

## OFFICIAL STATEMENT DATED NOVEMBER 19, 2002

*In the opinion of Co-Bond Counsel (i) interest on the Series 2002A Bonds and Series 2002B Bonds will be excludable from gross income for federal income tax purposes under existing law; (ii) interest on the Series 2002A Bonds is not an item of tax preference for purposes of determining the alternative minimum tax imposed on individuals and corporations; and (iii) interest on the Series 2002B Bonds is an item of tax preference for purposes of determining the alternative minimum tax imposed on individuals and corporations. See "TAX EXEMPTION" herein for a discussion of Co-Bond Counsel's Opinions.*

**PORT OF HOUSTON AUTHORITY  
OF**

**HARRIS COUNTY, TEXAS**

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

<b>\$16,000,000</b>	<b>\$7,060,000</b>
<b>UNLIMITED TAX PORT IMPROVEMENT BONDS, SERIES 2002A (NON-AMT)</b>	<b>UNLIMITED TAX REFUNDING BONDS, SERIES 2002B (AMT)</b>

**Interest Accrual Date: Date of Delivery**

**Due: October 1, as shown on the inside cover page**

The Bonds being offered hereby are Port of Houston Authority of Harris County, Texas, Unlimited Tax Port Improvement Bonds, Series 2002A (Non-AMT) (the "Series 2002A Bonds"), and Port of Houston Authority of Harris County, Texas, Unlimited Tax Refunding Bonds, Series 2002B (AMT) (the "Series 2002B Bonds"), (collectively, the "Bonds"). The Bonds are payable from the receipts of separate annual ad valorem taxes, without legal limit as to rate, levied on taxable property within the Port of Houston Authority of Harris County, Texas (the "Authority"). The Bonds are not issued by, nor are they in any way obligations of, Harris County, Texas. See "DESCRIPTION OF THE BONDS— Source of Payment of the Bonds" herein.

The Bonds will be issued only in fully-registered form in the denomination of \$5,000, or integral multiples thereof, 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 shall be payable to Cede & Co., which will, in turn, remit such amounts to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS—Book-Entry Only System" herein.

Interest on the Bonds accrues from the date of delivery and is payable on each April 1 and October 1 commencing April 1, 2003, until the earlier of maturity or redemption, by check mailed to the registered owner of record as of the 15th day of the month next preceding each interest payment date. JPMorgan Chase Bank, Dallas, Texas, is the initial paying agent/registrant (the "Paying Agent/Registrar") for the Bonds. Principal of the Bonds is payable upon presentation of the Bonds to the Paying Agent/Registrar at maturity or earlier redemption date. See "DESCRIPTION OF BONDS—General" herein.

Certain of the Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE BONDS—Redemption" herein.

**SEE INSIDE COVER PAGE FOR MATURITY AND PRICING SCHEDULE**

The Bonds are offered for delivery, when, as and if issued by the Authority, subject to the approving opinions of the Attorney General of Texas, and the opinions of Andrews & Kurth L.L.P., Houston, Texas, and Law Offices of Francisco Medina, Houston, Texas, Co-Bond Counsel. Certain legal matters will be passed upon for the Authority by its Special Disclosure Counsel, Vinson & Elkins, L.L.P., Houston, Texas. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski, L.L.P. and Burney & Foreman, Houston, Texas. The Bonds are expected to be available for delivery through DTC on or about December 12, 2002.

**FIRST SOUTHWEST COMPANY**

**JPMORGAN**

**BANC ONE CAPITAL  
MARKETS, INC.**

**BEAR, STEARNS &  
CO. INC.**

**ESTRADA HINOJOSA  
& COMPANY, INC.**

**RAMIREZ & CO., INC.**

**\$16,000,000 SERIES 2002A BONDS (NON-AMT)**

**Series 2002A Serial Bonds**

<u>Maturity Date</u> <u>October 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/Yield</u>	<u>CUSIP</u>	<u>Maturity Date</u> <u>October 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/Yield</u>	<u>CUSIP</u>
2005	\$ 445,000	3.000%	2.080%	734260A85	2014	\$ 600,000	4.125%	4.220%	734260B92
2006	460,000	3.000	2.420	734260A93	2015	625,000	4.300	4.370	734260C26
2007	475,000	3.000	2.760	734260B27	2016	650,000	4.400	4.510	734260C34
2008	485,000	3.100	3.070	734260B35	2017	680,000	4.500	4.610	734260C42
2009	500,000	3.250	3.280	734260B43	2018	710,000	4.600	4.710	734260C59
2010	520,000	3.500	3.530	734260B50	2019	745,000	4.750	4.810	734260C67
2011	535,000	3.750	3.750	734260B68	2020	780,000	4.800	4.910	734260C75
2012	555,000	3.850	3.850	734260B76	2021	815,000	5.000	5.010	734260C83
2013	580,000	4.000	4.050	734260B84	2022	860,000	5.000	5.060	734260C91

**Series 2002A Term Bonds**

\$4,980,000 – 5.000% Term Bond Due October 1, 2027      Yield 5.130%      CUSIP:734260D25

**\$7,060,000 SERIES 2002B BONDS (AMT)**

**Series 2002B Serial Bonds**

<u>Maturity Date</u> <u>October 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/Yield</u>	<u>CUSIP</u>	<u>Maturity Date</u> <u>October 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/Yield</u>	<u>CUSIP</u>
2003	\$1,155,000	5.500%	1.750%	734260D33	2009	\$535,000	4.125 %	3.630%	734260D90
2004	1,095,000	4.500	2.050	734260D41	2010	525,000	4.125	3.860	734260E24
2005	575,000	4.250	2.420	734260D58	2011	510,000	4.125	4.050	734260E32
2006	565,000	4.250	2.750	734260D66	2012	500,000	4.125	4.150	734260E40
2007	560,000	4.125	3.120	734260D74	2013	490,000	4.250	4.350	734260E57
2008	550,000	4.125	3.420	734260D82					

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 shall 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 shall, 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 OVER-ALLOT 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.**

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## OFFICIAL STATEMENT SUMMARY

*This Summary, being part of the Official Statement, is subject in all respects to the more complete information contained therein. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Summary from the Official Statement or otherwise to use same without the entire Official Statement.*

