (asset)	\$ 36,573	\$ 12,526	\$ (7,840)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability (asset) of the Authority as of December 31, 2019, calculated using the discount rate of 6.50 percent, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

	1% decrease 5.50%	Current discount rate 6.50%	1% increase 7.50%
Net pension liability (asset)	\$ 36,004	\$ 13,001	\$ (6,406)

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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8. Retirement Plans (continued)

Changes in the Net Pension Liability (continued)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Port of Houston Authority Restated Retirement Plan.

Pension Expense and Deferred Outflows / Inflows of Resources

For the years ended December 31, 2020 and 2019, the Authority recognized pension expense of \$8,815 and \$8,380, respectively. At December 31, 2020 and 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred Outflows / Inflows of Resources		
Differences between expected and actual experience	\$ 690	\$ 378
Changes of assumptions	1,040	200
Net difference between projected and actual earnings	6,892	-
Contributions made subsequent to measurement date	2,825	-
Total	\$ 11,447	\$ 578
2019		
Deferred Outflows / Inflows of Resources		
Differences between expected and actual experience	\$ -	\$ 1,296
Changes of assumptions	3,390	730
Net difference between projected and actual earnings	5,340	-
Contributions made subsequent to measurement date	2,400	-
Total	\$ 11,130	\$ 2,026

The \$2,825 reported as deferred outflows of resources resulting from contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	
2021	\$ 2,434
2022	2,334
2023	2,285
2024	991
Total	\$ 8,044

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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8. Retirement Plans (continued)

Defined Contribution Plan Description

In July of 2012, the Port Commission authorized the creation of the Port of Houston Authority Defined Contribution Plan ("DC Plan"). The DC Plan is a single-employer, defined contribution plan covering a single class of members, namely, all permanent, full-time employees of the Authority hired on or after August 1, 2012.

The Authority manages the operation and administration of the DC Plan, with third party custody, recordkeeping and other administrative services provided by Nationwide Retirement Solutions. The Authority's Chief Operating Officer serves as trustee. The Port Commission maintains the authority to terminate the DC Plan or amend its provisions, including revisions in contribution requirements and investment alternatives offered to employees.

The DC Plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code and all contributions are tax-deferred until time of withdrawal. Under the provisions of the DC Plan, employees do not contribute to the DC Plan and are not permitted to rollover any distributions from other qualified plans or individual retirement accounts to the DC Plan. The Authority, as Plan Sponsor, may make employer contributions to the DC Plan at its discretion.

The Authority revised contributions to an employee's account on May 1, 2020 based on a percentage of base salary:

<u>Years of Service</u>	<u>% Contribution by the Authority</u>
0 to 5	6.0%
Greater than 5 up to 10	6.5%
Greater than 10 up to 15	7.0%
Greater than 15 up to 20	7.5%
Greater than 20	8.0%

Effective May 1, 2020, DC Plan benefits are to be paid to employees with at least three years of service, or to their beneficiaries. Contributions on behalf of each employee are invested in accordance with the employee's instructions, entirely in one fund or in any combination of the investment options offered. Individual accounts are maintained for each DC Plan participant. If applicable, each employee's account is credited with the Authority's contribution and account investment earnings and charged with withdrawals and account investment losses. The Authority funds administrative expenses associated with the DC Plan from its general fund.

The DC Plan does not issue stand-alone financial reports; therefore, the Authority includes the DC Plan Net Position in the fiduciary fund statements, as a fiduciary activity under GASB 84.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
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8. Retirement Plans (continued)

Defined Contribution Plan Description (continued)

The DC Plan's assets, contributions and participants as of the last two fiscal years are as follows:

	<u>July 31, 2020</u>	<u>July 31, 2019</u>
Total assets	\$ 4,236	\$ 2,840
Contributions during the year	1,074	721
Number of participants	378	334

9. Postemployment Retiree Benefits

Plan Description

In addition to retirement benefits as described in Note 8, it is the current policy of the Authority to provide certain postemployment health and welfare benefits ("OPEB") to eligible retired employees and their dependents (the "OPEB Plan"). This is a single-employer defined benefit plan administered by an irrevocable trust and the Port Commission is responsible for the administration of the trust and for the investment of the trust's assets. Historically the Authority funded all premiums for retiree life insurance and the majority of health insurance premiums, but as of August 2020 these costs are being paid from the OPEB trust fund. Notwithstanding any accounting and financial reporting characterization herein, continuation of these benefits and the Authority's contributions to the trust are dependent on the continued authorization of the Port Authority's current OPEB Plan by the Port Commission.

The OPEB Plan does not issue stand-alone financial reports, but the Authority includes the OPEB Plan Net Position in the fiduciary fund statements and presents the Net OPEB Asset in the noncurrent asset section of the Statements of Net Position.

The health insurance benefits provided to pre-Medicare retirees are the same as those offered to active employees. In addition, Medicare-eligible retirees have the option of enrolling in Medicare Risk plans offered by the Authority or in limited circumstances securing their own insurance and receiving a monthly reimbursement from the Authority towards the cost. The supplied benefits include hospital, doctor, and prescription drug charges.

Basic life insurance coverage provided to retirees is based upon the retirees' annual compensation at retirement and is valued at a flat \$5, \$10 or \$15.

Effective January 1, 2010, new hires become eligible for postemployment benefits

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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9. Postemployment Retiree Benefits (continued)

Plan Description (continued)

after completion of twelve years of employment and upon retirement from the Authority. Employees hired prior to that date who reach their Early or Normal Retirement date and retire from the Authority are eligible for postemployment benefits. An eligible employee may also elect coverage for his or her eligible dependents, provided that such election is made at the time of the employee's retirement and not thereafter.

Disabled employees are covered in the Port of Houston Authority Group Health Plan from the date of disability.

The widow/widower of a retiree who has health care coverage through the Authority may in most instances continue coverage upon the death of the retiree.

At December 31, 2020 and 2019, the following participants were covered by the benefit terms:

Actives	644
Retired and disabled members	319
Covered spouses of retirees	209
	<hr/>
	1,172

Funding Policy

Historically, the Authority's OPEB contribution has been based on a projected pay-as-you-go basis. For the years ended December 31, 2020 and 2019, the cost of retiree health benefits, recorded on a pay-as-you-go basis was \$1,218 and \$2,265, respectively. Retiree life-benefit costs for 2020 and 2019 were \$114 and \$139, respectively. As of August 2020, these costs are being paid from the OPEB trust fund.

The Commission approved a revised funding policy that allows flexibility to fund the OPEB trust throughout the year for an aggregate amount not to exceed 105% of the annually required contribution amount ("ARC") as calculated by the Authority's actuary. The policy may be further amended by the Commission at its discretion.

The Commission is responsible for administration of the OPEB Trust and for the investment of the Trust's assets. The Commission is authorized to retain professional consultants and investment managers to assist in the investment of the Trust's assets. The Commission also establishes investment guidelines and evaluates investment manager performance. The OPEB trust investment policy may be amended by the

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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9. Postemployment Retiree Benefits (continued)

Funding Policy (continued)

Commission by a majority vote of its members.

Investment Valuation and Income Recognition

Investments are stated at fair value. If available, quoted market prices are used to value investments. In the case of any unlisted asset, the trustee will determine the market value utilizing pricing obtained from independent pricing services. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net OPEB Liability/(Asset)

The Authority's net OPEB liability (asset) was measured as of December 31, 2020 and 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by actuarial valuation as of January 1, 2020 and 2019, respectively, rolled forward to the measurement date.

The following table shows the components of the Authority's total OPEB liability, fiduciary net position and net OPEB Asset at December 31, 2020 and 2019.

	2020	2019
Total OPEB liability	\$ 65,502	\$ 70,757
Fiduciary net position	95,148	82,262
Net OPEB (asset)	(29,646)	(11,505)
Fiduciary net position as a % of total OPEB liability	145.26 %	116.26 %
Covered payroll	49,778	49,778
Net OPEB (asset) as a % of covered payroll	(59.56)%	(23.11)%

The total OPEB liability in the January 1, 2020 and 2019 actuarial valuation was determined using the following actuarial assumptions. There have been no significant changes between the valuation date and the fiscal year end.

Discount Rate

	2020	2019
Discount rate	6.25 %	6.50 %
Long-term expected rate of return, net of investment expense	6.25 %	6.50 %

The OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
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9. Postemployment Retiree Benefits (continued)

Net OPEB Liability/(Asset) (continued)

long-term expected rate of return.

The actuarial assumptions that determined the total OPEB liability as of December 31, 2020 and 2019 were based on the results of an actuarial experience study for the period August 1, 2014 - August 1, 2019 and August 1, 2007 - August 1, 2012, respectively.

Valuation date	January 1, 2019	January 1, 2019
Measurement date	December 31, 2020	December 31, 2019
Inflation	2.20%	2.20%
Salary increases including inflation	Age based	Age based
Mortality	Pri-2012 Mortality for Employees, Healthy Annuitants, and Disabled Annuitants with generational projection per Scale MP-2019	RP-2006 Mortality for Employees, Healthy Annuitants, and Disabled Annuitants with generational projection per Scale MP-2018
Actuarial cost method	Entry Age Normal	Entry Age Normal

The health care cost trend rate used for the 2020 annual OPEB expense was 4.30% climbing to 5.10% before trending down to 4.00% (pre-Medicare) and 8.00% trending down to 4.50% (post-Medicare) over 55 years. The health care cost trend rate used for the 2020 year end valuation of total and net OPEB asset was 4.30% climbing to 5.10% before trending down to 3.80% (pre-Medicare) and 5.40% trending down to 3.80% (post-Medicare) over 55 years.

The health care cost trend rate used for the 2019 annual OPEB expense was 3.90% climbing to 7.90% before trending down to 4.00% (pre-Medicare) and 12.00% trending down to 4.50% (post-Medicare) over 55 years. The health care cost trend rate used for the 2019 year end valuation of total and net OPEB asset was 3.90% climbing to 5.10% before trending down to 3.80% (pre-Medicare) and 12.00% trending down to 3.80% (post-Medicare) over 55 years.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

9. Postemployment Retiree Benefits (continued)

Annual Money-Weighted Rate of Return

For the year ended December 31, 2020 and 2019, the annual money-weighted rate of return on the OPEB trust investments, net of investment expense, was 11.98% and 16.61% respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. The following table shows the money-weighted rate of return since the inception.

Fiscal Year Ending December 31	Net Money- Weighted Rate of Return
2016	10.50%
2017	10.90%
2018	-5.80%
2019	16.61%
2020	11.98%

Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of June 30, 2020 and 2019, respectively, and are based on a 20-year investment horizon.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

9. Postemployment Retiree Benefits (continued)

Long-Term Expected Rate of Return (continued)

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
US Long Bonds	Barclays LT Gvt/Credit	20.00 %	2.45 %	1.98 %
US Gvt Bonds	Barclays Gvt	20.00 %	1.34 %	1.21 %
Emerging Markets Bonds	JPM EMBI Plus	5.00 %	3.48 %	2.54 %
US Large Caps	S&P 500	15.00 %	4.29 %	3.13 %
US Large & Mid Caps	Russell 1000	7.50 %	4.49 %	3.27 %
US Small Caps	Russell 2000	10.00 %	5.50 %	3.62 %
Foreign Developed Equity	MSCI EAFE NR	7.50 %	5.50 %	3.91 %
US REITs	FTSE NAREIT Equity REIT	5.00 %	5.01 %	3.27 %
Master Limited Partnerships	Alerian MLP	10.00 %	4.18 %	2.83 %
Assumed Inflation - Mean			2.20 %	2.20 %
Assumed Inflation - Standard Deviation			2.02 %	2.02 %
Portfolio Real Mean Return			3.40 %	2.98 %
Portfolio Nominal Mean Return			5.61 %	5.24 %
Portfolio Standard Deviation				9.08 %
Long-Term Expected Rate of Return				6.25 %

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

9. Postemployment Retiree Benefits (continued)

Long-Term Expected Rate of Return (continued)

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
US Long Bonds	Barclays LT Gvt/Credit	20.00 %	2.45 %	1.98 %
US Gvt Bonds	Barclays Gvt	20.00 %	1.34 %	1.21 %
Emerging Markets Bonds	JPM EMBI Plus	5.00 %	3.48 %	2.54 %
US Large Caps	S&P 500	15.00 %	4.29 %	3.13 %
US Large & Mid Caps	Russell 1000	7.50 %	4.49 %	3.27 %
US Small Caps	Russell 2000	10.00 %	5.50 %	3.62 %
Foreign Developed Equity	MSCI EAFE NR	7.50 %	5.50 %	3.91 %
US REITs	FTSE NAREIT Equity REIT	5.00 %	5.01	3.27
Master Limited Partnerships	Alerian MLP	10.00 %	4.18 %	2.83 %
Assumed Inflation - Mean			2.20 %	2.20 %
Assumed Inflation - Standard Deviation			1.65 %	1.65 %
Portfolio Real Mean Return			3.43 %	3.07 %
Portfolio Nominal Mean Return			5.65 %	5.34 %
Portfolio Standard Deviation				8.32 %
Long-Term Expected Rate of Return				6.50 %

Sensitivity Analysis

The following presents the net OPEB asset of the Authority as of December 31, 2020, calculated using the discount rate of 6.25%, as well as what the Authority's net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (5.25%) or one percentage point higher (7.25%) than the current rate.

	<u>1% Decrease 5.25%</u>	<u>Current Discount Rate 6.25%</u>	<u>1% Increase 7.25%</u>
Net OPEB asset	\$ (20,818)	\$ (29,646)	\$ (36,917)

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

9. Postemployment Retiree Benefits (continued)

Sensitivity Analysis (continued)

The following presents the net OPEB asset of the Authority as of December 31, 2019, calculated using the discount rate of 6.50%, as well as what the Authority's net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	5.50%	6.50%	7.50%
Net OPEB asset	\$ (2,009)	\$ (11,505)	\$ (19,308)

The following presents the net OPEB asset of the Authority as of December 31, 2020, calculated using the current healthcare cost trend rates as well as what the Authority's net OPEB asset would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current trend rates.

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB asset	\$ (38,718)	\$ (29,646)	\$ (18,196)

The following presents the net OPEB asset of the Authority as of December 31, 2019, calculated using the current healthcare cost trend rates as well as what the Authority's net OPEB asset would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current trend rates.

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB asset	\$ (20,516)	\$ (11,505)	\$ (281)

OPEB Expense and Deferred Inflows of Resources

For the year ended December 31, 2020, the Authority recognized OPEB expense of (\$956). At December 31, 2020, the Authority reported deferred inflows of resources from the following sources:

	Deferred Inflows of Resources
Differences between expected and actual experience	\$ (5,317)
Changes of assumption	(10,013)
Net difference between projected and actual earnings	(4,363)
Total	\$ (19,693)

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

9. Postemployment Retiree Benefits (continued)

OPEB Expense and Deferred Inflows of Resources (continued)

For the year ended December 31, 2019, the Authority recognized OPEB expense of \$2,774. At December 31, 2019, the Authority reported deferred inflows of resources from the following sources:

	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ (6,381)
Changes of assumption	(1,207)
Net difference between projected and actual earnings	<u>(351)</u>
Total	<u>\$ (7,939)</u>

Amounts reported as deferred inflows of resources related to OPEB as of December 31, 2020 will be recognized in OPEB expenses as follows:

Year ending: December 31	
2021	\$ (3,517)
2022	(3,517)
2023	(5,207)
2024	(3,852)
2025	(2,933)
Thereafter	<u>(667)</u>
Total	<u>\$ (19,693)</u>

Changes in Net OPEB Liability/(Asset)

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability/(Asset)</u>
Balances as of January 1, 2020	\$ 70,757	\$ 82,262	\$ (11,505)
Service cost	3,212	-	3,212
Effect of assumptions changes or inputs	(10,675)	-	(10,675)
Interest on total OPEB liability	4,727	-	4,727
Benefit payments	(2,519)	(2,519)	-
Employer contributions	-	5,431	(5,431)
Expected net investment income	-	5,438	(5,438)
Investment gains or losses	-	4,597	(4,597)
Administrative expense	-	(61)	61
Balances as of December 31, 2020	<u>\$ 65,502</u>	<u>\$ 95,148</u>	<u>\$ (29,646)</u>

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

9. Postemployment Retiree Benefits (continued)

Changes in Net OPEB Liability/(Asset) (continued)

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balances as of January 1, 2019	\$ 74,848	\$ 65,964	\$ 8,884
Service cost	3,080	-	3,080
Effect of economic/demographic gains or losses	(7,445)	-	(7,445)
Effect of assumptions changes or inputs	(1,408)	-	(1,408)
Interest on total OPEB liability	5,145	-	5,145
Benefit payments	(3,463)	(3,463)	-
Employer contributions	-	8,463	(8,463)
Expected net investment income	-	4,615	(4,615)
Investment gains or losses	-	6,776	(6,776)
Administrative expense	-	(93)	93
Balances as of December 31, 2019	<u>\$ 70,757</u>	<u>\$ 82,262</u>	<u>\$ (11,505)</u>

10. Risk Management

The Authority is exposed to risk of financial loss from property and casualty exposures. Property exposures include potential losses due to fire, windstorm, and other perils that could damage or destroy assets and result in loss of income should specific assets be shut down for an extended period of time. Casualty exposures include potential losses resulting from third-party claims for bodily injury and/or property damage arising from the Authority's operations and/or ownership of its assets, as well as workers' compensation claims. These potential exposures are managed by both commercial and self-insurance.

Effective March 1, 2010, the Authority began self-insuring certain risks; the Authority's current self-insured retention (SIR) limit is \$350 for Liability claims and \$500 for Workers' Compensation claims; Police and Fire is \$750. The Authority has unlimited excess coverage for any workers' compensation claim that exceeds its SIR. The balance of claim liabilities at December 31, 2020 and 2019 was \$8,318 and \$7,309, respectively.

Plan Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2019	\$ 6,095	\$ 1,746	\$ (532)	\$ 7,309
2020	\$ 7,309	\$ 1,917	\$ (908)	\$ 8,318

The Texas Tort Claims Act limits the liability of monetary damages for any single occurrence involving certain circumstances. These limits cap the Authority's liability

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

10. Risk Management (continued)

at \$100 maximum per person for bodily injury or death per occurrence; \$300 maximum for all persons for bodily injury or death per occurrence; and \$100 maximum for property damage per occurrence.

These claim liabilities include an estimate for incurred but not reported and allocated claims-adjustment expenses and assessment of loss development factors, trend rates, and loss costs. The liability is included in the other noncurrent liabilities of the Statements of Net Position.

Claims liability is based on the requirements of GASB Statement No. 10, *"Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,"* which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Such liability is based upon actual reserves and is not considered material.

11. Commitments and Contingencies

Commitments

At December 31, 2020 and 2019, the Authority had commitments of approximately \$61,585 and \$88,099, respectively, for supplies, services, and the purchase of equipment and the expansion of facilities.

Litigation and Claims

The Authority is a defendant in various legal actions, and may become involved in other disputes arising in the normal course of business; it cannot predict the results of such matters. However, based on consultation with outside counsel, the Authority generally believes the outcome of such matters will not materially affect its financial position, except that it cannot reach such conclusion at this time regarding the matters described below.

The Authority is defending and indemnifying named Authority employee defendants in an action brought by Stan Kozlowski, Jason Hall, Mike Stallings, Jason Roberts, Justin Meador, and Kyle Jordan (collectively, "Plaintiffs"). Plaintiffs allege that they were unlawfully suspended and terminated from positions at the Authority in violation of Plaintiffs' rights to free speech and free association under 42 U.S.C. § 1983 and in violation of Texas Labor Code §§101.001, 101.052, and 101.301 and Texas Government Code Chapter 614 and §617.004. Plaintiffs seek compensatory damages in an unspecified amount for past and future lost wages, reputational harm,

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

11. Commitments and Contingencies (continued)

Litigation and Claims (continued)

mental and emotional distress, anxiety, and all other general damages, plus additional amounts for attorneys' fees, expert witness fees, interest, costs, and punitive damages. Plaintiffs further seek a declaratory judgment regarding the alleged violations of law, and injunctive relief undoing the adverse actions taken against Plaintiffs.

The Authority has filed an answer disputing Plaintiffs' claims. The action is set for trial docket call on February 11, 2022. The Authority intends to vigorously contest this matter; however, it has not reached any judgment as to the likely outcome or the range of potential loss in this litigation.

Trans-Global Solutions, Inc. ("TGS") has asserted claims against the Authority stemming from delays TGS claims to have incurred in connection with its December 2014 contract for the construction of a container yard at the Authority's Bayport Terminal. TGS has claimed damages in the amount of \$6,873. The Authority does not intend to pay the amount sought by TGS and intends to vigorously contest TGS's claims; however, it has not reached any judgment as to the likely outcome or the range of potential loss in the event of litigation.

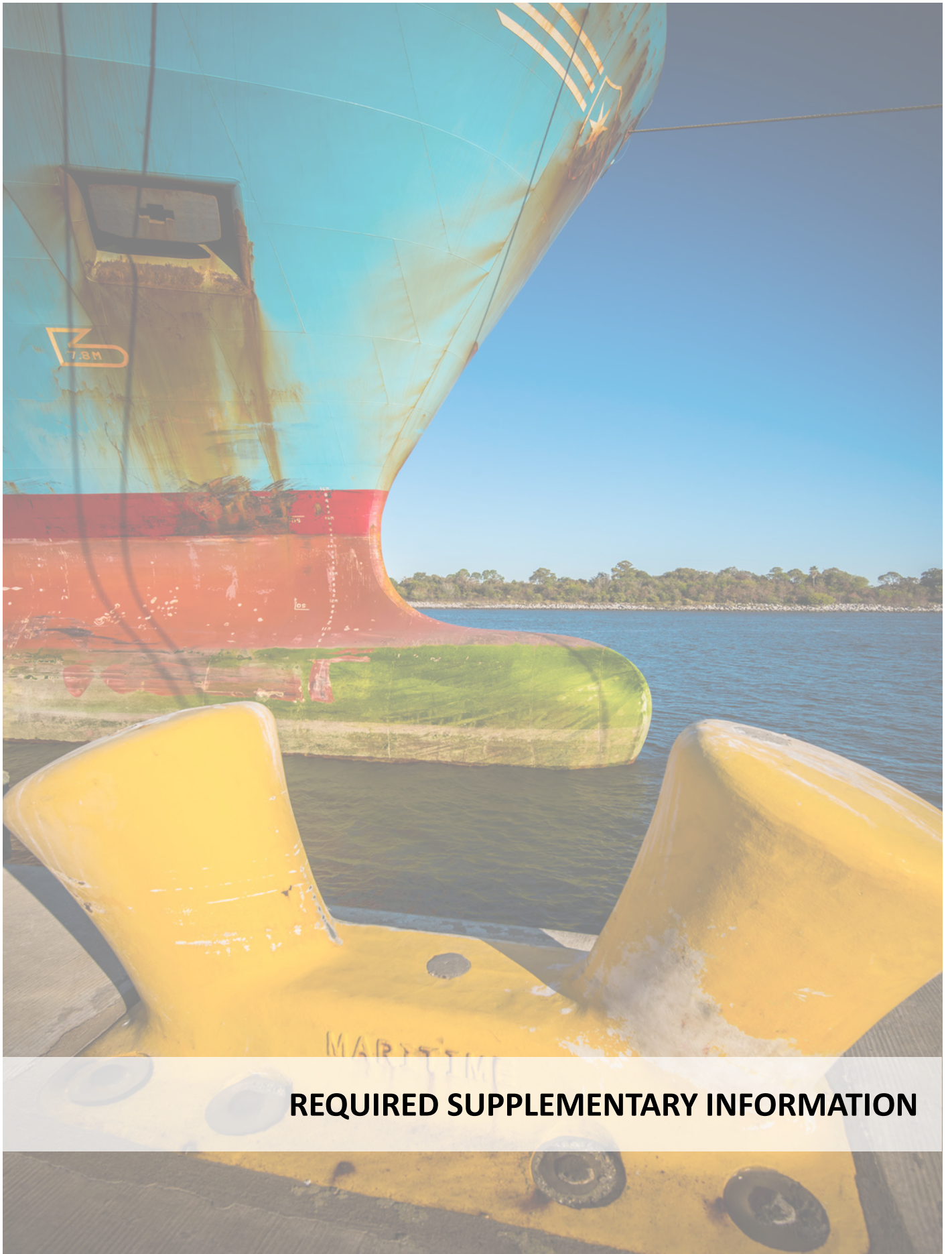
12. Tax Abatement

GASB Statement 77, "*Tax Abatement Disclosures*," defines a tax abatement as a reduction in tax revenues resulting from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forego tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement was entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The Authority is subject to tax abatements granted by Harris County under the Economic Development Opportunity Act ("EDOA").

For years ending 2020 and 2019, Harris County's gross tax and abated values were \$463,434, \$144,588, and \$1,027,960, \$110,054, respectively. Therefore, under agreements entered into by Harris County, the Authority's property tax revenues were reduced by \$14 in 2020 and \$12 in 2019.





REQUIRED SUPPLEMENTARY INFORMATION



Port of Houston Authority of Harris County, Texas
Required Supplementary Information

Port of Houston Authority Restated Retirement Plan
Schedule of Changes in Net Pension Liability and Related Ratios
Last Seven Years
in thousands
(unaudited)

	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability:							
Service cost	3,424	3,321	3,402	3,198	3,229	3,186	3,425
Interest on total pension liability	12,782	12,592	12,454	12,251	11,883	10,940	10,724
Effect of economic/demographic gains or losses	1,000	(1,325)	(1,207)	(116)	(695)	(1,278)	-
Effects of assumption changes or inputs	(289)	3,516	(2,203)	5,012	-	9,569	-
Benefit payments	(10,549)	(10,326)	(10,085)	(9,858)	(9,552)	(9,590)	(9,509)
Net change in total pension liability	6,368	7,778	2,361	10,487	4,865	12,827	4,640
Total pension liability - beginning	197,409	189,631	187,270	176,783	171,918	159,091	154,451
Total pension liability - ending (a)	203,777	197,409	189,631	187,270	176,783	171,918	159,091
Fiduciary net position:							
Employer contributions*	10,625	4,658	5,257	9,600	4,500	4,094	8,282
Investment income net of investment expenses**	7,024	6,031	12,378	14,220	1,741	7,786	14,825
Benefit payments	(10,549)	(10,326)	(10,085)	(9,858)	(9,552)	(9,590)	(9,509)
Administrative expenses	(257)	(243)	(255)	(280)	(235)	(249)	(237)
Net change in fiduciary net position	6,843	120	7,295	13,682	(3,546)	2,041	13,361
Fiduciary net position, beginning	184,408	184,288	176,993	163,311	166,857	164,816	151,455
Fiduciary net position, ending (b)	191,251	184,408	184,288	176,993	163,311	166,857	164,816
Net pension liability (asset), ending = (a) - (b)	12,526	13,001	5,343	10,277	13,472	5,061	(5,725)
Fiduciary net position as a % of total pension liability	93.85 %	93.41 %	97.18 %	94.51 %	92.38 %	97.06 %	103.60 %
Covered Payroll	29,925	29,889	29,960	30,210	30,412	31,377	33,690
Net pension liability (asset) as a % of covered payroll	41.86 %	43.50 %	17.83 %	34.02 %	44.30 %	16.13 %	(16.99)%

* The increase in employer contributions from 2019 to 2020 is due primarily to additional funding of \$5.0 million authorized by the Port Commission.

* The increase in employer contributions from 2016 to 2017 is due primarily to additional funding of \$4.0 million authorized by the Port Commission to partially offset the increase in the Plan's unfunded actuarial accrued liability resulting from a reduction of the actuarial assumption rate from 7.00% to 6.75%.

** 2016 is lower primarily due to domestic and global market conditions. This included issues related to China's economy, declining oil prices as a result of OPEC's abandonment of its production ceiling, a weakening dollar and the Federal Reserve's reluctance to raise the fed funds rate.

Per GASB 68, until a 10-year trend is compiled, pension plans may present information for those years for which information available; information is not available under the GASB 68 methodologies for the fiscal years prior to 2014.

Port of Houston Authority of Harris County, Texas
Required Supplementary Information

Port of Houston Authority Restated Retirement Plan
Schedule of Port Authority Contributions

Last Ten Fiscal Years
in thousands
(unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ 5,374	\$ 4,437	\$ 5,007	\$ 5,153	\$ 4,481	\$ 4,094	\$ 5,278	\$ 9,870	\$ 8,133	\$ 10,809
Contributions in relation to the actuarially determined contribution	10,625	4,658	5,257	9,600	4,500	4,094	8,282	9,870	8,133	10,809
Contribution deficiency (excess)	<u>\$ (5,251)</u>	<u>\$ (221)</u>	<u>\$ (250)</u>	<u>\$ (4,447)</u>	<u>\$ (19)</u>	<u>\$ -</u>	<u>\$ (3,004)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 27,419	\$ 29,889	\$ 29,960	\$ 30,210	\$ 30,412	\$ 31,377	\$ 33,690	\$ 35,082	\$ 35,571	\$ 34,939
Contributions as a percentage of covered payroll	38.75 %	15.58 %	17.55 %	31.78 %	14.80 %	13.05 %	24.59 %	28.14 %	22.86 %	30.94 %

Notes to Schedule:

Valuation timing	Actuarially determined contribution rates are calculated as of July 31 of the fiscal year in which the contributions are reported
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	1 year at July 31, 2020, resulting from a net pension liability of \$12,526
Asset valuation method	Market value
Inflation	2.20%
Salary Increases	Graded from 7.5% at age 20 to 3.0% at age 60
Investment rate of return	6.25%
Cost of living adjustments	None
Retirement age	Ranging from 5% at age 55 to 100% at age 70
Turnover	Rates from most recent assumption study performed July 28, 2020
Mortality	Pri-2012 Mortality for Employees, Healthy Annuitants and Disabled Annuitants with generational projection per MP-2019

The table was updated to reflect current actuarial assumptions used.