- Issuer** ..... Port of Houston Authority of Harris County, Texas, (the "Authority") a political subdivision of the State of Texas having boundaries coterminous with Harris County, Texas (the "County").
- Issue** ..... Port of Houston Authority of Harris County, Texas, Unlimited Tax Port Improvement Bonds, Series 2002A (Non-AMT) (the "Series 2002A Bonds"), and Port of Houston Authority of Harris County, Texas, Unlimited Tax Refunding Bonds, Series 2002B (AMT) (the "Series 2002B Bonds"), (together, the "Bonds"), each issued pursuant to the provisions of a separate order (together, the "Orders"), adopted by the Commissioners Court of the County (the "Commissioners Court"), on behalf of the Authority.
- Use of Proceeds** ..... Proceeds of the Series 2002A Bonds will be used to pay a portion of the costs of projects to acquire, purchase, construct, enlarge, extend, repair or develop facilities or aids incident to or useful or necessary in the operation or development of the Authority's ports and waterways or in aid of navigation and commerce thereon, including but not limited to costs of deepening and widening the Houston Ship Channel (the "Houston Ship Channel" or the "Channel," and to pay costs of issuance. Proceeds of the Series 2002B Bonds will be used to refund certain outstanding bonds. See "PLAN OF FINANCING."
- Payment Record**..... The Authority has never defaulted in paying the principal of or interest on any of its bonds.
- Ratings**..... See "RATINGS" herein.
- Amounts, Maturities, and Redemption** ..... The Bonds mature in the amounts shown on the inside cover page hereof. The Bonds maturing on or after October 1, 2013, may be redeemed by the Authority before maturity in whole or, from time to time, in part, on October 1, 2012, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption, upon 30 days written notice to the registered owners thereof. Certain of the Series 2002A Bonds are Term Bonds subject to mandatory redemption.
- Book-Entry-Only System** ..... The Bonds are initially issuable only to Cede & Co., as nominee for DTC, pursuant to a book-entry only system. No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Principal and interest will be paid to Cede & Co., which will distribute such payment to the participating members of DTC for remittance to the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS—Book-Entry Only System" herein. The initial Paying Agent/Registrar for the Bonds is JPMorgan Chase Bank, Dallas, Texas.
- Interest Payment Dates** ..... Interest on the Bonds accrues from the date of delivery and is payable on each April 1 and October 1, commencing April 1, 2003, until the earlier of maturity or redemption, by check mailed to the registered owner of record as of the 15th day of the month next preceding each interest payment date. See "DESCRIPTION OF THE BONDS—General."
- Source of Payment**..... Each series of Bonds is payable from the receipts of a separate annual ad valorem tax, without legal limit as to rate, levied on taxable property within the Authority. See "DESCRIPTION OF THE BONDS—Source of Payment of the Bonds" and "AD VALOREM TAXES."
- Legal Investments and Eligibility to Secure Public Funds in Texas** ..... The Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. The "Public Funds Collateral Act," Chapter 2257, Texas Government Code, provides that deposits of public funds, as defined in such chapter, must be secured by eligible security. "Eligible Security" is defined to include a general or special obligation, payable from taxes, revenues or a combination of taxes and revenues, issued by political subdivisions such as the Authority that have a current investment rating from a nationally recognized rating agency of not less than "A," or its equivalent. See "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS."

**SELECTED AD VALOREM TAX DATA**

(dollar amounts in thousands)

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Total Assessed Value, Net of Exemptions	\$167,461,141 <sup>(a)</sup>	\$153,619,037	\$141,086,345	\$130,390,777	\$124,232,634
Ad Valorem Tax Rate (Per \$100 of Assessed Value)	\$0.01826	\$0.01830	\$0.02040	\$0.02132	\$0.01959
Total Tax Levy	\$30,630	\$28,153	\$28,788	\$27,819	\$24,250
Current Collections of Ad Valorem Taxes Levied <sup>(b)</sup>	\$29,531 <sup>(d)</sup>	\$27,270	\$26,989	\$26,013	\$22,702
Current Collections as a Percentage of Ad Valorem Taxes Levied	96.4% <sup>(d)</sup>	96.9%	93.7%	93.5%	93.6%
Total Ad Valorem Collections <sup>(c)</sup>	\$30,419 <sup>(d)</sup>	\$28,068	\$27,673	\$26,593	\$23,224
Total Collections as a Percentage of Ad Valorem Taxes Levied	99.3%	99.7%	96.1%	95.6%	95.8%
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Authority Ad Valorem Tax Bonds Outstanding	\$324,705	\$263,475	\$259,985	\$258,945	\$182,410
Authority Ad Valorem Tax Bonds Outstanding as a Percentage of Assessed Value	0.19%	0.17%	0.18%	0.20%	0.15%

<sup>(a)</sup> Estimates based upon Appraisal District tax abatement as of June 22, 2002.

<sup>(b)</sup> Taxes levied in any year which are collected beginning October 1 of such year through June 30 of the following year are shown as current collections. Such amounts include that portion of the current levy collected on or after February 1, the date taxes become legally delinquent. See "AD VALOREM TAXES" herein.

<sup>(c)</sup> Such amounts include collections of delinquent taxes from prior years' levies of taxes collected during the period beginning on July 1 of the year shown and ending on June 30 of the following year.

<sup>(d)</sup> As of June 30, 2002.

Source: Harris County Tax Assessor-Collector

# OFFICIAL STATEMENT

Relating to

## PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS

<b>\$16,000,000</b>	<b>\$7,060,000</b>
<b>UNLIMITED TAX</b>	<b>UNLIMITED TAX</b>
<b>PORT IMPROVEMENT</b>	<b>REFUNDING BONDS,</b>
<b>BONDS, SERIES 2002A</b>	<b>SERIES 2002B</b>
<b>(NON-AMT)</b>	<b>(AMT)</b>

### INTRODUCTORY STATEMENT

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 coterminous with Harris County, Texas (the "County"), of the above captioned bonds (the "Series 2002A Bonds," and the "Series 2002B Bonds", together, the "Bonds"). The Bonds of each series are issued pursuant to the provisions of a separate order (together, the "Orders") adopted by the Commissioners Court of the County (the "Commissioners Court") on behalf of the Authority.

The Authority is a navigation district and a political subdivision of the State. The Authority owns and operates public wharves, docking facilities, freight handling facilities and related equipment, land, warehouses, railroad rights-of-way and trackage on the Houston Ship Channel (the "Houston Ship Channel" or the "Channel"). The Channel represents the heart of the Port of Houston ("Port") complex and extends 50 miles inland and links the City of Houston with the Gulf of Mexico. The Authority also owns and operates a channel and turning basin at the Bayport Industrial Complex near Houston. Because the Authority's boundaries are coterminous with those of the County, certain of the Authority's officials are also County officials. See "THE AUTHORITY" herein. Although the Bonds are issued pursuant to the provisions of Orders adopted by the Commissioners Court, the Bonds are not obligations of the County. The Bonds also are not obligations of the City of Houston, Texas. See "DESCRIPTION OF THE BONDS—Source of Payment of the Bonds."

The Authority's financial statements, included in this Official Statement as APPENDIX A, present information on the general financial condition of the Authority at the dates and for the periods shown. The Bonds, however, are payable solely from the receipts of separate annual unlimited ad valorem taxes, and the inclusion of such statements and other financial information is not intended to imply that any other tax receipts, revenues, or moneys of the Authority are to be used to pay the principal of or interest on the Bonds. The Authority will also adopt two separate Orders (the "Authority Orders") authorizing the sale of the Bonds of both series, containing Continuing Disclosure Agreements and authorizing and approving certain other matters in connection with the issuance and delivery of the Bonds.