Port of Houston Authority of Harris County, Texas
Required Supplementary Information

Port of Houston Authority OPEB Plan
Schedule of Annual Money-Weighted Rate of Return
(unaudited)

Fiscal Year Ending December 31,	Net Money- Weighted Rate of Return
2016	10.50 %
2017	10.90 %
2018	(5.80)%
2019	16.61 %
2020	11.98 %

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

Port of Houston Authority of Harris County, Texas
Required Supplementary Information

Port of Houston Authority OPEB Plan
Schedule of Changes in Net OPEB Liability and Related Ratios
Fiscal Year Ending December 31,
in thousands
(unaudited)

	2020	2019	2018	2017
Total OPEB Liability				
Service cost	\$ 3,212	\$ 3,081	\$ 3,289	\$ 3,081
Interest on total OPEB liability	4,727	5,145	4,864	4,593
Effect of economic/demographic (gains) or losses	-	(7,445)	-	-
Effect of assumption changes or inputs	(10,675)	(1,408)	-	-
Benefit payments	(2,519)	(3,464)	(4,084)	(3,654)
Net change in total OPEB liability	(5,255)	(4,091)	4,069	4,020
Total OPEB liability - beginning	70,757	74,848	70,779	66,759
Total OPEB liability - ending (a)	65,502	70,757	74,848	70,779
Fiduciary Net Position				
Employer contributions	5,431	8,464	9,484	9,454
Net investment (loss) income	10,035	11,391	(3,915)	5,714
Benefit payments	(2,519)	(3,464)	(4,084)	(3,655)
Administrative expense	(61)	(93)	(100)	-
Net change in plan fiduciary net position	12,886	16,298	1,385	11,513
Fiduciary net position - beginning	82,262	65,964	64,579	53,066
Fiduciary net position - ending (b)	95,148	82,262	65,964	64,579
Net OPEB liability/(asset) ending (a) - (b)	\$ (29,646)	\$ (11,505)	\$ 8,884	\$ 6,200
Fiduciary net position as a % of total OPEB liability	145.26 %	116.26 %	88.13 %	91.24 %
Covered payroll	\$ 49,778	\$ 49,778	\$ 40,287	\$ 40,287
Net OPEB liability/(asset) as a % of covered payroll	(59.56)%	(23.11)%	22.05 %	15.39 %

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

Port of Houston Authority of Harris County, Texas
Required Supplementary Information

Port of Houston Authority OPEB Plan
Schedule of Actuarially Determined Contributions
Last Ten Fiscal Years
in thousands
(unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution*	\$ 3,494	\$ 3,324	\$ 4,384	\$ 5,402	\$ 5,798	\$ 5,537	\$ 6,568	\$ 6,909	\$ 7,913	\$ 8,115
Contributions in relation to the actuarially determined contribution	5,431	8,464	9,484	9,454	8,772	11,203	11,363	11,226	10,776	10,536
Contribution deficiency (excess)	\$ (1,937)	\$ (5,140)	\$ (5,100)	\$ (4,052)	\$ (2,974)	\$ (5,666)	\$ (4,795)	\$ (4,317)	\$ (2,863)	\$ (2,421)
Covered payroll	\$ 49,778	\$ 49,778	\$ 40,287	\$ 40,287	\$ 38,907	\$ 38,907	\$ 33,690	\$ 34,615	\$ 34,939	\$ 34,939
Contributions as a percentage of covered payroll	10.91 %	17.00 %	23.54 %	23.47 %	22.55 %	28.79 %	33.73 %	32.43 %	30.84 %	30.16 %

Notes to Schedule

Valuation timing	Actuarial valuations for funding purposes are performed biennially as of January 1. The most recent valuation was performed as of January 1, 2019
Actuarial cost method	Entry Age Normal
Amortization method	
Level percent or level dollar	Level dollar
Closed, open, or layered periods	Open
Amortization period at January 1, 2019	10 years
Asset valuation method	Market Value
Inflation	2.20%
Salary Increases	Age based
Discount Rate	6.25%
Healthcare Cost Trend Rates	5.40% for 2020, gradually decreasing to an ultimate rate of 3.8%
Mortality	Pri-2012 Mortality for Employees, Healthy Annuitants, and Disabled Annuitants with generational projection per Scale MP-2019

* Annual required contributions for 2017 and prior years are under GASB 45. Subsequent contributions are under GASB 74 and 75.





SUPPLEMENTARY INFORMATION



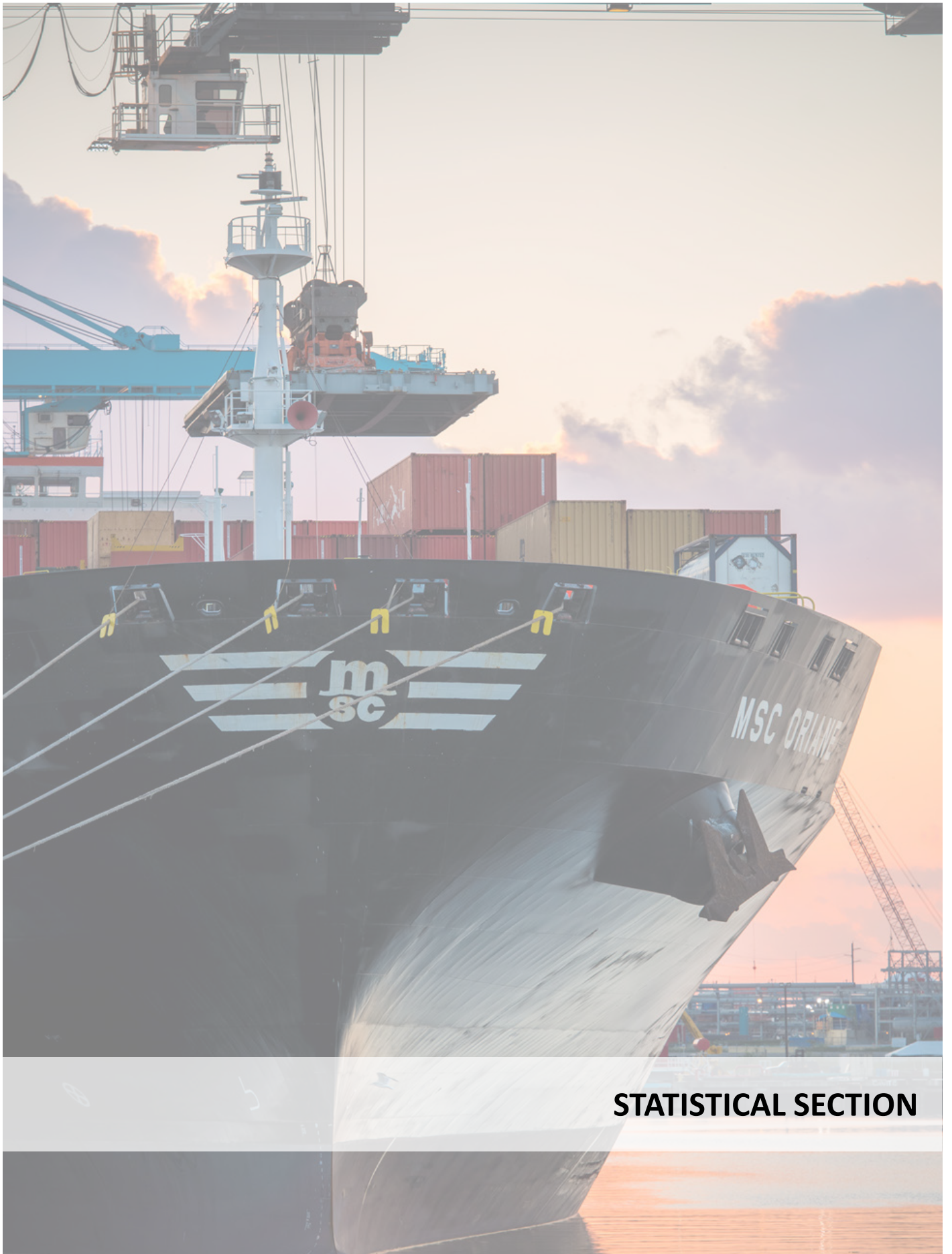
Port of Houston Authority of Harris County, Texas
Combining Statements of Fiduciary Net Position
As of December 31, 2020 and 2019
(in thousands)

	<u>Defined Contribution 7/31/2020</u>	<u>Pension 7/31/2020</u>	<u>OPEB 12/31/2020</u>	<u>Total</u>	<u>Defined Contribution 7/31/2019</u>	<u>Pension 7/31/2019</u>	<u>OPEB 12/31/2019</u>	<u>Total</u>
Assets								
Cash and cash equivalents	\$ 45	\$ 1,129	\$ 1,846	\$ 3,020	\$ 9	\$ 2,730	\$ 860	\$ 3,599
Investment Securities								
Domestic Equity	371	78,561	36,717	115,649	253	84,926	35,712	120,891
International Equity	64	16,214	11,016	27,294	40	15,145	8,511	23,696
Fixed Income	38	89,819	41,058	130,915	21	81,051	36,970	118,042
Balanced Funds *	3,718	4,981	4,739	13,438	2,517	-	-	2,517
Accrued Investment Income	-	599	(228)	371	-	612	209	821
Total Assets	<u>4,236</u>	<u>191,303</u>	<u>95,148</u>	<u>290,687</u>	<u>2,840</u>	<u>184,464</u>	<u>82,262</u>	<u>269,566</u>
Liabilities								
Investment Expenses	-	52	-	52	-	56	-	56
Total Liabilities	<u>-</u>	<u>52</u>	<u>-</u>	<u>52</u>	<u>-</u>	<u>56</u>	<u>-</u>	<u>56</u>
Assets held in trust	<u>\$ 4,236</u>	<u>\$ 191,251</u>	<u>\$ 95,148</u>	<u>\$ 290,635</u>	<u>\$ 2,840</u>	<u>\$ 184,408</u>	<u>\$ 82,262</u>	<u>\$ 269,510</u>

* Mutual funds that include both equity and fixed income securities

Port of Houston Authority of Harris County, Texas
Combining Statements of Changes in Fiduciary Net Position
As of December 31, 2020 and 2019
(in thousands)

	Defined Contribution 7/31/2020	Pension 7/31/2020	OPEB 12/31/2020	Total	Defined Contribution 7/31/2019	Pension 7/31/2019	OPEB 12/31/2019	Total
Additions :								
Employer contributions	\$ 1,074	\$ 10,625	\$ 5,431	\$ 17,130	\$ 721	\$ 4,658	\$ 5,000	\$ 10,379
Net Investment Income	450	7,024	10,035	17,509	(179)	6,031	11,391	17,243
Total additions	<u>1,524</u>	<u>17,649</u>	<u>15,466</u>	<u>34,639</u>	<u>542</u>	<u>10,689</u>	<u>16,391</u>	<u>27,622</u>
Deductions:								
Benefits payments and withdrawals	(128)	(10,549)	(2,519)	(13,196)	(168)	(10,326)	-	(10,494)
Administrative Expenses	<u>(128)</u>	<u>(257)</u>	<u>(61)</u>	<u>(318)</u>	<u>-</u>	<u>(243)</u>	<u>(93)</u>	<u>(336)</u>
Total deductions	<u>(128)</u>	<u>(10,806)</u>	<u>(2,580)</u>	<u>(13,514)</u>	<u>(168)</u>	<u>(10,569)</u>	<u>(93)</u>	<u>(10,830)</u>
Net increase in net position	1,396	6,843	12,886	21,125	374	120	16,298	16,792
Assets held in trust for pension/								
OPEB, beginning of year	<u>2,840</u>	<u>184,408</u>	<u>82,262</u>	<u>269,510</u>	<u>2,466</u>	<u>184,288</u>	<u>65,964</u>	<u>252,718</u>
Assets held in trust for pension/								
OPEB, end of year	<u>\$ 4,236</u>	<u>\$ 191,251</u>	<u>\$ 95,148</u>	<u>\$ 290,635</u>	<u>\$ 2,840</u>	<u>\$ 184,408</u>	<u>\$ 82,262</u>	<u>\$ 269,510</u>



STATISTICAL SECTION



Statistical Section

This part of the Authority's comprehensive annual financial report presents detailed information as a context to better understand what the information in the financial statements, note disclosures and required supplementary information discloses concerning the Authority's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the Authority's two most significant revenue sources, operating revenues and property taxes.

Debt Capacity

These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs.

Sources

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.





FINANCIAL TRENDS

2CH | 3CH
DICKMEYER



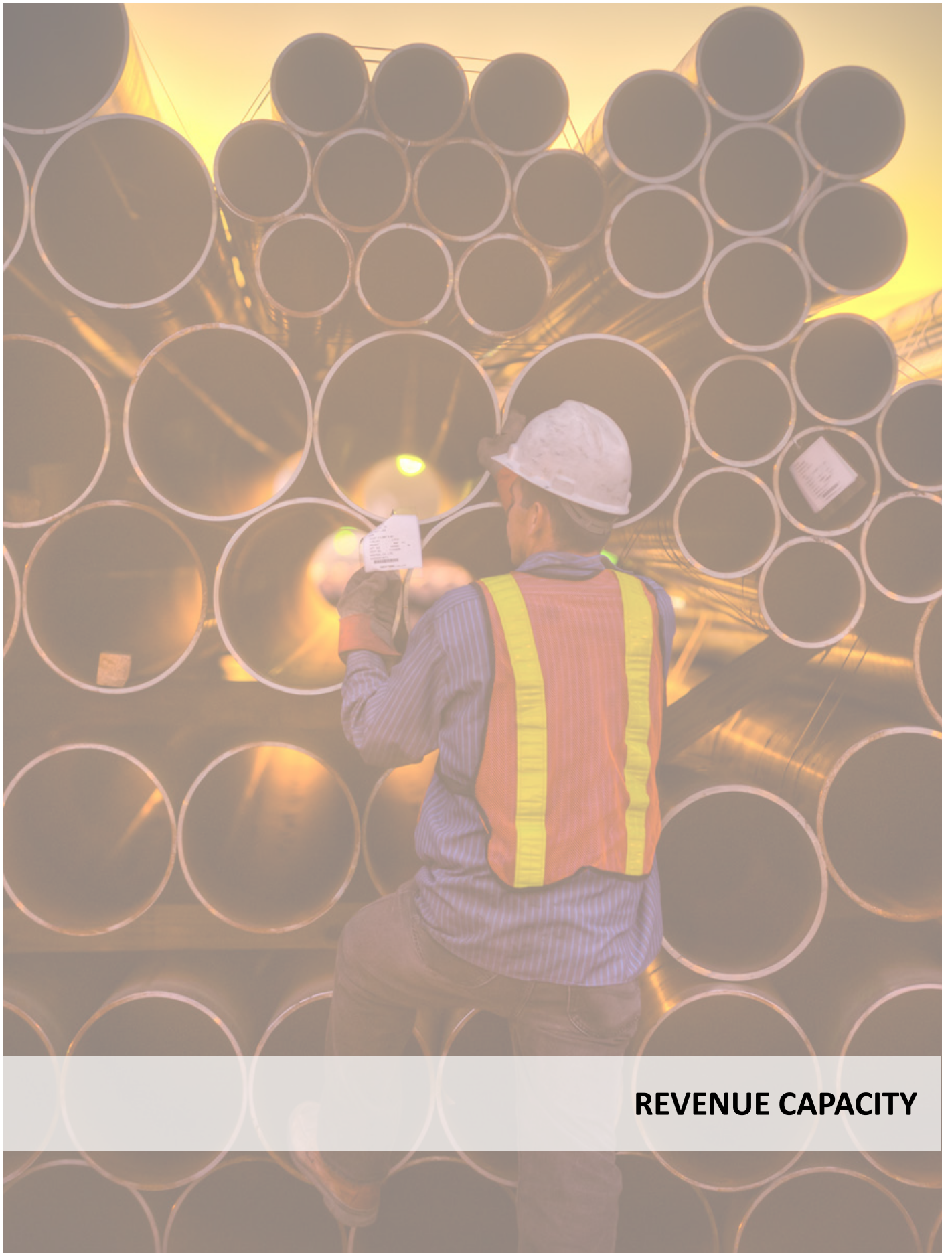
Port of Houston Authority of Harris County, Texas
Net Position by Component
Last Ten Fiscal Years
 (accrual basis of accounting)
 (unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net investment in capital assets	\$1,294,888	\$1,119,856	\$1,050,604	\$1,023,578	\$ 919,177	\$ 794,075	\$ 749,755	\$ 685,717	\$596,224	\$574,224
Restricted										
Capital	-	-	-	-	-	-	-	7,195	29,713	60,204
Debt Service	45,740	45,346	44,646	45,622	45,705	41,853	43,290	44,598	44,916	41,455
Net OPEB asset	29,646	-	-	-	-	-	-	-	2,755	196
Unrestricted	<u>396,505</u>	<u>473,731</u>	<u>416,108</u>	<u>311,127</u>	<u>312,363</u>	<u>383,422</u>	<u>340,892</u>	<u>324,466</u>	<u>320,673</u>	<u>263,802</u>
Total Net Position	<u><u>\$1,766,779</u></u>	<u><u>\$1,638,933</u></u>	<u><u>\$1,511,358</u></u>	<u><u>\$1,380,327</u></u>	<u><u>\$1,277,245</u></u>	<u><u>\$1,219,350</u></u>	<u><u>\$1,133,937</u></u>	<u><u>\$1,061,976</u></u>	<u><u>\$994,281</u></u>	<u><u>\$939,881</u></u>

Port of Houston Authority of Harris County, Texas
Changes in Net Position
Last Ten Fiscal Years

(in thousands)
(unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Operating revenues:										
Vessel and cargo services	\$ 357,386	365,086	\$ 344,272	\$ 309,058	\$ 266,703	\$ 267,277	\$ 238,083	\$ 200,101	\$ 190,618	\$ 177,405
Rental of equipment and facilities	21,665	18,065	18,079	15,976	15,869	17,120	17,763	25,114	23,077	22,030
Grain elevator	1,263	1,439	1,182	902	1,199	1,567	1,821	592	683	1,923
Bulk materials	3,911	4,265	4,131	4,004	3,941	4,019	4,270	2,665	2,485	2,131
Other	6,507	2,582	1,652	2,933	2,514	3,753	1,960	5,201	8,512	3,356
Nonoperating revenues:										
Investment (loss) income	9,810	13,017	9,319	4,553	4,896	4,142	4,913	(435)	2,410	3,123
Contribution in aid of construction	-	-	-	-	-	610	-	5,000	-	1,077
Other	833	1,282	345	1,703	2,690	1,279	3,291	683	1,583	2,765
Nonoperating revenues related to property taxes:										
Property taxes	48,965	51,061	50,951	53,842	55,749	51,280	51,955	52,534	56,429	49,826
Investment income / (loss) on bond proceeds	349	967	721	264	119	120	162	348	302	657
Total Revenues:	450,689	457,764	430,652	393,235	353,680	351,167	324,218	291,803	286,099	264,293
Operating expenses:										
Maintenance and operations of facilities	178,606	177,122	157,524	147,185	141,102	123,433	121,899	103,353	101,095	97,461
General and administrative	46,225	50,420	49,608	39,102	44,286	42,297	37,812	41,845	43,875	39,894
Depreciation and amortization	77,829	74,020	72,027	66,487	64,601	60,198	57,190	56,057	56,551	55,661
Impairment of Capital Assets	-	-	-	-	15,114	-	-	-	-	-
Nonoperating expenses:										
Contributions to state and local agencies	235	4,327	2,095	4,243	2,127	2,147	1,464	1,949	882	1,232
Loss on disposal of assets	126	4	1	33	(2,976)	2,849	1,220	91	3,295	-
Other	-	107	1,440	2,187	1,033	338	-	-	98	-
Nonoperating expenses related to property taxes:										
Interest expense on unlimited tax bonds	23,526	24,451	28,927	30,010	31,548	33,114	33,459	33,188	33,803	36,843
Property tax collection expense	1,100	1,100	1,100	1,100	1,100	1,039	1,175	994	1,091	996
Other	384	410	420	400	303	455	408	477	442	525
Total Expenses:	328,031	331,961	313,142	290,747	298,238	265,870	254,627	237,954	241,132	232,612
Income before contributions	122,658	125,803	117,510	102,488	55,442	85,297	69,591	53,849	44,967	31,681
Capital contributions from federal agencies	5,188	1,772	5,219	8,896	2,453	56	2,370	13,827	9,373	1,439
Contributions from federal agency-FEMA	-	-	-	-	-	60	-	19	60	-
Total Contributions from federal and state agencies	5,188	1,772	5,219	8,896	2,453	116	2,370	13,846	9,433	1,439
Change in net position	127,846	127,575	122,729	111,384	57,895	85,413	71,961	67,695	54,400	33,120
Net position, January 1	1,638,933	1,511,358	1,388,629	1,277,245	1,219,350	1,133,937	1,061,976	994,281	939,881	906,761
Net position, December 31	\$ 1,766,779	\$ 1,638,933	\$ 1,511,358	\$ 1,388,629	\$ 1,277,245	\$ 1,219,350	\$ 1,133,937	\$ 1,061,976	\$ 994,281	\$ 939,881



REVENUE CAPACITY



Port of Houston Authority of Harris County, Texas
Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years
(amounts in thousands)
(unaudited)

<u>Year Levied</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Less: Exemptions (a)</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>
2011	\$ 306,488,194	\$ 43,891,522	\$ 82,109,248	\$ 268,270,468	\$ 0.01856
2012	317,458,948	47,105,465	85,096,445	279,467,968	0.01952
2013	338,787,938	51,399,961	86,415,967	303,771,932	0.01716
2014	375,147,134	54,650,315	92,526,176	337,271,273	0.01531
2015	420,143,010	57,162,124	100,360,569	376,944,565	0.01342
2016	467,478,230	51,201,800	109,296,383	409,383,647	0.01334
2017	486,904,155	48,036,665	109,150,988	425,789,832	0.01256
2018	507,215,984	49,241,694	118,780,750	437,676,928	0.01155
2019	546,249,496	50,880,252	126,713,304	470,416,444	0.01074
2020	578,509,817	52,804,343	139,216,727	492,097,433	0.00991

- Source: Harris County Appraisal District Property Use Recap as of 12/2020
- Note: Property is assessed at actual value and is reassessed each year. Tax rates are per \$100 of assessed value.
- Note (a) Exemptions are primarily made up of the homestead property exemption of 20%. In addition, persons 65 years of age or older receive an exemption up to a maximum individual amount of \$160,000.

Port of Houston Authority of Harris County, Texas
County-Wide Ad Valorem Tax Rates
Last Ten Fiscal Years
Year Levied
(unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Harris County										
General Fund	\$ 0.34028	\$ 0.34174	\$ 0.35000	\$ 0.34500	\$ 0.34500	\$ 0.34547	\$ 0.34547	\$ 0.34547	\$ 0.33271	\$ 0.33444
General Bonds Debt Service	0.05088	0.04711	0.05084	0.05234	0.05111	0.05237	0.04802	0.05158	0.04468	0.03825
Total Constitutional Funds	0.39116	0.38885	0.40084	0.39734	0.39611	0.39784	0.39349	0.39705	0.37739	0.37269
County - Wide Road Debt Service	-	0.01828	0.01774	0.02067	0.02045	0.02139	0.02382	0.01750	0.02282	0.01848
Total - Harris County	0.39116	0.40713	0.41858	0.41801	0.41656	0.41923	0.41731	0.41455	0.40021	0.39117
Flood Control District										
Maintenance	0.02649	0.02670	0.02738	0.02736	0.02745	0.02620	0.02620	0.02620	0.02522	0.02727
Debt Service	0.00493	0.00122	0.00139	0.00095	0.00084	0.00113	0.00116	0.00207	0.00287	0.00082
Total - Flood Control	0.03142	0.02792	0.02877	0.02831	0.02829	0.02733	0.02736	0.02827	0.02809	0.02809
Port of Houston Authority										
Debt Service	0.00991	0.01074	0.01155	0.01256	0.01334	0.01342	0.01531	0.01716	0.01952	0.01856
Hospital District										
General	0.16491	0.16491	0.17000	0.17000	0.17000	0.17000	0.17000	0.17000	0.18216	0.19216
Debt Service	0.00180	0.00100	0.00108	0.00110	0.00179	-	-	-	-	-
Total Hospital District	0.16671	0.16591	0.17108	0.17110	0.17179	0.17000	0.17000	0.17000	0.18216	0.19216
Total	\$ 0.59920	\$ 0.61170	\$ 0.62998	\$ 0.62998	\$ 0.62998	\$ 0.62998	\$ 0.62998	\$ 0.62998	\$ 0.62998	\$ 0.62998

- Source: Harris County Appraisal District

- Note: Tax rates are stated per \$100 assessed valuation.

Port of Houston Authority of Harris County, Texas
Direct and Overlapping Debt and Property Tax Rates
 December 31, 2020
 (unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
County-Wide Taxing Jurisdiction										
Harris County	\$ 0.39116	\$ 0.40713	\$ 0.41858	\$ 0.41801	\$ 0.41656	\$ 0.41923	\$ 0.41731	\$ 0.41455	\$ 0.40021	\$ 0.39117
Harris County Flood Control District	0.03142	0.02792	0.02877	0.02831	0.02829	0.02733	0.02736	0.02827	0.02809	0.02809
Port of Houston Authority	0.00991	0.01074	0.01155	0.01256	0.01334	0.01342	0.01531	0.01716	0.01952	0.01856
Harris County Hospital District	0.16671	0.16591	0.17108	0.17110	0.17179	0.17000	0.17000	0.17000	0.18216	0.19216
Total County-wide	\$ 0.59920	\$ 0.61170	\$ 0.62998	\$ 0.62998	\$ 0.62998	\$ 0.62998	\$ 0.62998	\$ 0.62998	\$ 0.62998	\$ 0.62998
Cities										
Baytown	\$ 0.79515	\$ 0.80203	\$ 0.81203	\$ 0.82203	\$ 0.82203	\$ 0.82203	\$ 0.82203	\$ 0.82203	\$ 0.82203	\$ 0.82202
Bellaire	0.44730	0.44730	0.43130	0.41590	0.38740	0.38050	0.39360	0.39990	0.39990	0.39990
Deer Park	0.72000	0.72000	0.72000	0.72000	0.72000	0.71435	0.72000	0.72000	0.72000	0.72000
Houston	0.56184	0.56792	0.58831	0.58421	0.58642	0.60112	0.63108	0.63875	0.63875	0.63875
La Porte	0.71000	0.71000	0.71000	0.71000	0.71000	0.71000	0.71000	0.71000	0.71000	0.71000
League City	0.51500	0.54858	0.56380	0.56500	0.57000	0.57350	0.59700	0.59700	0.59700	0.61000
Missouri City	0.59804	0.63000	0.63000	0.60000	0.56010	0.54468	0.56500	0.57375	0.54480	0.52840
Pasadena	0.53368	0.57034	0.61545	0.57539	0.57539	0.57539	0.57690	0.59159	0.59159	0.59159
Pearland	0.72000	0.74121	0.70916	0.68506	0.68120	0.70530	0.71210	0.70510	0.70510	0.68510
Seabrook	0.54361	0.55198	0.55198	0.57491	0.56518	0.61261	0.64003	0.65123	0.66523	0.64998
South Houston	0.69805	0.69991	0.65050	0.64330	0.63221	0.69954	0.64453	0.66988	0.70825	0.68755
Webster	0.37357	0.36200	0.34794	0.31725	0.28450	0.23447	0.24874	0.26960	0.28528	0.28528
West University Place	0.29407	0.30921	0.31680	0.31680	0.31680	0.33179	0.36179	0.37400	0.37411	0.37411
School Districts	1.1331-1.5016	1.1367-1.5684	1.2067-1.6700	1.2067-1.6700	1.2067-1.6700	1.1967-1.6700	1.1967-1.6700	1.1867-1.6700	1.1567-1.5700	.0972-1.5400

- Source: Harris County Appraisal District jurisdiction information as of 12/31/20; includes all tax bonds.