### PLAN OF FINANCING

#### Port Improvements

Proceeds of the Series 2002A Bonds will be used to pay a portion of the costs of projects to acquire, purchase, construct, enlarge, extend, repair or develop facilities or aids incident to or useful or necessary in the operation or development of the Authority's ports and waterways or in aid of navigation and commerce thereon, including but not limited to costs of deepening and widening the Channel, and to pay costs of issuance. See "THE AUTHORITY—Authority's Capital Improvement Program."

**Refunding**

Proceeds of the Series 2002B Bonds will be used to refund the Authority's Unlimited Tax Port Improvement Bonds, Series 1992A and Series 1992B described in Appendix D (the "Refunded Bonds") and to pay costs of issuance. The Refunded Bonds and interest due thereon are to be paid on the scheduled interest payment, call or maturity dates of each such obligation, as the case may be, from funds to be deposited with JPMorgan Chase Bank, Dallas, Texas (the "Escrow Agent") to the Escrow Fund created under the Escrow Agreement to be entered into by the Authority and the Escrow Agent (the "Escrow Agreement").

The Order and Authority Order for the Series 2002B Bonds each provides that from the proceeds of the sale of the Series 2002B Bonds to the Underwriters, there will be deposited with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in the Escrow Fund, which is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

By such deposit with the Escrow Agent pursuant to the Escrow Agreement, the Authority will have effected the defeasance of the Refunded Bonds, pursuant to the terms of the respective orders authorizing the Refunded Bonds and in accordance with applicable law, including Chapter 1207, Texas Government Code, as amended. It is the opinion of Co-Bond Counsel that, as a result of such defeasance, the Refunded Bonds will no longer be payable from ad valorem taxes but will be payable solely from the funds held for such purpose by the Escrow Agent, and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the Authority for the purpose of any limitation of indebtedness or taxation or for any other purpose.

**SOURCES AND USES OF FUNDS**

**Series 2002A Bonds**

The proceeds from the sale of the Series 2002A Bonds will be applied approximately as follows:

Sources of Funds:

Principal Amount of the Series 2002A Bonds .....	\$ 16,000,000.00
Net Original Issue Discount .....	<u>(125,153.50)</u>
Total Sources of Funds .....	<u>\$ 15,874,846.50</u>

Uses of Funds:

Deposit to Project Fund.....	\$ 15,595,256.75
Underwriters' Discount .....	125,920.00
Issuance Expenses.....	<u>153,669.75</u>
Total Uses of Funds .....	<u>\$ 15,874,846.50</u>

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**Series 2002B Bonds**

The proceeds from the sale of the Series 2002B Bonds will be applied approximately as follows:

Sources of Funds:

Principal Amount of the Series 2002B Bonds .....	\$ 7,060,000.00
Net Reoffering Premium .....	<u>207,996.85</u>
Total Sources of Funds .....	<u>\$ 7,267,996.85</u>

Uses of Funds:

Refunding Escrow Deposit: .....	\$ 7,152,873.28
Underwriters' Discount .....	58,033.20
Issuance Expenses .....	<u>57,090.37</u>
Total Uses of Funds .....	<u>\$ 7,267,996.85</u>

**DESCRIPTION OF THE BONDS**

**General**

The Bonds will be dated October 15, 2002, but will accrue interest from the date of their delivery, calculated on the basis of a 360 day year composed of twelve 30-day months. The Bonds will bear interest at the per annum rates shown on the inside cover page hereof. Interest on the Bonds will be payable April 1 and October 1 of each year, commencing April 1, 2003, until maturity or earlier redemption, and will be payable by check mailed first class, postage prepaid on or before the interest payment date to the registered owners as of the 15th day of the month next preceding each interest payment date. The Bonds are issued only as fully-registered Bonds in the denomination of \$5,000 principal amount or any integral multiple thereof.

**Authority for the Bonds**

The Bonds are issued pursuant to the provisions of the Constitution and laws of the State of Texas, including particularly (i) Article XVI, Section 59 of the Texas Constitution, (ii) Chapter 117, Acts of the 55<sup>th</sup> Legislature, Regular Session, 1957, as amended, (iii) Chapter 1201, Texas Government Code (formerly Article 717k-6, Texas Revised Civil Statutes), (iv) Chapter 1371, Texas Government Code (formerly Article 717q, Texas Revised Civil Statutes), (v) Chapter 1207, Texas Government Code (formerly Article 717k, Texas Revised Civil Statutes) for Series 2002B refunding bonds only, (vi) the Orders and (vii) the Authority Orders. The Series 2002A Bonds were authorized at an election held November 7, 1989.

**Source of Payment of the Bonds**

Both series of Bonds are payable from the receipts of a separate annual ad valorem tax, unlimited as to rate, levied on taxable property within the Authority. See "AD VALOREM TAXES." Pursuant to the provisions of the Orders, the Commissioners Court, on behalf of the Authority, has levied and agreed to assess and collect these annual ad valorem taxes. In each year the Commissioners Court, on behalf of the Authority, will determine the specific tax to be collected to pay interest as it accrues and principal as it matures on the Bonds of both series and will assess such taxes for that year. The receipts of such taxes are to be credited to separate funds to be used solely for the payment of the principal of and interest on the Bonds.

**Redemption**

**Optional Redemption.** The Bonds maturing on or after October 1, 2013, are subject to redemption at the option of the Authority, as a whole or from time to time in part in integral multiples of \$5,000 principal amount on any date on or after October 1, 2012, upon payment of a redemption price equal to 100% of the principal amount

thereof, plus accrued interest on the Bonds called for redemption from the most recent interest payment date to the redemption date.

**Series 2002A Bonds Scheduled Mandatory Redemption.** The Series 2002A Bonds maturing in 2027 (the "Series 2002A Term Bond") is subject to mandatory redemption prior to maturity in the amount and on the date set out below, at a price equal to the principal amount to be redeemed plus accrued interest to the redemption date:

\$4,980,000 Series 2002A Bonds Maturing October 1, 2027

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
October 1, 2023	\$ 900,000
October 1, 2024	945,000
October 1, 2025	995,000
October 1, 2026	1,045,000
October 1, 2027 (maturity)	1,095,000

The principal amount of Term Bonds to be mandatorily redeemed each year shall be reduced by the principal amount of Term Bonds that have been optionally redeemed on or before August 15 of such year and which have not been made the basis of a previous reduction.

**Method of Selecting Bonds to be Redeemed.** If less than all of the Bonds of a series are to be redeemed, the Authority may select the maturity or maturities within such series to be redeemed. If less than all of the Bonds of any maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed shall be selected by lot or other random method in integral multiples of \$5,000. In selecting for redemption portions of Bonds in denominations larger than \$5,000, each such Bond will be treated as representing that number of Bonds of \$5,000 denomination that is obtained by dividing the principal amount of such Bond by \$5,000.

**Notice of Redemption.** Any notice of redemption identifying the series of Bonds or portions thereof to be redeemed shall be sent to the registered owners thereof by first class mail not less than 30 days prior to the date fixed for redemption, but neither the failure to give such notice nor any defect therein shall affect the sufficiency of notice given to Bondholders.