Port of Houston Authority of Harris County, Texas
Principal Property Tax Payers
Current Year and Nine Years Ago
(amounts in thousands)
(unaudited)

Tax Payers	2020			2011		
	2020 Taxable Valuations (a)	Rank	Percentage of Total 2020 Taxable Valuation (b)	2011 Taxable Valuations (a)	Rank	Percentage of Total 2011 Taxable Valuation (c)
EXXON Mobil Corp.	\$ 4,018,459	1	0.82 %	\$ 2,825,727	1	1.05 %
CenterPoint Energy Inc.	3,881,216	2	0.79	2,393,467	2	0.89
Chevron Chemical Co.	3,521,074	3	0.72	1,378,299	4	0.51
Shell Oil Co.	1,857,157	4	0.38	2,319,116	3	0.86
Equistar Chemicals LP	1,678,261	5	0.34	905,828	8	0.34
Enterprise	1,158,883	6	0.24	-	-	-
Palmetto Transoceanic LLC	1,107,329	7	0.22	-	-	-
Walmart	928,383	8	0.19	808,079	9	0.30
Lyondell Chemical Co.	849,168	9	0.17	-	-	-
Valero Energy	829,097	10	0.17	412,938	18	0.15
Liberty Property	804,403	11	0.16	-	-	-
One Two and Three Allen Center Co LLC	790,940	12	0.16	-	-	-
HEB Grocery Co. LP	765,001	13	0.16	-	-	-
Intercontinental Terminal	693,253	14	0.14	-	-	-
Kinder Morgan	690,415	15	0.14	-	-	-
Phillips 66 Co.	684,801	16	0.14	-	-	-
Magellan Terminal Holding	671,346	17	0.14	-	-	-
Volaris	665,700	18	0.13	-	-	-
GWP East Nine West	662,937	19	0.13	-	-	-
BSREP 1HC-3HC	660,304	20	0.13	-	-	-
Hines Interests LTD Partnership	-	-	-	1,180,205	5	0.44
Crescent Real Estate	-	-	-	1,076,212	6	0.40
Houston Refining	-	-	-	948,896	7	0.35
AT&T Mobility LLC	-	-	-	780,563	10	0.29
Hewlett Packard	-	-	-	715,249	11	0.27
Lyondell Chemical Co.	-	-	-	637,554	12	0.24
Amoco Chemical Co.	-	-	-	577,210	13	0.22
National Oilwell Inc.	-	-	-	460,058	14	0.17
TPG 2101 Citywest 1 & 2 LP	-	-	-	451,086	15	0.17
Kroger Co.	-	-	-	440,439	16	0.16
Continental Airlines Inc	-	-	-	436,454	17	0.16
Rohm & Haas Co.	-	-	-	392,305	19	0.15
Oxy Vinyls LP	-	-	-	368,331	20	0.14
Total	\$ 26,918,127		5.47 %	\$ 19,508,016		7.26 %

- Source: Harris County Appraisal District
- Note (a) Amounts shown for these taxpayers do not include taxable valuations, which may be substantial, attributable to certain subsidiaries and affiliates which are not grouped on the tax rolls with the taxpayers shown.
- Note (b) Based on the County's total taxable value as of December 25, 2020;
- Note (c) Based on the County's total taxable value as of December 23, 2011.

Port of Houston Authority of Harris County, Texas
Property Taxes Levies and Collections
For the Years 2011 through 2020
(in thousands)
(unaudited)

<u>Fiscal Year</u>	<u>Taxes Levied for Fiscal Year</u>	<u>Collections within the Fiscal Year of the Levy</u>		<u>Collections After One Year (a)</u>	<u>Total Collections After One Year (a)</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2011	\$ 49,814	\$ 47,012	94.38 %	\$ 1,911	\$ 48,923	98.21 %
2012	54,624	51,755	94.75 %	1,917	53,672	98.26 %
2013	52,289	49,790	95.22 %	1,736	51,526	98.54 %
2014	51,860	49,400	95.26 %	1,654	51,054	98.45 %
2015	50,796	48,208	94.91 %	1,767	49,975	98.38 %
2016	54,806	51,946	94.78 %	1,981	53,926	98.39 %
2017	53,652	50,738	94.57 %	2,008	52,746	98.31 %
2018	48,760	48,252	98.96 %	1,502	49,754	102.04 %
2019	50,643	48,165	95.11 %	1,231	49,396	97.54 %
2020	48,994	45,656	93.19 %	N/A	N/A	N/A

- Source: Harris County Tax Assessor - Collector as of February 28, 2021
- Note (a) Collections after one year reflect monies collected in the year following the levy and are not updated annually.
- N/A - Not Available

Port of Houston Authority of Harris County, Texas
Operating Revenues by Type
Last Ten Fiscal Years

(in thousands)
(unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Operating revenues: (a) (b) (c)										
Vessel and cargo services	\$ 357,386	\$ 365,086	\$ 344,272	\$ 309,058	\$ 266,703	\$ 267,277	\$ 238,083	\$ 200,101	\$ 190,618	\$ 177,405
Rental of equipment and facilities	21,665	18,065	18,079	15,976	15,869	17,120	17,763	25,114	23,077	22,030
Grain elevator	1,263	1,439	1,182	902	1,199	1,567	1,821	592	683	1,923
Bulk materials	3,911	4,265	4,131	4,004	3,941	4,019	4,270	2,665	2,485	2,131
Other	6,507	2,582	1,652	2,933	2,514	3,753	1,960	5,201	8,512	3,356
Total Operating Revenue	<u>\$ 390,732</u>	<u>\$ 391,437</u>	<u>\$ 369,316</u>	<u>\$ 332,873</u>	<u>\$ 290,226</u>	<u>\$ 293,736</u>	<u>\$ 263,897</u>	<u>\$ 233,673</u>	<u>\$ 225,375</u>	<u>\$ 206,845</u>
Revenue Tonnage (Short Tons)*										
General Cargo	31,708	34,074	31,653	28,878	25,226	27,360	26,854	24,735	25,278	23,387
Bulk	9,980	9,063	9,210	9,396	9,621	8,384	10,766	11,090	9,781	10,162
Total Revenue Tonnage	<u>41,688</u>	<u>43,137</u>	<u>40,863</u>	<u>38,274</u>	<u>34,847</u>	<u>35,744</u>	<u>37,620</u>	<u>35,825</u>	<u>35,059</u>	<u>33,549</u>

- Source: The Authority
- Note (a) Vessel and cargo services, grain elevator and bulk material revenues are generated by general cargo and bulk tonnage.
- Note (b) Revenues are defined by tariffs based upon terminal and type of services. Some units of measure used (depending on type of service) are units, weight, number of days and gallons.
- Note (c) Excludes Port Development Corporation and Port of Houston Authority International Corporation
- * Short ton equals 2,000 pounds

Port of Houston Authority of Harris County, Texas
Revenue Tonnage
Last Ten Fiscal Years
(in short tons)
(unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
General Cargo										
Barbours Cut										
All other	12,307,526	11,226,819	10,737,680	9,811,047	9,470,902	9,322,892	7,689,686	7,010,712	6,177,766	5,605,703
Lease	-	-	-	-	-	2,072,132	3,410,214	3,548,416	3,939,218	3,887,146
	<u>12,307,526</u>	<u>11,226,819</u>	<u>10,737,680</u>	<u>9,811,047</u>	<u>9,470,902</u>	<u>11,395,024</u>	<u>11,099,900</u>	<u>10,559,128</u>	<u>10,116,984</u>	<u>9,492,849</u>
Bayport Container Terminal	15,385,083	16,603,071	14,605,339	13,026,783	10,854,617	8,588,556	6,977,231	7,264,595	7,354,870	7,365,318
Turning Basin										
Autos import	85,344	117,531	127,448	119,081	161,246	167,383	128,564	143,132	175,553	124,351
Autos export	385	2,058	1,089	3,396	4,744	13,240	11,430	17,905	23,655	26,972
Steel imports	902,460	2,030,908	2,744,586	2,988,636	1,823,357	3,800,730	5,397,341	3,613,445	4,247,410	3,193,843
All other	447,881	513,023	375,924	474,629	492,551	707,345	607,127	519,978	723,762	1,177,341
	<u>1,436,070</u>	<u>2,663,520</u>	<u>3,249,047</u>	<u>3,585,742</u>	<u>2,481,898</u>	<u>4,688,698</u>	<u>6,144,462</u>	<u>4,294,460</u>	<u>5,170,380</u>	<u>4,522,507</u>
Jacintoport	1,225,999	1,466,353	1,553,325	1,737,072	1,883,785	1,751,839	1,411,724	1,579,197	1,428,240	1,285,363
Care Terminal	309,542	731,216	734,480	603,271	457,294	562,217	747,372	649,545	598,914	350,422
Woodhouse	1,043,911	1,382,598	768,830	113,888	77,299	373,497	473,389	388,133	608,369	370,436
Total General Cargo	<u>31,708,131</u>	<u>34,073,577</u>	<u>31,652,701</u>	<u>28,877,803</u>	<u>25,225,795</u>	<u>27,359,831</u>	<u>26,854,078</u>	<u>24,735,058</u>	<u>25,277,757</u>	<u>23,386,895</u>
Bulk										
Jacintoport	1,511	1,465	1,635	9,758	692	1,100	-	-	1,780	553
Care Terminal	13,802	12,340	112,975	162,014	130,545	18,298	82,016	253,942	408,225	359,286
Woodhouse	-	-	7,081	20,224	12,981	6,882	31,549	14,290	7,547	35,089
Sims Bayou	1,355,034	1,157,376	1,199,628	1,157,368	624,280	624,278	675,175	700,350	770,395	763,723
S.J.B. Liquid Facility	399,012	379,141	560,342	522,019	552,752	428,895	493,582	541,227	585,263	474,880
Turning Basin	2,881,677	2,157,920	2,157,461	2,154,936	2,097,919	2,046,714	1,982,330	2,164,880	2,022,492	1,948,735
	<u>4,651,036</u>	<u>3,708,242</u>	<u>4,039,122</u>	<u>4,026,319</u>	<u>3,419,169</u>	<u>3,126,167</u>	<u>3,264,652</u>	<u>3,674,689</u>	<u>3,795,702</u>	<u>3,582,266</u>
Bulk Materials Terminal	2,562,328	3,056,749	3,796,229	3,230,116	3,329,834	2,908,018	5,190,900	5,151,720	4,691,785	4,209,509
Grain Elevator #2	2,766,115	2,298,347	1,375,234	2,139,655	2,871,965	2,350,374	2,310,757	2,263,983	1,294,120	2,370,689
Total Bulk Cargo	<u>9,979,479</u>	<u>9,063,338</u>	<u>9,210,585</u>	<u>9,396,090</u>	<u>9,620,968</u>	<u>8,384,559</u>	<u>10,766,309</u>	<u>11,090,392</u>	<u>9,781,607</u>	<u>10,162,464</u>
Grand Total	<u>41,687,610</u>	<u>43,136,915</u>	<u>40,863,286</u>	<u>38,273,893</u>	<u>34,846,763</u>	<u>35,744,390</u>	<u>37,620,387</u>	<u>35,825,450</u>	<u>35,059,364</u>	<u>33,549,359</u>

- Source: The Authority
- Revenue tonnage is tonnage from which Authority revenues are derived; does not include non-Authority tonnage figures.

Port of Houston Authority of Harris County, Texas
Top Ten Vessel and Cargo Customers
Current Year and Ten Years Ago

(amounts in thousands)
(unaudited)

<u>Customer</u>	<u>2020</u>			<u>2011</u>		
	<u>2020 Revenue</u>	<u>Rank</u>	<u>% V&C Revenue</u>	<u>2011 Revenue</u>	<u>Rank</u>	<u>% V&C Revenue</u>
Mediterranean Shipping Co. (USA)	\$ 69,166	1	19.35 %	\$ 50,827	1	28.65 %
Maersk Line	55,032	2	15.40	-		-
CMA-CGM (America), Inc.	49,344	3	13.81	17,269	3	9.73
Hapag-Lloyd AG	40,417	4	11.31	21,617	2	12.18
Cosco North America, Inc.	18,933	5	5.30	-		-
Evergreen Shipping Agency	10,211	6	2.86	-		-
Zim Integrated Shipping	9,184	7	2.57	-		-
Hamburg Sud North America	7,754	8	2.17	8,349	4	4.71
OOCL(USA) Inc.	6,980	9	1.95	2,945	10	1.66
ONE Line	5,346	10	1.49	-		-
Compania Libra de Navegacion Urugua	-		-	5,297	5	2.99
Seaboard Marine, Ltd.	-		-	4,625	6	2.61
Compania Sudamericana de Vapores SA	-		-	4,494	7	2.53
Biehl & Company - Vessel	-		-	3,601	8	2.03
Star Shipping	-		-	3,238	9	1.83
Total	<u>\$ 272,367</u>		<u>76.21 %</u>	<u>\$ 122,262</u>		<u>68.92 %</u>

- Source: The Authority



DEBT CAPACITY



Port of Houston Authority of Harris County, Texas
Ratios of Net General Bonded Debt by Type
Last Ten Fiscal Years
(in thousands, except per capita)
(unaudited)

General Obligation Bonds												
Fiscal Year	Unlimited Tax Refunding Bonds	Unlimited Tax Port Improvement Bonds	Unlimited Tax Commercial Paper	Accreted Premiums (Discounts)	General Bonded Debt	Less Debt Service Funds Cash	Net General Bonded Debt	Percentage of Actual Property Value	GOB Debt per Capita	Total Outstanding Debt	Percentage of Personal Income	Total Debt Per Capita
2011	\$ 654,674	\$ 91,200	\$ -	\$ 42,139	\$ 788,013	\$10,456	\$ 777,557	0.29	\$ 186	\$ 777,557	0.38 %	\$ 186
2012	641,324	90,645	-	39,160	771,129	8,784	762,345	0.27	179	762,345	0.34 %	179
2013	626,979	90,645	-	36,674	754,298	9,672	744,626	0.25	172	744,626	0.32 %	172
2014	611,734	90,645	-	34,366	736,745	13,854	722,891	0.21	163	722,891	0.29 %	163
2015	588,604	85,665	-	43,363	717,632	6,414	711,218	0.19	157	711,218	0.28 %	157
2016	572,329	85,665	-	39,129	697,123	6,983	690,140	0.17	150	690,140	0.29 %	150
2017	553,164	85,665	-	35,069	673,898	13,589	660,309	0.16	142	660,309	0.27 %	142
2018	508,089	85,665	-	56,709	650,463	11,402	639,061	0.15	136	639,061	0.24 %	136
2019	486,904	85,665	-	50,658	623,227	7,942	615,285	0.13	131	615,285	N/A	132
2020	492,439	-	-	94,715	587,154	4,929	582,225	0.12	N/A	587,154	N/A	N/A

- Additional information on the Authority's debt can be found in the accompanying notes to the financial statements.
- Premiums (Discounts) are inclusive of accreted interest on capital appreciation bonds.
- Updates are made to prior years.
- See Schedule 3 for property value data.
- Population data can be found in Schedule 15.
- N/A - Not Available
- Total outstanding debt, total debt per capita, and percentage of personal income calculation changed in 2020 per GFOA comments

Port of Houston Authority of Harris County, Texas
Net Revenues Available for Debt Service on Revenue Obligations
For each of the Ten Years in the Period Ended December 31, 2020