**Partial Redemption.** Any Bond which is to be redeemed only in part shall be surrendered to the Paying Agent/Registrar (with, if the Authority or the Paying Agent/Registrar so requires, due endorsement by, or written instrument of transfer in form satisfactory to the Authority and the Paying Agent/Registrar duly executed by, the holder thereof or such holder's authorized representative), and the Authority shall execute and the Paying Agent/Registrar shall authenticate and deliver to the holder of such a new Bond or Bonds of the same series and maturity and of any authorized denomination or denominations as requested by such holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

### **Book-Entry Only System**

The Depository Trust Company ("DTC"), New York, New York, 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). One fully-registered Bond certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participant's accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities

Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodian relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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 Bond (the "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, but Beneficial Owners are 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 interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no 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 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.

Redemption notices shall be sent to Cede & Co. 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. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date of the Bonds in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. 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 principal and interest to DTC is the responsibility of the Authority, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants. The Authority and the Paying Agent/Registrar cannot give any assurances that DTC, Direct Participants, Indirect Participants, or others will distribute payment of the principal and interest on the Bonds paid to DTC, or its nominee, as the registered owner, or that they will do so on a timely basis or that DTC, DTC Participants, or Indirect Participants will serve and act in the manner described in the Official Statement.

DTC may discontinue providing its services as securities depository with respect to a series of the Bonds at any time by giving reasonable notice to the Authority or the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates for such series are required to be printed and delivered as provided in the Orders.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) for a series of Bonds. In that event, Bond certificates will be printed and delivered for such series as provided in the Orders.

***Use of Certain Terms in Other Sections of this Official Statement.*** 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 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 Orders will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Authority or the Initial Purchasers.

### **Ownership**

The Authority, the Paying Agent/Registrar and any agent of either may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of the principal and redemption price thereof, and for the further purpose of making and receiving payment of the interest thereon, and for all other purposes. Neither the Authority, the Paying Agent/Registrar nor any agent of either of them shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the owner of any Bond in accordance with the appropriate Order shall be valid and effective and shall discharge the liabilities of the Authority and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

### **Transfers and Exchanges**

A bond register relating to the registration, payment, and transfer or exchange of the Bonds of both series (the "Bond Registers") will be kept and maintained by the Authority, at the corporate trust office of the Paying Agent/Registrar, as provided in the Orders and in accordance with the provisions of an agreement with the Paying Agent/Registrar and such rules and regulations as the Paying Agent/Registrar and the Authority may prescribe.

Whenever the Paying Agent/Registrar is a banking or trust corporation or association not domiciled in the State, the Authority will cause the Paying Agent/Registrar to keep a copy of the Bond Register with the Authority in the Authority's offices in Houston, Texas. Any Bond may be transferred or exchanged for Bonds of the same series in other authorized denominations (within the maturity) and of like aggregate principal amount (less, in the case of partial redemption thereof, the amount so redeemed) by the registered owner, in person or by its duly authorized agent, upon surrender of such Bonds to the Paying Agent/Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the registered owner or by his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

Upon surrender of any Bonds for transfer at the corporate trust office of the Paying Agent/Registrar, the Authority shall execute and the Paying Agent/Registrar shall register and deliver, in the name of the designated transferee or transferees, one or more new Bonds of authorized denominations (within the same maturity) and of like series, aggregate principal amount, and maturity as the Bond or Bonds surrendered for transfer.

All Bonds issued in any transfer or exchange of Bonds shall be delivered to the registered owners and upon the registration and delivery thereof, the same shall be the valid obligations of the Authority evidencing the same obligation to pay, and entitled to the same benefits under the Order authorizing the issuance of such Bonds, as the Bonds surrendered in such transfer or exchange.

All transfers or exchanges of Bonds pursuant to the Order authorizing the issuance of such Bonds shall be made without expense or service charge to the registered owner, except that the Paying Agent/Registrar shall require payment by the registered owner requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange.

### **Amendments**

The Commissioners Court on behalf of the Authority may, without the consent of or notice to any Bondholder, from time to time and at any time, amend an Order in any manner not detrimental to the interest of the Bondholders, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the Commissioners Court, on behalf of the Authority, may, with the written consent of Bondholders holding a majority in aggregate principal amount of the Bonds of a series then outstanding and affected thereby,

amend, add to or rescind any of the provisions of the Order authorizing such series, provided that, without the consent of all Bondholders of outstanding Bonds of such series affected thereby, no such amendment, addition or rescission shall (1) change the maturity of such Bonds or any Interest Payment Date for an installment of interest thereon, reduce the principal amount thereof or the rate or interest thereon, change the places at, or the coin or currency in, which any such Bond or the interest thereon is payable or in any other way modify the terms of payment of the principal of or interest on such Bonds, (2) give any preference to any such Bond over any other such Bond, or (3) reduce the aggregate principal amount of Bonds required to consent to any such amendment, addition or rescission, except to increase the percentage provided thereby or to provide that certain other provisions of the Order cannot be modified or waived without the consent of the owners of the Bonds of the related series.

### **Defeasance**

The Commissioners Court, on behalf of the Authority, may defease any or all of the Bonds of a series pursuant to the provisions of its related Order and discharge its obligations to the Registered Owners in any manner permitted by law, including without limitation by depositing with the Paying Agent/Registrar, or with the State Treasurer of the State, either (i) cash in an amount equal to the principal amount and redemption price of the Bonds of such series plus interest thereon to the date of maturity or redemption, or (ii) pursuant to an escrow or trust agreement, cash and/or direct obligations the principal and interest of which are guaranteed by the United States of America, in principal amounts and maturities and bearing interest rates sufficient to provide for the timely payment of the principal amount and redemption price of such Bonds plus interest thereon to the date of maturity or redemption; provided, however, that if any of such Bonds are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving notice of redemption as provided in the related Order. Upon such deposit, such Bonds shall no longer be regarded to be outstanding or unpaid.

### **AD VALOREM TAXES**

The Commissioners Court is responsible for levying taxes on behalf of the Authority. While the Authority's rates of taxation differ from the County's, the procedures for assessing, levying and collecting tax are, except as otherwise described below, substantially the same as those followed by the County.

### **Property Subject to Taxation**

Except for certain exemptions provided by State law, all real and certain tangible personal property and certain intangible personal property with a tax situs in the County is subject to taxation by the County. The County's assessed value, less the assessed value of the rolling stock of railroads and intangible properties of railroads and certain common carriers, is the assessed value used by the Commissioners Court to determine the tax rate for the Authority's levy. Principal categories of exempt property include: property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property, located in designated reinvestment zones, on which ad valorem taxes have been abated for a specified period of time pursuant to tax abatement agreements; farm products owned by the producer; certain property owned by qualified charitable, religious, veterans, youth, fraternal or educational organizations; property of a nonprofit corporation that is used in scientific research and educational activities benefiting a college or university; designated historic sites; solar and wind powered energy devices; nonprofit cemeteries; and tangible personal property not held or used for production of income.