(in thousands)
(unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Gross Revenues										
Operating Revenues (a)										
Vessel and cargo services	\$ 357,386	\$ 365,086	\$ 344,272	\$ 309,058	\$ 266,266	\$ 266,305	\$ 235,929	\$ 197,974	\$ 188,457	\$ 175,297
Rental of equipment and facilities	21,665	18,065	18,079	15,976	15,869	17,120	17,763	25,114	23,077	22,030
Grain Elevator	1,263	1,439	1,182	902	1,199	1,567	1,821	592	683	1,923
Bulk materials	3,911	4,265	4,131	4,004	3,941	4,019	4,270	2,665	2,485	2,131
Other	6,507	2,582	1,652	2,933	2,514	3,753	1,960	5,201	8,512	3,356
Total	390,732	391,437	369,316	332,873	289,789	292,764	261,743	231,546	223,214	204,737
NonOperating Revenues										
Investment (loss) income	9,767	12,876	9,145	4,425	4,850	4,100	4,881	(452)	2,406	3,126
Other, net	6,021	3,053	5,564	10,599	5,144	2,004	5,661	19,529	11,014	5,358
Total	15,788	15,929	14,709	15,024	9,994	6,104	10,542	19,077	13,420	8,484
Total Gross Revenues	406,520	407,366	384,025	347,897	299,783	298,868	272,285	250,623	236,634	213,221
Operation Expenses										
Maintenance and Operation of Facilities										
Vessel and cargo services	163,776	162,518	143,401	141,857	131,998	115,757	115,341	93,483	91,534	89,547
Rental of port facilities	1,313	1,099	1,219	2,093	2,140	1,130	1,164	1,387	1,174	6,893
Grain Elevator	259	621	456	275	330	293	260	288	219	322
Bulk Materials Handling Plant	22	29	31	26	8	11	9	9	22	46
Other	13,235	12,854	8,617	7,915	7,107	7,114	8,223	9,919	9,958	2,415
Total	178,605	177,121	153,724	152,166	141,583	124,305	124,997	105,086	102,907	99,223
General and Administrative	46,225	50,420	49,608	42,423	44,286	42,297	39,152	41,845	43,875	39,894
Total Operating Expenses	224,830	227,541	203,332	194,589	185,869	166,602	164,149	146,931	146,782	139,117
Nonoperating Expenses	368	4,446	3,489	6,533	259	5,673	2,694	2,998	3,906	3,350
Total Expenses	225,198	231,987	206,821	201,122	186,128	172,275	166,843	149,929	150,688	142,467
Net Revenues Available For Debt Service on Revenue Obligations	<u>\$ 181,322</u>	<u>\$ 175,379</u>	<u>\$ 177,204</u>	<u>\$ 146,775</u>	<u>\$ 113,655</u>	<u>\$ 126,593</u>	<u>\$ 105,442</u>	<u>\$ 100,694</u>	<u>\$ 85,946</u>	<u>\$ 70,754</u>

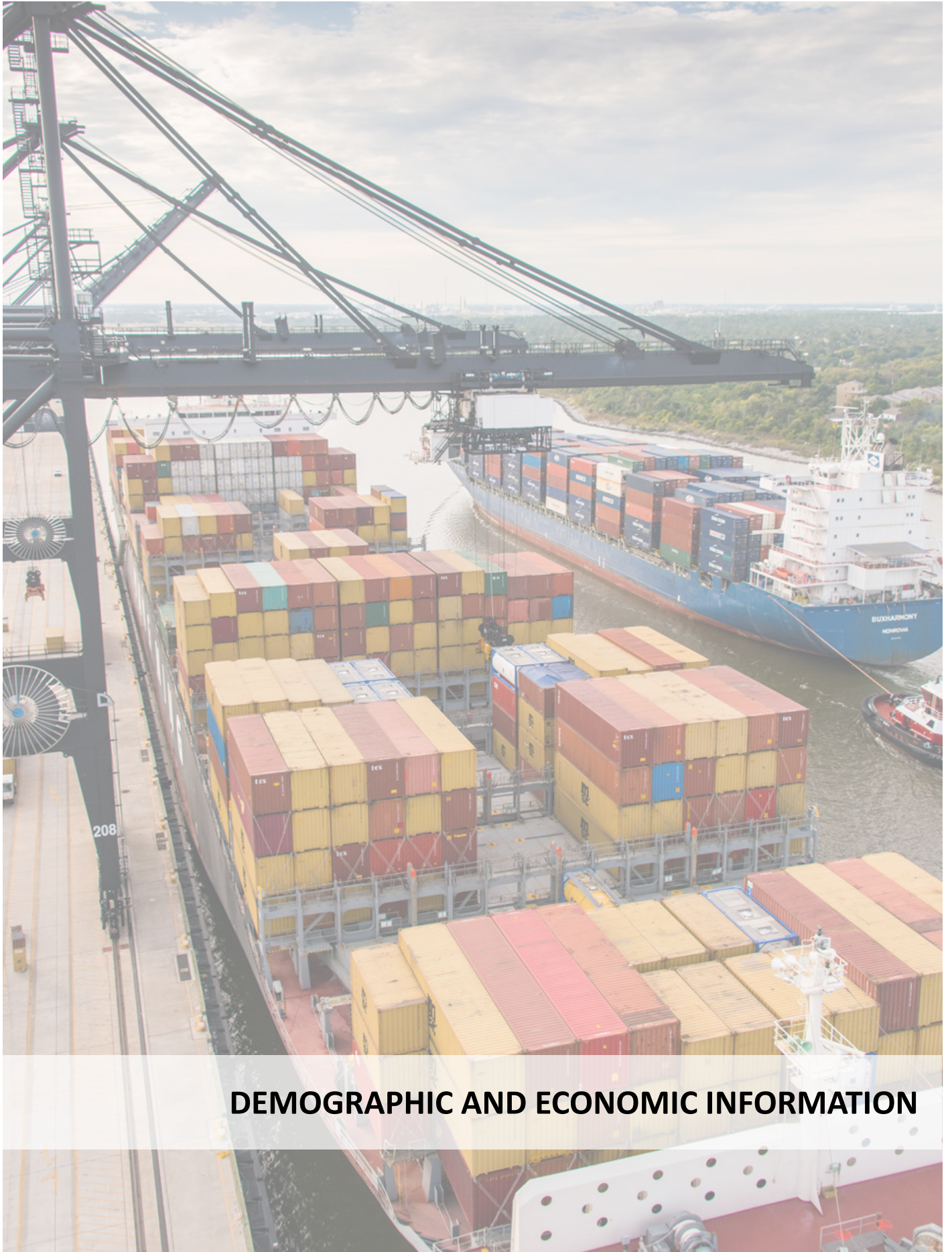
- Note (a) The Bayport user fees described in Note 7 were excluded from this calculation as per the bond documents.

Port of Houston Authority of Harris County, Texas
Table of Bonded Debt Service Requirements
(unaudited)

Fiscal Year Ending December 31	Outstanding Debt Service Requirements
2021	\$ 45,541,067
2022	45,070,817
2023	39,918,180
2024	39,109,142
2025	39,099,561
2026	39,087,629
2027	39,922,906
2028	40,036,656
2029	40,033,875
2030	39,784,462
2031	39,774,519
2032	39,879,900
2033	39,576,150
2034	39,721,400
2035	39,737,900
2036	39,569,150
2037	39,566,750
2038	39,570,500
2039	<u>26,162,000</u>
Total	<u>\$ 751,162,565</u>

- The table sets forth the annual debt service requirements on the Authority's ad valorem tax bonds as of December 31, 2020, excluding bonds that have been refunded and defeased.





DEMOGRAPHIC AND ECONOMIC INFORMATION



Port of Houston Authority of Harris County, Texas
Miscellaneous Statistical Data

December 31, 2020
(unaudited)

Port of Houston Authority Facts:

Date of Establishment: 1911
Form of Government: A political subdivision of the State of Texas
Area: 1,778 Square Miles
Altitude: Harris County (generally coterminous with Port of Houston Authority) - Sea level to 310 feet
City of Houston - Center of downtown area - 41 feet

Selected Economic Statistics

<u>Year</u>	<u>GDP (a)</u>	<u>National Unemployment (b)</u>	<u>Total U.S. Exports (c)</u>	<u>Total U.S. Imports (c)</u>	<u>U.S. Rig Count (d)</u>	<u>Oil Price \$/Bbl (e)</u>	<u>PMI (f)</u>
2020	4.1%	6.7%	2,131.9	2,810.6	351	47.02	60.5
2019	2.1%	3.5%	2,499.8	3,116.5	805	59.88	47.8
2018	2.6%	3.9%	2,500.0	3,121.0	1,083	49.52	54.3
2017	2.6%	4.4%	2,329.3	2,895.3	989	57.88	59.1
2016	1.9%	4.9%	2,209.4	2,711.7	672	51.97	56.0
2015	0.7%	5.2%	2,230.3	2,761.8	738	37.21	48.2
2014	2.6%	5.6%	2,345.4	2,850.5	2,003	59.29	53.5
2013	3.2%	7.4%	2,272.3	2,743.9	1,862	97.63	57.0
2012	1.7%	7.6%	1,564.1	2,299.4	1,734	94.05	50.2
2011	5.5%	8.9%	1,497.4	2,235.7	2,003	94.88	52.9

- Note (a) Gross Domestic Product percent change based on 2009 dollars; Source: Bureau of Economic Analysis
- Note (b) Average monthly unemployment rate per year; Source: Bureau of Labor Statistics
- Note (c) Billions of dollars; Source: Customs data from Department of Commerce, U.S. Census Bureau
- Note (d) Annual average total U.S. rig count; Source: Baker Hughes rig count data
- Note (e) Cushing, OK WTI spot price; Source: Energy Information Administration (EIA)
- Note (f) Purchasing Managers Index value above 50 means growth; Source: Institute for Supply Management

Port of Houston Authority of Harris County, Texas
Demographic and Economic Statistics
Last Ten Calendar Years
(unaudited)

Calendar Year Ending December 31	Population	Unemployment Rate	Personal Income (amounts in thousands)	Per Capita Personal Income
2011	4,178,574	7.2%	\$ 204,593,455	\$ 48,963
2012	4,253,700	6.0%	224,617,980	52,805
2013	4,336,853	5.5%	230,462,963	53,141
2014	4,441,370	4.0%	252,694,912	56,896
2015	4,538,028	4.6%	249,989,494	55,088
2016	4,589,928	5.3%	240,752,454	52,452
2017	4,652,980	5.0%	247,482,118	53,188
2018	4,698,619	4.4%	265,351,328	56,474
2019	4,713,325	3.8%	N/A	N/A
2020	N/A	N/A	N/A	N/A

- Source: Harris County, Texas Comprehensive Annual Financial Report for the Fiscal Year Ended February 29, 2020
- N/A - Not Available

Port of Houston Authority of Harris County, Texas
Principal Corporate Employers
Current Year and Nine Years Ago*

(amount in thousands)
(unaudited)

Employer	2019**			2011		
	Employees	Rank	Percentage of Area Employment	Employees	Rank	Percentage of Area Employment
Walmart Stores Inc.	37,000	1	1.14%	-		-
Memorial Hermann Healthcare Systems	24,108	2	0.74%	19,500	1	0.52%
HEB	23,732	3	0.73%	-		-
UT MD Anderson Cancer Center	21,086	4	0.65%	-		-
McDonald's Corporation	20,918	5	0.65%	-		-
The Methodist Hospital System	20,000	6	0.62%	12,000	3	0.38%
Kroger	16,000	7	0.50%	-		-
United Airlines (formerly Continental)	14,941	8	0.46%	-		-
Schlumberger	12,069	9	0.37%	-		-
Shell Oil Company	11,507	10	0.36%	13,000	2	0.41%
Baylor College of Medicine	-		-	9,232	4	0.27%
Chevron Companies	-		-	8,000	5	0.26%
JP Morgan Chase	-		-	5,000	6	0.25%
Jacobs Technology	-		-	6,500	7	0.25%
Halliburton Company	-		-	5,748	8	0.22%
HCA Affiliated Hospitals	-		-	7,855	9	0.19%
CenterPoint Energy	-		-	5,000	10	0.18%
	201,361		6.22%	91,835		2.93%

- Source: Greater Houston Partnership, Harris County, Texas Comprehensive Annual Financial Report for the fiscal year February 29, 2020.
- Note: Houston area employment for 2020 was approximately 3,068,200 and for 2011 was 2,004,248.
- * Based on calendar year
- ** Information for 2020 is not available.

Port of Houston Authority of Harris County, Texas
Harris County Population Statistical Data
(unaudited)

Regional Population (a)

<u>Year</u>	<u>City of Houston</u>	<u>Harris County</u>	<u>Year</u>	<u>City of Houston</u>	<u>Harris County</u>
1880	16,513	27,985	1950	596,163	806,701
1890	27,557	37,249	1960	938,219	1,243,158
1900	44,633	63,786	1970	1,232,802	1,741,912
1910	78,800	115,693	1980	1,594,086	2,409,544
1920	138,276	186,667	1990	1,632,833	2,818,199
1930	292,352	359,328	2000	1,953,631	3,400,578
1940	384,514	528,961	2010	2,099,451	4,092,459

Harris County Voters in Presidential Elections (b)

	<u>2020</u>	<u>2016</u>	<u>2012</u>	<u>2008</u>	<u>2004</u>
Registered Voters	2,431,457	2,182,980	1,942,566	1,974,177	1,876,296
Votes Cast	1,656,686	1,338,821	1,204,167	1,188,731	1,088,793
Percentage of Registered Voters Voting	68.14 %	61.33 %	61.99 %	60.21 %	58.03 %

Motor Vehicle Registration (c)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Passenger Cars, Small Trucks and Misc.	3,219,855	3,744,668	3,685,230	3,629,194	3,748,343
Large Trucks	44,849	48,256	47,689	46,076	31,247
Total	<u>3,264,704</u>	<u>3,792,924</u>	<u>3,732,919</u>	<u>3,675,270</u>	<u>3,779,590</u>

- Note (a) Source: Department of Commerce, U.S. Census Bureau
- Note (b) Source: Harris County Clerk - Elections Division/Harris County Clerk's Website
- Note (c) Source: Harris County Tax Assessor - Collector and Voter Registrar

Port of Houston Authority of Harris County, Texas
Harris County Miscellaneous Statistical Data
(unaudited)

Students enrolled in colleges and universities located within Harris County (d)

	2020	2019	2018	2017	2016
Baylor College of Medicine	1,592	1,577	1,574	1,575	1,562
Houston Baptist University	3,963	3,741	3,432	3,325	3,270
Houston Community College	37,676	47,703	48,190	49,782	47,197
Lone Star College System	70,738	77,810	78,255	69,452	77,109
Rice University	7,437	7,135	6,955	7,052	6,883
San Jacinto College:					
Central, South and North	30,840	39,303	35,948	35,455	33,183
South Texas College of Law	1,003	975	946	931	969
Texas Southern University	7,016	9,034	10,188	10,237	8,862
Texas Woman's University: Houston (f)	1,314	1,184	1,181	1,281	1,361
University of Houston:					
University Park	47,066	46,137	46,327	45,364	43,774
Downtown	15,251	14,680	14,265	13,913	14,245
Clear Lake	9,060	9,092	8,967	8,542	8,669
University of St. Thomas	3,693	3,454	3,222	3,151	3,224
University of Texas: (e)					
Dental Branch	574	579	570	565	560
Graduate School of Biomedical Sciences	480	480	454	406	425
Medical School	1,116	1,071	1,097	1,077	1,075
School of Biomedical Informatics	290	254	255	289	291
School of Nursing	1,637	1,626	1,722	1,647	1,477
School of Public Health	1,514	1,302	1,237	1,257	1,223
Total	<u>242,260</u>	<u>267,137</u>	<u>264,785</u>	<u>255,301</u>	<u>255,359</u>