### **Valuation of Property for Taxation**

The Property Tax Code of Texas (the "Property Tax Code") generally requires all taxable property (except property utilized for a qualified "agricultural use" and timberland) to be appraised at 100% of market value as of January 1 of each year. Residential property that has never been occupied as a residence and is being held for sale is treated as inventory for property tax purposes. The appraisal of taxable property for the County (including certain railroad rolling stock and certain intangible property of railroads and certain common carriers, which still is appraised by the State) and all other taxing entities in the County, including the Authority, is the responsibility of the Harris County Appraisal District (the "Appraisal District"), a county-wide agency created under the Property Tax Code for that purpose.

The Appraisal District is governed by a five-member board whose members are appointed by vote of the Commissioners Court and the governing bodies of the cities, towns, school districts and, upon request, conservation and reclamation districts in the County under a voting system weighted in direct proportion to the amount of taxes imposed by the voting entities. Cumulative voting for Appraisal District Board members is permitted, and, through the exercise of that right, the Commissioners Court, the Houston City Council and the Houston Independent School District Board of Education may each select one member.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of all taxable property in the County, and reappraisal must be effected at least once every three years. The Appraisal District has established a schedule of reappraisal for different classifications of property to comply with such requirements.

Taxable values determined by the chief appraiser of the Appraisal District are submitted for review and equalization to an Appraisal Review Board, (the "Appraisal Review Board") appointed by the Appraisal District. Appraisals may be contested before the Appraisal Review Board by taxpayers or, under limited circumstances, the County, and the Appraisal Review Board's orders are appealable to a State district court.

### **Limitations on Tax Rate Increases**

The Commissioners Court is required to set its tax rate before the later of September 30 or the 60th day after the certified appraisal roll is received by the County. If the Commissioners Court does not adopt a tax rate before the required date, the tax rate for the County is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the County for the preceding tax year. Such rates are based on the assessed values at January 1 of each year, as shown on the tax roll approved by the Appraisal Review Board, which must be used by the County for such purpose. The Tax Code imposes limitations on certain tax increases. The Commissioners Court may under certain circumstances be required to publish notice and hold a public hearing on a proposed tax rate before voting on the tax rate. If the tax rate adopted exceeds by more than 8% the rate needed to pay debt service and certain contractual bonds, and to produce, when applied to the property which was on the prior year's roll, the prior year's taxes levied for purposes other than debt service and such contractual bonds, such excess portion of the levy may be repealed at an election within the County held upon petition of 10% of the qualified voters of the County.

### **Collections, Penalty and Interest**

The County Tax Assessor-Collector is responsible for collection of taxes. The Property Tax Code contains provisions that allow the assessment and collection of County taxes by the Appraisal District or another taxing unit if the Commissioners Court elects to enter into a contract for that purpose and the County Tax Assessor-Collector approves such contract. The Property Tax Code also provides for assessment and collection of County taxes by the Appraisal District or another taxing unit in the County if that procedure is approved at an election, which may be initiated by petition of 10,000 qualified voters of the County.

Tax statements are required to be mailed by September 1, or as soon thereafter as practicable, and taxes become delinquent on February 1 of the following year. If tax statements are mailed after January 10, the delinquency date is postponed to the first day of the next month that will provide a period of at least 21 days between the date the statement is mailed and the date taxes become delinquent. So long as the Commissioners Court or voters of the County have not transferred responsibility for collection of the taxes to another taxing unit or the Appraisal District, the Commissioners Court may permit payment without penalty or interest of one-half of the taxes due from each taxpayer by July 1 if one-half of the taxes due for the current year from such taxpayers are paid prior to December 1. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, 1% for each month thereafter to July 1, and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. If the delinquency date is postponed, then the postponed date is the date from which penalty and interest accrue on the delinquent taxes. The Authority may impose an additional penalty for collection costs for certain delinquent taxes if the Authority has contracted with a collection attorney. The Authority may waive penalties and interest on delinquent taxes if the error or omission of a representative of the Authority or of the Appraisal District, as applicable, caused the failure to pay the tax before delinquency and if the tax is paid within 21 days after the taxpayer knows or should know of the delinquency.

## **Tax Liens**

The Property Tax Code provides that on January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the Authority, having power to tax the property. The tax lien on real property has priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the other debt or lien existed before the attachment of the tax lien. Taxes levied by the Authority are the personal obligation of the property owner and, under certain circumstances, personal property is subject to seizure and sale for the payment of delinquent taxes, penalty and interest thereon. Except with respect to taxpayers 65 and older, any time after taxes on property become delinquent, the Authority may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax or both. In filing a suit to foreclose a tax lien on real property, the Authority must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the Authority to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, certain affirmative defenses, adverse market conditions affecting the liquidation of such property, taxpayer redemption rights, general principles of equity or bankruptcy proceedings that restrain the collection of a taxpayer's debt.

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## AUTHORITY AD VALOREM TAXES

**Table 1 - Table of Authority Tax Rates**

The following table shows the ad valorem tax rates per \$100 of assessed value levied by the County on behalf of the Authority, for each of the tax years 1997 through 2001. The table does not show the ad valorem tax rates levied by other County-wide taxing entities. See "AUTHORITY AD VALOREM TAXES—County-Wide Ad Valorem Tax Rates." The tax year of the Authority is the calendar year. The ad valorem tax rate that the Commissioners Court may levy on behalf of the Authority to pay the Authority's tax bonds is unlimited.

<u>Purpose</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Debt Service	\$0.01826	\$0.01830	\$0.02040	\$0.02132	\$0.01959

**Table 2 - Table of Authority Taxable Values and Tax Rates**

The following table shows the Authority's taxable values and tax rates for each of the tax years 1997 through 2001. Taxable property is assessed at 100% of the appraised value as established by the Appraisal District.

### Assessed Value as of January 1 (dollar amounts in thousands)

<u>Tax Year</u>	<u>Taxable Value as of January 1</u>			<u>Authority Tax Rate per \$100 of Taxable Value</u>
	<u>Real Property</u> <sup>(a)(b)</sup>	<u>Personal Property</u>	<u>Total</u> <sup>(a)(b)(c)</sup>	
1997	\$100,182,840	\$24,049,794	\$124,232,634	\$0.01959
1998	105,714,573	24,676,204	130,390,777	0.02132
1999	111,828,316	29,258,029	141,086,345	0.02040
2000	126,132,905	27,486,132	153,619,037	0.01830
2001	137,918,961	29,542,180	167,461,141 <sup>(d)</sup>	0.01826

<sup>(a)</sup> Net of exemptions and abatements.

<sup>(b)</sup> The County, either by action of the Commissioners Court or through a process of petition and referendum initiated by its residents, may grant partial exemptions for residential homesteads of persons 65 years or older and of certain disabled persons. The Commissioners Court granted an exemption for residential homesteads for persons 65 years of age or older and disabled persons of up to \$156,240 of assessed value for 2001. If requested, the County must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans or persons who died while on active duty in an amount not to exceed \$3,000 of assessed value. The County may also authorize exemptions of up to 20% of the value of residential homesteads from ad valorem taxation. The Commissioners Court granted a 20% exemption for 2001. If ad valorem taxes have been pledged for the payment of debt prior to the adoption of any such partial exemptions, taxes may be assessed and collected against the exempt value of such homesteads if the cessation of the levy against such exempt value would impair the obligation of the contract by which the debt was created.

<sup>(c)</sup> The County and certain taxing units located within the County may enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The County or taxing unit (as applicable) in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. Any such abatement agreement may last for a period of up to 10 years. If the County or taxing unit (as applicable) enters into a tax abatement agreement with owners of taxable property within the Authority, the Authority, must abate taxes on the improvements in the same manner as the County or taxing unit. The estimated value of property in the County that was subject to tax abatement as of June 22, 2002, is approximately \$2.2 billion, and such value at the end of the abatement period is currently estimated to be approximately \$2.3 billion. Assessed value figures herein are net of abatements.

<sup>(d)</sup> Estimates based upon Appraisal District tax abatement as of June 22, 2002.

Source: Harris County Tax Assessor-Collector



**Table 3 - Table of Authority Tax Levies, Collections, and Delinquencies**

The table below sets forth a comparison of the ad valorem taxes levied and collected by the County on behalf of the Authority for the tax years 1997 through 2001.

(dollar amounts in thousands)

<u>Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections<sup>(a)</sup></u>	<u>Percent of Current Levy</u>	<u>Delinquent Collections<sup>(b)</sup></u>	<u>Total Tax Collections</u>	<u>Percent of Total Collections to Levy</u>	<u>Delinquent Taxes Receivable<sup>(b)</sup></u>	
							<u>Personal Property</u>	<u>Real Property</u>
1997	\$24,250	\$22,702	93.6%	\$522	\$23,224	95.8%	\$757	\$1,361
1998	27,819	26,013	93.5	580	26,593	95.6	801	1,447
1999	28,788	26,989	93.7	684	27,673	96.1	820	1,502
2000	28,153	27,270	96.9	798	28,068	99.7	823	1,493
2001 <sup>(c)</sup>	30,630	29,531	96.4	888	30,419	99.3	815	1,542

<sup>(a)</sup> Current Tax Collection is defined as taxes levied in any year which are collected beginning October 1 of such year through June 30 of the following year are shown as current collections. Such amounts include that portion of the current collection collected on or after February 1, which is the date taxes become legally delinquent.

<sup>(b)</sup> Collections of prior years' levies of taxes during the period beginning July 1 of the year shown and ending on June 30 of the following year are shown as delinquent collections which apply to prior tax years and are collected for multiple tax years. The accumulation of all unpaid ad valorem taxes that were due at the end of the collection period beginning on July 1 of the year shown and ending on June 30 of the following year is shown as delinquent taxes receivable. The Authority is barred from bringing suit for collection of delinquent personal property taxes after four years from the time such taxes become delinquent. Real property taxes, until paid, constitute a lien against the property. The Authority is barred from bringing suit for collection of delinquent real property taxes after 20 years from the time such taxes become delinquent. The Authority writes off such uncollectable personal property and real property taxes annually. Pursuant to Section 33.05, subsection (c) of the Property Tax Code, the County Tax Assessor-Collector is required to cancel and remove from the delinquent tax roll a tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years. The delinquent taxes may not be canceled if litigation concerning the taxes is pending.

<sup>(c)</sup> As of June 30, 2002.

Source: Harris County Tax Assessor-Collector

**Table 4 - Table of Principal Taxpayers**

The following table lists the fifteen taxpayers with the largest taxable values in the Authority as of January 1, 2001.

(dollar amounts in thousands)

<u>Taxpayers</u>	<u>Type of Business</u>	<u>2001 Taxable Valuation</u> <sup>(b)</sup>	<u>Percentage of Total 2001 Taxable Valuation</u> <sup>(c)</sup>
Exxon Mobil Corporation	Oil, Chemical	\$ 2,992,441	1.78%
Houston Lighting and Power Company <sup>(a)</sup>	Electric Utility	2,059,774	1.23
Shell Oil Company	Oil Refinery	1,375,098	0.82
Equistar Chemicals Limited Partnership	Chemical	1,324,082	0.79
Southwestern Bell Telephone	Telephone Utility	1,310,877	0.78
Hines Interests Ltd Partnership	Real Estate	988,014	0.59
Lyondell Chemical	Oil, Chemical	836,735	0.50
Compaq Computer Corporation	Computers	608,117	0.36
OXY Vinyls LP	Oil, Chemical	538,048	0.32
Crescent Real Estate	Real Estate	498,717	0.30
Celanese Ltd.	Chemical	456,686	0.27
Crescent Real Estate Equities	Real Estate	439,936	0.26
Lyondell-Citgo Refining Company	Oil Refinery	438,053	0.26
Anheuser Busch Inc.	Brewery	410,640	0.25
TrizecHahn Allen Center LP	Real Estate	408,965	0.24
Total		<u>\$ 14,686,183</u>	<u>8.75%</u>

<sup>(a)</sup> Now known as Reliant Energy and CenterPoint Energy.

<sup>(b)</sup> 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.

<sup>(c)</sup> Based on the Authority's total taxable value as of January 1, 2001.

Source: Harris County Tax Assessor-Collector

## County-wide Ad Valorem Tax Rates

In addition to the Authority's ad valorem taxes, the Commissioners Court levies taxes on property in the County on behalf of the County, the Harris County Flood Control District and the Harris County Hospital District. As with the Authority, the County Tax Assessor-Collector collects ad valorem taxes for the Harris County Flood Control District and the Harris County Hospital District using the same property values as the County, except that the rolling stock of railroads and intangible properties of railroads and certain common carriers are taxable only by the County.

### Table of County-wide Ad Valorem Tax Rates

The following table shows the ad valorem tax rates per \$100 of assessed value levied by County-wide taxing entities including the Authority in each of the tax years 1997 through 2001. The tax rates levied are based on assessment of taxable property at 100% of appraised value.

<u>Taxing Entity</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Harris County	\$0.38393	\$0.35902	\$ 0.39483	\$ 0.41660	\$ 0.41866
Harris County Flood Control District <sup>(a)</sup>	0.04758	0.06173	0.08000	0.08000	0.07967
Port of Houston Authority Debt Service <sup>(b)</sup>	0.01826	0.01830	0.02040	0.02132	0.01959
Harris County Hospital District <sup>(c)</sup>	<u>0.19021</u>	<u>0.20268</u>	<u>0.14650</u>	<u>0.12381</u>	<u>0.12381</u>
Total County-wide Ad Valorem Tax Rate	<u>\$0.63998</u>	<u>\$0.64173</u>	<u>\$ 0.64173</u>	<u>\$ 0.64173</u>	<u>\$ 0.64173</u>

<sup>(a)</sup> The ad valorem tax rate that Commissioners Court may levy on behalf of the Harris County Flood Control District is limited by law to \$0.30 per \$100 of assessed value.

<sup>(b)</sup> The ad valorem tax rate that the Commissioners Court may levy on behalf of the Authority to pay the Authority's tax bonds is, by law, unlimited.

<sup>(c)</sup> The Harris County Hospital District's ad valorem tax rate is limited to \$0.75 per \$100 of assessed value.