Number of Employees

	2020	2019	2018	2017	2016
Harris County (g)	17,561	16,980	17,072	16,488	16,166
Flood Control District (g)	325	316	290	293	287
Port of Houston Authority	688	683	652	620	597

- Note (d) Source: Fall 2020 Enrollment Data from Texas Higher Education Coordinating Board and above school websites
- Note (e) Source: University of Texas Office of Registrar (Fact Book 2021)
- Note (f) Source: Texas Women's University Office of Institutional Research & Data Mgmt (Fact Book 2020)
- Note (g) Source: Harris County Auditor's Office





OPERATING INFORMATION



Port of Houston Authority of Harris County, Texas
Table of Physical Characteristics of the Port Facilities of the Authority
(unaudited)

	Berth Lengths (Feet)	Water Depth Below Mean Low Tide (Feet)	Paved Marshalling Area (Acres)	Covered Storage (Sq. Feet)
Turning Basin				
36 general Cargo Wharves	376-624	28.5-37.5	36	1,150,000
5 Liquid Bulk Wharves	226-570	34.5-37.5	-	-
Wharf - 32 Project Cargo	806	37.5	20	-
Woodhouse Terminal**				
Wharf 1	660	40.5	2	-
Wharf 2 and 3 (RoRo Dock)	1,250	36.5	-	112,740
Grain Dock**	600	43.5	-	-
Dry Bulk Cargo Facility				
Wharf 1	800	43.5	-	-
Wharf 2	400	43.5	-	-
Jacintoport				
Wharves 1 - 3	1,830	41.5	8	82,500
Care Terminal				
Wharf 1	500	38.5	10	45,000
Wharf 2	618	40.5	4	-
Sims Bayou Liquid Bulk Facility				
Berths	320	35.5-41.5	-	-
San Jacinto Barge Terminal				
Berth	200-700	17.5*	-	-
Barbours Cut Terminal				
Container Berths 1 - 6	6,000	46.5	190	-
Bayport				
Container Berths 2 - 5	3964	45.0	165	-
BPT Auto Terminal	1,000	32.0	-	-

* The maximum depth allowable due to federally authorized channel project depths

** Woodhouse Terminal is the location of Houston Public Grain Elevator No. 2.

EQUIPMENT: (a)

Turning Basin

- Privately-owned mobile cranes and additional cargo handling equipment are available for hire on an hourly basis.

Barbours Cut Terminal

Container Cranes:

- Ship to Shore (STS) = 15 total (7 SPP, 5 PP, 2 P, and 1 training crane)
- Rubber-Tire Gantry (RTG) = 50
- Empty Handling (Pencil/Side-pick) = 12
- Other load handling equipment (Top Loader) = 3

Other Equipment:

- Heavy-duty yard tractors (UTR/PIT) = 44
- Heavy-duty yard Chassis = 100

Bayport

Container Cranes:

- Ship to Shore (STS) = 12 total (6 SPP, 6 PP)
- Rubber-Tire Gantry (RTG) = 57
- Empty Handling (Pencil/Side-pick) = 0 (empty containers handled on terminal by 3rd party)
- Other load handling equipment (Top Loader) = 2

Other Equipment:

- Heavy-duty yard tractors (UTR/PIT) = 19
- Heavy-duty yard Chassis (Bucket) = 43

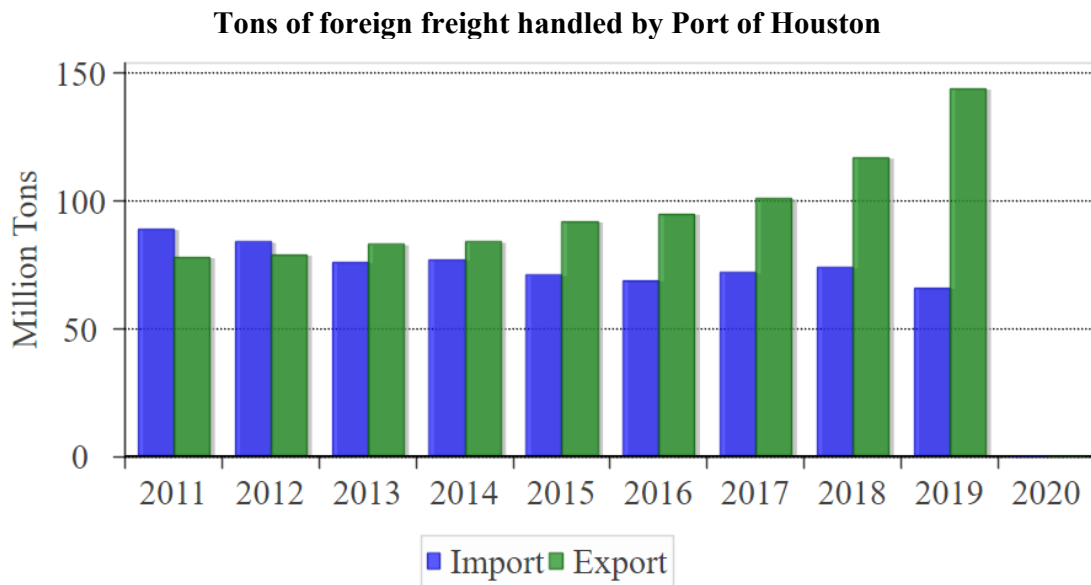
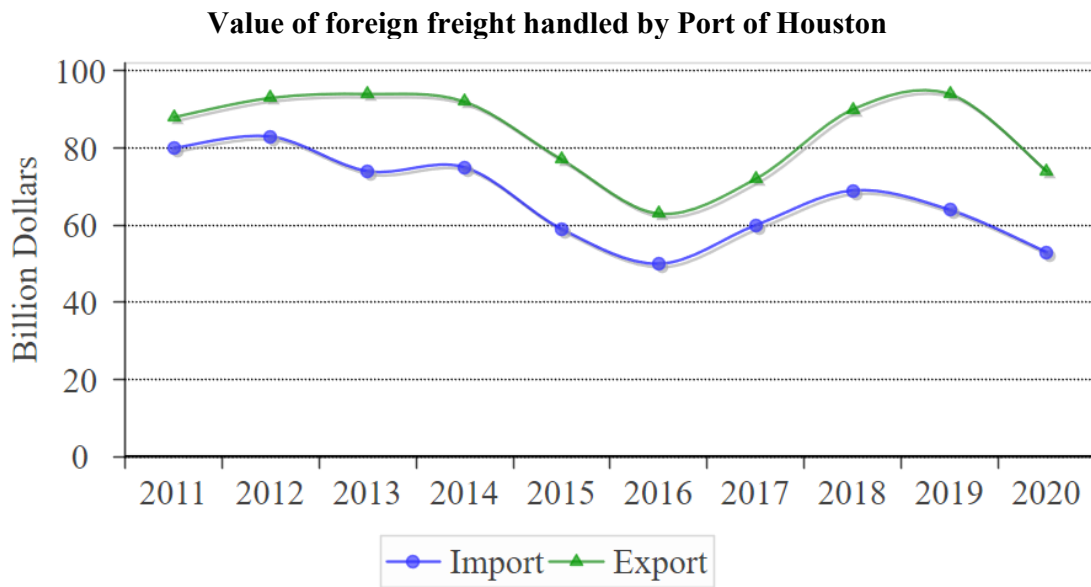
(a) SPP=Super Post Panamax, PP=Post Panamax, P=Panamax, UTR=Utility Truck, PIT=Powered Industrial Truck

Port of Houston Authority of Harris County, Texas
Freight Traffic Statistics
(in thousands)
(unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Freight handled by the Authority only (excluding tonnages handled by private terminals) - short tons (a)										
Breakbulk cargo	2,958	5,030	5,065	4,587	3,423	5,796	7,454	5,623	6,688	5,652
Container cargo	28,751	29,043	26,588	24,291	21,960	21,564	19,400	19,112	18,590	17,735
Bulk grain	2,766	2,298	1,375	2,140	2,872	2,350	2,311	2,264	1,294	2,371
Bulk plant	2,562	3,057	3,796	3,230	3,330	2,905	5,191	5,152	4,692	4,209
Other bulk	9,816	8,714	9,855	10,033	13,254	12,550	12,281	12,518	12,771	12,474
Total	46,853	48,142	46,679	44,281	44,839	45,165	46,637	44,669	44,035	42,441
Freight handled by entire Port of Houston (includes tonnage handled by both the Authority and private terminals) - short tons (b) (c)										
Foreign										
Imports	(d)	65,561	73,863	72,386	69,110	71,388	76,688	76,449	83,816	88,889
Exports	(d)	144,190	117,220	100,825	94,876	92,024	83,849	83,102	78,627	78,188
Total Foreign (d)	-	209,751	191,083	173,211	163,986	163,412	160,537	159,551	162,443	167,077
Domestic										
Receipts	(d)	31,945	32,996	35,745	36,417	36,010	34,267	32,442	35,349	32,429
Shipments	(d)	26,054	25,630	30,058	26,635	24,375	23,194	22,116	23,338	22,937
Total Domestic (d)	-	57,999	58,626	65,803	63,052	60,385	57,461	54,558	58,687	55,366
Local	(d)	17,194	19,222	21,057	20,944	17,136	16,306	15,137	17,055	15,355
Total	-	284,944	268,931	260,071	247,982	240,933	234,304	229,246	238,185	237,798
Value of foreign trade handled by entire Port of Houston (c)										
Imports	\$ 52,513,714	\$ 63,704,252	\$ 69,090,105	\$ 59,594,077	\$ 49,616,268	\$ 59,493,988	\$ 75,023,441	\$ 74,287,778	\$ 83,252,965	\$ 80,221,005
Exports	74,035,317	93,841,724	90,159,307	71,905,598	63,303,533	76,535,738	92,016,308	94,050,299	93,407,834	88,078,301
Total	\$126,549,031	\$157,545,976	\$159,249,412	\$131,499,675	\$112,919,801	\$136,029,726	\$167,039,749	\$168,338,077	\$176,660,799	\$168,299,306

- Note (a) Source: The Authority
- Note (b) Source: U.S. Army Corps of Engineers, Waterborne Commerce of the U.S.
- Note (c) Source: Bureau of Census U.S. Department of Commerce
- Note (d) Amounts not available for 2020.

Port of Houston Authority of Harris County, Texas Freight Traffic Statistics Graph Last Ten Years



- Note: Foreign tonnage is not available for 2020.

Port of Houston Authority of Harris County, Texas
Cargo Statistics
Last Ten Fiscal Years
(in thousands of short tons)
(unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Total Revenue Tonnage										
Including Bayport companies	46,853	48,142	46,679	44,281	44,839	45,168	46,637	44,669	44,035	42,441
Excluding Bayport companies	41,688	43,137	40,863	38,274	34,847	35,744	37,620	35,825	35,059	33,549
General Cargo (a)	31,708	34,074	31,653	28,878	25,226	27,360	26,854	24,735	25,278	23,387
Bulk Materials Handling Plant	2,562	3,057	3,796	3,230	3,330	2,908	5,191	5,152	4,692	4,210
Grain Elevator #2	2,766	2,298	1,375	2,140	2,872	2,350	2,311	2,264	1,294	2,371
Other Bulk Movements										
Excluding Bayport companies (b)	4,651	3,708	4,039	4,026	3,419	3,126	3,265	3,675	3,796	3,582
Including Bayport companies	5,165	5,005	5,815	6,007	9,992	9,424	9,016	8,843	8,975	8,892
Barbours Cut Terminal										
Bulk (b)	15	42	51	3	3	-	-	-	-	-
General cargo (a)	12,293	11,185	10,687	9,808	9,467	11,395	11,100	10,559	10,117	9,493
Bayport Container Terminal										
General cargo (a)	15,385	16,603	14,605	13,027	10,855	8,589	6,977	7,265	7,355	7,365
Steel (a)										
Import	2,202	3,980	4,303	3,626	2,288	4,643	6,343	4,350	5,093	3,674
Export	51	72	61	68	80	141	236	303	391	626
Autos - Turning Basin										
Tons - import (a)	98	134	152	141	161	168	129	143	176	124
Tons - export (a)	1	4	4	3	8	14	13	21	28	27
Units - import	44	61	74	74	83	82	63	71	94	65
Units - export	-	1	1	1	2	6	5	8	11	13
Bagged Goods (a)										
Import	196	263	133	232	168	167	65	53	137	309
Export	18	18	84	45	40	46	57	191	88	198
Container TEU	2,989	2,987	2,700	2,459	2,183	2,131	1,951	1,950	1,935	1,866

- Source: The Authority

- Note (a) Tonnage included in General Cargo above

- Note (b) Tonnage included in Bulk Cargo above

Port of Houston Authority of Harris County, Texas
Vessel Arrivals
(unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Houston Ship Channel										
Break bulk	565	623	642	667	744	883	987	1,019	998	914
Bulk carrier	724	773	743	860	827	876	1,003	809	729	702
Containers	1,091	1,041	962	912	940	1,003	1,012	966	1,013	1,037
Cruise	-	-	-	-	31	48	38	9	-	-
Roll-on/roll-off	-	-	6	30	35	12	9	29	49	49
Tankers	5,096	5,417	5,445	4,851	5,129	5,047	4,746	4,955	4,983	4,885
Tug Tow	443	412	450	503	448	384	386	369	454	355
Vehicle carrier	76	99	129	110	109	111	112	119	138	104
Other	12	10	10	13	6	12	46	16	31	27
Total Vessel Arrivals	8,007	8,375	8,387	7,946	8,269	8,376	8,339	8,291	8,395	8,073
PHA Public Wharves										
Turning Basin										
Ships	677	699	779	839	864	1,066	1,258	1,121	1,130	1,046
Barges	878	890	1,182	1,063	935	971	1,016	1,789	1,585	1,528
Bulk Plant, Jacintoport, Care, Woodhouse, and HPGE#2										
Ships	508	534	435	872	517	502	597	596	581	613
Barges	560	568	547	443	504	424	611	492	632	586
Barbours Cut										
Ships	571	554	527	500	560	581	664	822	771	688
Barges	5	35	54	33	36	98	113	23	88	51
Bayport Container Terminal										
Ships	522	523	476	463	490	494	356	349	355	374
Barges	62	111	172	164	175	119	107	68	63	59
Bayport Cruise Terminal										
Cruise	-	-	-	-	31	48	38	9	-	-
Layberth	-	-	-	-	-	42	39	42	48	56
Bayport Companies										
Ships	744	843	765	777	793	856	672	732	713	643
Barges	1,291	1,327	1,635	1,679	2,402	2,166	2,145	2,148	2,160	2,206
Total PHA Arrivals										
Ships (a)	3,097	3,165	3,005	3,027	3,248	3,528	3,654	3,661	3,593	3,409
Barges	3,526	3,673	4,480	4,153	4,693	4,348	4,611	4,521	4,533	4,441