## AUTHORITY AD VALOREM TAX DEBT

### Payment Record

The Authority has never defaulted in the payment of the principal of or the interest on any of its bonds.

### Table 5 - Table of Ad Valorem Tax Debt Comparisons

The following table sets forth the Authority's ad valorem tax debt outstanding, as of the end of the fiscal years ended December 31, 1997, through December 31, 2001, as a percentage of taxable value and per capita.

<u>Fiscal Year</u>	<u>Authority's Debt Outstanding (in thousands)</u>	<u>Authority's Taxable Value <sup>(a)</sup> (in thousands)</u>	<u>Authority's Debt Outstanding as a Percentage of Taxable Value</u>	<u>Estimated Population <sup>(b)</sup></u>	<u>Authority's Tax Debt Outstanding Per Capita</u>
1997	\$182,410	\$124,232,634	0.15%	3,158,095	\$58
1998	258,945	130,390,777	0.20	3,206,063	81
1999	259,985	141,086,345	0.18	3,250,404	80
2000	263,475	153,619,037	0.17	3,400,578	77
2001	324,705	167,461,141 <sup>(c)</sup>	0.19	3,460,589	94

<sup>(a)</sup> Net of exemptions and abatements. Property is assessed at 100% of appraised value.

<sup>(b)</sup> Source: For 2001, Bureau of the Census; for all other years, Houston Chamber of Commerce.

<sup>(c)</sup> Estimated as of June 22, 2002.

Source: Harris County Appraisal District.

**Table 6 - Table of Debt Service Requirements**

The following table sets forth the annual debt service requirements on the Authority's outstanding ad valorem tax bonds, excluding the Refunded Bonds, including the Bonds.

Fiscal Year Ending 12/31	Outstanding Debt Service Requirements	Refunded Debt Service	Series 2002A Bonds			Series 2002B Bonds			Total	Total Outstanding Debt Service Requirements <sup>(a)</sup>
			Principal	Interest	Total	Principal	Interest	Total		
2003	\$ 34,154,515	\$ 1,478,220	\$ -	\$ 565,619	\$ 565,619	\$ 1,155,000	\$ 251,470	\$ 1,406,470	\$ 34,648,384	
2004	33,276,074	1,416,106	-	704,578	704,578	1,095,000	249,725	1,344,725	33,909,270	
2005	32,372,149	847,806	445,000	704,578	1,149,578	575,000	200,450	775,450	33,449,370	
2006	31,511,368	814,775	460,000	691,228	1,151,228	565,000	176,013	741,013	32,588,833	
2007	30,635,324	781,219	475,000	677,428	1,152,428	560,000	152,000	712,000	31,718,533	
2008	29,743,663	747,663	485,000	663,178	1,148,178	550,000	128,900	678,900	30,823,078	
2009	28,873,931	713,844	500,000	648,143	1,148,143	535,000	106,213	641,213	29,949,443	
2010	26,049,775	679,763	520,000	631,893	1,151,893	525,000	84,144	609,144	27,131,049	
2011	24,423,544	645,419	535,000	613,693	1,148,693	510,000	62,488	572,488	25,499,305	
2012	22,851,988	610,813	555,000	593,630	1,148,630	500,000	41,450	541,450	23,931,255	
2013	22,267,619	580,406	580,000	572,263	1,152,263	490,000	20,825	510,825	23,350,300	
2014	20,618,973	-	600,000	549,063	1,149,063	-	-	-	21,768,035	
2015	20,087,318	-	625,000	524,313	1,149,313	-	-	-	21,236,630	
2016	19,561,793	-	650,000	497,438	1,147,438	-	-	-	20,709,230	
2017	18,272,630	-	680,000	468,838	1,148,838	-	-	-	19,421,468	
2018	14,592,080	-	710,000	438,238	1,148,238	-	-	-	15,740,318	
2019	12,894,605	-	745,000	405,578	1,150,578	-	-	-	14,045,183	
2020	8,272,330	-	780,000	370,190	1,150,190	-	-	-	9,422,520	
2021	8,288,680	-	815,000	332,750	1,147,750	-	-	-	9,436,430	
2022	8,299,968	-	860,000	292,000	1,152,000	-	-	-	9,451,968	
2023	8,325,018	-	900,000	249,000	1,149,000	-	-	-	9,474,018	
2024	8,345,710	-	945,000	204,000	1,149,000	-	-	-	9,494,710	
2025	6,361,285	-	995,000	156,750	1,151,750	-	-	-	7,513,035	
2026	6,383,645	-	1,045,000	107,000	1,152,000	-	-	-	7,535,645	
2027	-	-	1,095,000	54,750	1,149,750	-	-	-	1,149,750	
<b>Total<sup>(a)</sup></b>	<b>\$ 476,463,980</b>	<b>\$ 9,316,033</b>	<b>\$ 16,000,000</b>	<b>\$ 11,716,132</b>	<b>\$ 27,716,132</b>	<b>\$ 7,060,000</b>	<b>\$ 1,473,676</b>	<b>\$ 8,533,676</b>	<b>\$ 503,397,756</b>	

(a) May be differences in totals due to rounding.

**Table of County-wide Ad Valorem Tax Debt Service Requirements**

The table below sets forth the debt service requirements on the County-wide combined annual debt service requirements on County-wide outstanding ad valorem debt as of November 19, 2002, includes the Bonds and excludes the Refunded Bonds.

Fiscal Year (Ending Feb. 28)	County Limited Tax Bonds	County Unlimited Tax Bonds	Toll Road Unlimited Tax Bonds <sup>(a)</sup>	Flood Control Limited Tax Bonds	Port of Houston Authority Unlimited Tax Bonds	Grand Total <sup>(b)(d)</sup>
2003 <sup>(c)</sup>	\$ 12,225,981	\$ -	\$ 13,972,622	\$ -	\$ -	\$ 26,198,603
2004	62,684,291	38,130,565	89,781,497	23,948,003	34,648,384	249,192,740
2005	61,666,919	41,418,535	89,963,644	21,512,793	33,909,270	248,471,161
2006	62,500,849	41,053,070	90,033,644	17,053,143	33,449,370	244,090,076
2007	61,686,115	42,039,953	90,607,144	14,111,073	32,588,833	241,033,117
2008	61,215,810	43,597,609	90,399,144	13,422,363	31,718,533	240,353,458
2009	61,463,765	41,298,621	91,480,656	9,829,863	30,823,078	234,895,982
2010	61,759,558	41,069,471	91,832,568	9,112,363	29,949,443	233,723,402
2011	62,255,795	45,672,221	92,510,318	6,709,050	27,131,049	234,278,433
2012	64,673,229	40,043,322	93,472,619	4,401,238	25,499,305	228,089,712
2013	62,059,001	35,787,506	94,686,956	4,188,875	23,931,255	220,653,593
2014	60,198,279	38,516,233	96,054,937	3,994,738	23,350,300	222,114,487
2015	62,108,098	36,737,333	96,681,207	2,480,600	21,768,035	219,775,273
2016	62,077,751	35,658,058	74,606,399	1,314,063	21,236,630	194,892,901
2017	54,793,380	33,651,520	30,313,247	-	20,709,230	139,467,377
2018	55,359,674	33,646,926	30,670,916	-	19,421,468	139,098,984
2019	45,734,753	9,379,326	30,989,006	-	15,740,318	101,843,403
2020	45,731,951	9,377,645	31,256,506	-	14,045,183	100,411,285
2021	45,733,308	9,376,076	31,681,256	-	9,422,520	96,213,160
2022	44,118,951	9,378,545	9,348,256	-	9,436,430	72,282,182
2023	44,112,829	9,380,000	9,346,991	-	9,451,968	72,291,787
2024	44,124,550	9,376,500	9,354,184	-	9,474,018	72,329,252
2025	32,339,938	-	9,348,572	-	9,494,710	51,183,220
2026	32,342,600	-	-	-	7,513,035	39,855,635
2027	32,339,375	-	-	-	7,535,645	39,875,020
2028	32,338,163	-	-	-	1,149,750	33,487,913
2029	28,459,750	-	-	-	-	28,459,750
2030	21,699,956	-	-	-	-	21,699,956
2031	21,949,788	-	-	-	-	21,949,788
2032	21,952,475	-	-	-	-	21,952,475
2033	21,950,375	-	-	-	-	21,950,375
<b>Total<sup>(d)</sup></b>	<b>\$ 1,443,657,257</b>	<b>\$ 644,589,034</b>	<b>\$ 1,388,392,289</b>	<b>\$ 132,078,160</b>	<b>\$ 503,397,756</b>	<b>\$ 4,112,114,496</b>