- Source: Piers Global Intelligence Solutions

- Note (a) Included in Total Vessel Arrivals for the Houston Ship Channel

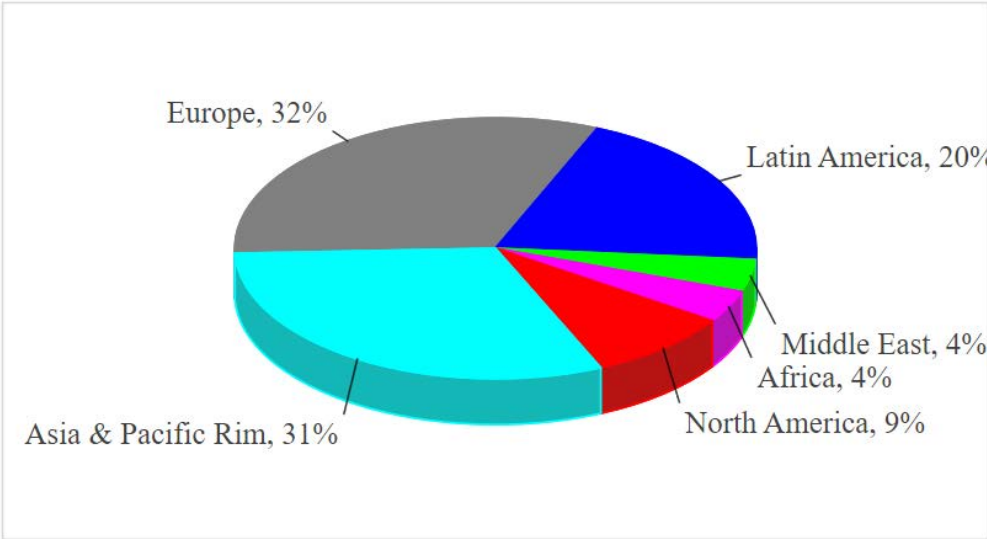
Port of Houston Authority of Harris County, Texas
Bulk Commodity Statistics
Last 10 Fiscal Years
 (in thousands)
 (short tons)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Coke	2,562	2,439	3,012	2,898	3,313	2,809	3,282	2,712	2,970	3,698
Coal	-	618	784	333	16	100	1,909	2,441	1,729	549
Fertilizer	138	109	90	71	90	51	62	75	18	-
Grain	2,766	2,298	1,375	2,140	2,872	2,350	2,311	2,264	1,286	2,376
Industrial Chemical	8,028	7,347	8,362	8,451	11,957	11,240	10,864	10,563	10,895	10,682
Molasses	336	367	301	242	243	255	253	249	263	241
Petroleum Products	286	444	645	554	508	458	361	581	621	509
Tallow	249	155	180	275	152	154	191	182	251	259
Dry Bulk	704	173	142	269	287	242	356	525	601	555
Vegetable Oil	76	119	135	170	175	150	194	341	105	178
Miscellaneous Bulk	-	-	-	-	-	-	-	-	17	7
Totals	15,145	14,069	15,026	15,403	19,613	17,809	19,783	19,933	18,756	19,054

- Source: The Authority

**Port of Houston Authority of Harris County, Texas
Foreign Trade through the Port of Houston**

2020 Foreign Trade Through the Port of Houston by Region (\$ Value)

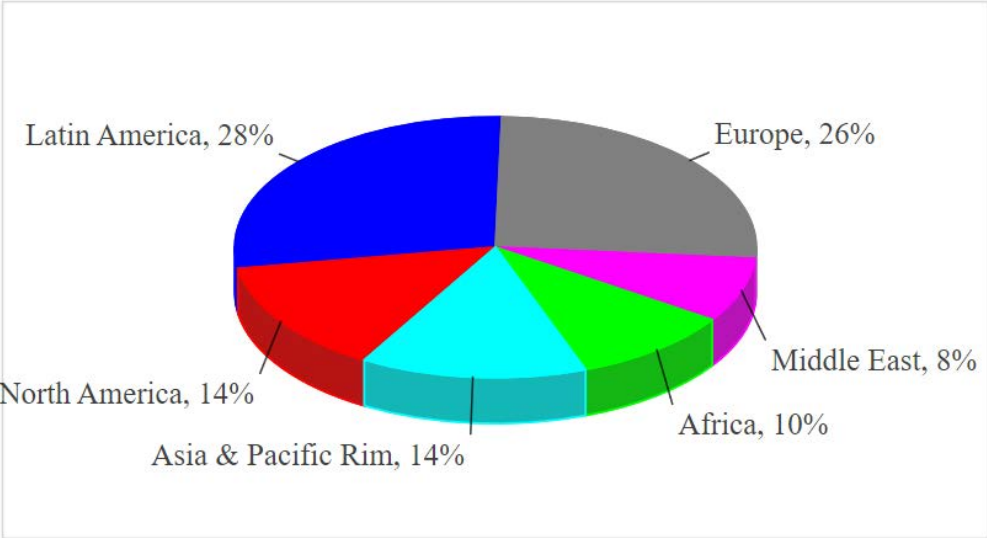


TRADE THROUGH THE PORT OF HOUSTON BY REGION IN 2020 (000s)

	Imports	Exports	Total	Percent of World Total
Europe	\$ 21,197,590	\$ 18,677,706	\$ 39,875,296	32 %
Asia & Pacific Rim	18,973,733	20,546,323	39,520,056	31 %
Latin America	6,216,196	19,453,579	25,669,775	20 %
North America	3,681,624	7,959,188	11,640,812	9 %
Middle East	1,639,479	3,354,689	4,994,168	4 %
Africa	805,092	4,043,832	4,848,924	4 %
Worldwide Totals	\$ 52,513,714	\$ 74,035,317	\$ 126,549,031	100 %

**Port of Houston Authority of Harris County, Texas
Foreign Trade through the Port of Houston**

2011 Foreign Trade Through the Port of Houston by Region (\$ Value)



TRADE THROUGH THE PORT OF HOUSTON BY REGION IN 2011 (000s)

	Imports	Exports	Total	Percent of World Total
Latin America	\$ 13,223,504	\$ 34,157,119	\$ 47,380,623	28 %
Europe	22,841,895	21,526,624	44,368,519	26 %
Asia & Pacific Rim	11,072,104	12,885,987	23,958,091	14 %
North America	14,012,150	9,183,475	23,195,625	14 %
Africa	10,801,265	6,265,068	17,066,333	10 %
Middle East	8,304,618	4,619,240	12,923,858	8 %
Worldwide Totals	\$ 80,255,536	\$ 88,637,513	\$ 168,893,049	100 %

- Source: Global Trade Atlas, U.S. Dept. of Commerce, Bureau of Census

**Port of Houston Authority of Harris County, Texas
Number of Regular Authority Employees by Type
Last Ten Fiscal Years**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Exempt Employees	248	244	222	215	207	199	179	183	182	190
Non Exempt Maintenance	226	229	211	215	171	169	205	194	206	237
Non Exempt Employees	208	210	219	190	219	215	158	151	154	151
Total Active Employees	<u>682</u>	<u>683</u>	<u>652</u>	<u>620</u>	<u>597</u>	<u>583</u>	<u>542</u>	<u>528</u>	<u>542</u>	<u>578</u>

- Source: The Authority





PORT OF HOUSTON AUTHORITY

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PortHouston.com

Port of Houston Authority of Harris County, Texas

Schedule of Expenditures of Federal Awards and Independent Auditor's Report

Year ended December 31, 2020

PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS

YEAR ENDED DECEMBER 31, 2020

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PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2020

<u>Federal Grantor/Pass-Through Grantor/Program Title/ Pass-Through Grantor's Award Number</u>	<u>Federal CFDA Number</u>	<u>Pass-through to Subrecipient</u>	<u>Expenditures</u>
U. S. Department of Homeland Security			
Direct Program			
Port Security Grant Program	97.056	\$ -	\$ 547,102
Pass Through: Texas Department of Emergency Management			
Public Assistance Grant Program			
000-UMGRI-00	97.036	-	4,001,671
Total U. S. Department of Homeland Security		-	4,548,773
U.S. Department of Transportation			
Pass Through: Houston-Galveston Area Council			
Supplemental Environment Project Funds			
LOCL.18.0605-03	20.205	-	72,438
Total U.S. Department of Transportation		-	72,438
U.S. Environmental Protection Agency			
Direct Program			
EPA/DERA National Clean Diesel Program	66.039	-	62,450
Total U.S. Environmental Protection Agency		-	62,450
 TOTAL		 \$ -	 \$ 4,683,661

The accompanying notes are an integral part of this schedule

PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2020

1. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

2. INDIRECT COST RATE

The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. PUBLIC ASSISTANCE GRANT PROGRAM

Public Assistance Grant Program expenditures of \$4,001,671 included on the schedule of expenditures of federal awards were incurred in prior years..

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Port Commission
Port of Houston Authority of Harris County, Texas
Houston, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and fiduciary activities of Port of Houston Authority of Harris County, Texas (the Authority), as of and for the year ended December 31, 2020, and the related notes to the financial statements, and have issued our report thereon dated May 5, 2021, which noted the 2019 financial statements were audited by other auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Houston, Texas
May 5, 2021

**Report on Compliance for the Major Federal Program; Report on
Internal Control over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

Independent Auditor's Report

Port Commission
Port of Houston Authority of Harris County, Texas
Houston, Texas

Report on Compliance for the Major Federal Program

We have audited Port of Houston Authority of Harris County, Texas' (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2020. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities and the fiduciary activities of Port of Houston Authority of Harris County, Texas, as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated May 5, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and

other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Houston, Texas
May 5, 2021

PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2020**

SECTION I - SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiencies identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over federal major programs:	
• Material weakness identified?	No
• Significant deficiencies identified?	None Reported
Type of auditor’s report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
97.036	Public Assistance Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	Yes
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SECTION II - FINANCIAL STATEMENT FINDINGS

The audit disclosed no findings required to be reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The audit disclosed no findings required to be reported.

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

The Bonds will be available only in book-entry form. Consequently, purchasers of ownership interests in the Bonds will not receive certificates representing their respective interests in the Bonds. This section describes how ownership of the Bonds is to be transferred and how the payments of principal of and interest on the Bonds are to be paid to and accredited by The Depository Trust Company, New York, New York (“DTC”), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Underwriters and the Authority believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The Authority cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission (“SEC”), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The 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 issue of the Bonds, each in the aggregate principal amount of such issue, 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 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 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Payments on the 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 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 Paying Agent/Registrar, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Paying Agent/Registrar, 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent/Registrar's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Paying Agent/Registrar as set forth in the Order. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

APPENDIX E

FORMS OF CO-BOND COUNSEL AND TAX COUNSEL OPINIONS

[Insert Orrick, Herrington and Sutcliffe LLP letterhead]

_____, 2021

Port of Houston Authority
111 East Loop North
Houston, Texas 77029

Port of Houston Authority of Harris County, Texas
First Lien Revenue Bonds, Series 2021 (Non-AMT)
(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel to the Port of Houston Authority of Harris County, Texas (the “Authority”) in connection with the issuance of \$322,180,000 aggregate principal amount of bonds designated as “Port of Houston Authority of Harris County, Texas First Lien Revenue Bonds, Series 2021 (Non-AMT)” (the “Bonds”). The Bonds are authorized by the Master Resolution adopted by the Port Commission of the Authority (the “Port Commission”) on September 28, 2021 (the “Master Resolution”), the Second Supplemental Resolution adopted by the Port Commission on October 26, 2021 (the “Second Supplemental Resolution”) and a pricing certificate executed on the date of the sale of the Bonds (the “Pricing Certificate” and, together with the Master Resolution and the Second Supplemental Resolution, the “Resolution”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the tax certificate executed by the Authority, dated the date hereof (the “Tax Certificate”), certificates of the Authority, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures provided to us and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the

rights and obligations under the Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Resolution has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Resolution creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Net Revenues and any other amounts held by the Authority in any fund or account established pursuant to the Resolution, except the Rebate Fund, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms set forth in the Resolution.
3. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of Texas or of any political subdivision thereof is pledged to the payment of the principal or interest on the Bonds. The Bonds are not a debt of the State of Texas, Harris County, Texas, the city of Houston, Texas or any other agency or political subdivision of the State of Texas, and such entities are not liable for the payment thereof.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

_____, 2021

Port of Houston Authority
111 East Loop North
Houston, Texas 77029

Port of Houston Authority of Harris County, Texas
First Lien Revenue Bonds, Series 2021 (Non-AMT)

Ladies and Gentlemen:

We have acted as co-bond counsel to the Port of Houston Authority of Harris County, Texas (the “Authority”) in connection with the issuance of \$322,180,000 aggregate principal amount of bonds designated as “Port of Houston Authority of Harris County, Texas First Lien Revenue Bonds, Series 2021 (Non-AMT)” (the “Bonds”). The Bonds are authorized by the Master Resolution adopted by the Port Commission of the Authority (the “Port Commission”) on September 28, 2021 (the “Master Resolution”), the Second Supplemental Resolution adopted by the Port Commission on October 26, 2021 (the “Second Supplemental Resolution”) and a pricing certificate executed on the date of the sale of the Bonds (the “Pricing Certificate” and, together with the Master Resolution and the Second Supplemental Resolution, the “Resolution”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, certificates of the Authority, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures provided to us and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. We call attention to the fact that the rights and obligations under the Bonds and the Resolution and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Resolution has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Resolution creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Net Revenues and any other amounts held by the Authority in any fund or account established pursuant to the Resolution, except the Rebate Fund, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms set forth in the Resolution.
3. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of Texas or of any political subdivision thereof is pledged to the payment of the principal or interest on the Bonds. The Bonds are not a debt of the State of Texas, Harris County, Texas, the city of Houston, Texas or any other agency or political subdivision of the State of Texas, and such entities are not liable for the payment thereof.

Respectfully,

WEST & ASSOCIATES, L.L.P.

APPENDIX F

SUMMARY OF TABLES RELATED TO CONTINUING DISCLOSURE OF INFORMATION

Table 1	—	Physical Characteristics of the Port Facilities of the Authority
Table 2	—	Container Geographic Trade Lanes – Fiscal Year 2020
Table 3	—	Volumes of Containerized Import and Export Commodities – Fiscal Year 2020 (in TEUs)
Table 4	—	Revenue Tonnage
Table 5	—	Vessel Arrivals
Table 6	—	Operating Revenues by Type
Table 7	—	Revenue Cargo by Type
Table 8	—	Top Ten Authority Customers (Ten-Year Comparison)
Table 9	—	Top Ten Authority Exporters and Importers
Table 10	—	Top Ten Authority Tenants
Table 11	—	Statement of Revenues, Expenses and Changes in Net Position
Table 12	—	Current Investment Distribution
Table 13	—	Debt Service Schedule
Table 14	—	Historical Net Revenue Available for Debt Service
Table 15	—	Projected Operating Results and First Lien Debt Service Coverage

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