- (a) The County's policy and practice has been to provide for payment of debt service on the Toll Road Tax Bonds from toll revenues and certain other funds, and no tax has to date been collected to provide for such debt service. Includes \$350,000,000 Series 1994 B-H Adjustable/Fixed Rate Toll Road Tax Bonds. Interest on Series 1994 B-H Adjustable/Fixed Rate Toll Road Tax Bonds has been assumed at 5.5% through the life of each such series.
- (b) Exclusive of commercial paper.
- (c) Reflects debt service remaining for Fiscal Year ending 2003.
- (d) Difference in totals due to rounding.

## Authorized but Unissued Bonds

On November 7, 1989, voters of the Authority authorized the issuance of \$130,000,000 of bonds payable from the levy of an unlimited ad valorem tax for deepening and widening the Channel. The Series A Bonds are being issued pursuant to the November 1989 voter authorization. After the issuance of the Series 2002A Bonds, the Authority will have remaining \$9,700,000 of such bonds authorized but unissued. See "THE AUTHORITY – Authority's Capital Improvement Program – Houston Ship Channel."

On November 2, 1999, voters of the Authority authorized the issuance of \$387,000,000 of bonds payable from the levy of an unlimited ad valorem tax to provide funding to pay costs of acquiring, purchasing, constructing, enlarging, extending, repairing or developing facilities or aids incident to or useful or necessary in the operation or development of the Authority's ports and waterways or in aid of navigation and commerce thereon, including, without limitation, channels and turning basins, wharves, docks, warehouses, grain elevators, bunkering facilities, railroads, floating plants and facilities, lightering and towing facilities, bulk handling facilities and appurtenances thereto (including related transportation facilities and environmental enhancements) to provide economic development. The Authority has issued \$70 million of bonds pursuant to the November, 1999, voter authorization. See "THE AUTHORITY – Authority's Capital Program – Bayport."

## Estimated County-wide and Overlapping Ad Valorem Tax Debt

In addition to the taxing entities mentioned above, approximately 30 cities, towns and villages, 24 independent school districts, three junior college districts and approximately 300 utility districts are empowered to levy taxes on property within the County.

The following summary of estimated outstanding ad valorem tax debt of taxing entities in Harris County was compiled by the Authority's Financial Advisor from a variety of sources, including Texas Municipal Reports, as compiled and published by the Municipal Advisory Council of Texas. The table reflects bonds outstanding as of various dates. Certain entities listed below may have issued substantial amounts of bonds since the latest available data and may have capital improvement programs requiring the issuance of a substantial amount of additional bonds.

### Long Term Debt Outstanding (Dollars in Thousands)

County-wide Taxing Entities:		
Harris County <sup>(a)</sup>	\$1,200,432	
Harris County Flood Control District	92,090	
Port of Houston Authority <sup>(b)</sup>	<u>326,607</u>	\$1,619,129
Cities:		
Houston <sup>(c)</sup>	\$1,944,789	
Other Cities <sup>(d)</sup>	<u>303,081</u>	2,247,870
School Districts: <sup>(d)</sup>		
24 Independent School Districts and 3 Junior College Districts		4,551,720
Utility Districts <sup>(e)</sup>		<u>1,871,877</u>
Total		<u>\$10,290,596</u>

<sup>(a)</sup> Excludes \$749,750,523 of Toll Road Tax Bonds as of April 1, 2002. The County's policy and practice has been to provide for payment of debt service on the outstanding Toll Road Tax Bonds from toll revenues and certain other funds, and no tax has to date been collected to provide for such debt service.

<sup>(b)</sup> Includes the Bonds and excludes the Refunded Bonds.

<sup>(c)</sup> Includes ad valorem tax bonds of utility districts assumed by the City of Houston and certain contract tax obligations substantially equivalent to ad valorem tax bonds.

<sup>(d)</sup> Aggregate net debt as estimated by the Municipal Advisory Council of Texas as of various dates for other cities (not including the City of Houston) located within the County, 24 independent school districts and three junior college districts.

<sup>(e)</sup> Aggregate net debt as estimated by the Municipal Advisory Council of Texas as of various dates for approximately 300 utility districts in the County with tax debt outstanding.

## **Revenue Debt of the Authority**

In addition to the unlimited tax bonds of the Authority, the Authority issues, from time to time, debt secured by certain revenues of the Authority other than taxes. A general description of the Authority's outstanding revenue debt as of December 31, 2001, is included in the Authority's financial statements attached hereto as APPENDIX A. However, the Authority issued \$22,285,000 Revenue Refunding Bonds, Series 2002, in February, 2002, to refund all of its Revenue Bonds, Series 1977 and Series 1992 described in the Authority's financial statements.

## **THE AUTHORITY**

### **General**

The Authority is a navigation district and a political subdivision of the State of Texas, having boundaries coterminous with Harris County, Texas. The Commissioners Court of the County levies taxes on behalf of the Authority, but the Authority is considered to be a separate governmental entity because responsibility for all other activities of the Authority is exercised by a Port Commission 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 of Houston, Texas; one by the Mayor and City Council of the City of Pasadena, Texas; 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 of Houston.

The Authority has been a deep draft port since 1914. The Houston Ship Channel (the "Channel"), the heart of the Port of Houston ("Port") complex, extends 50 miles inland and links the City of Houston with the Gulf of Mexico. The Port consists not only of the Authority's wharves, but also a large number of privately owned wharves. The Authority had 475 regular employees on December 31, 2001; and during 2001, employed 403 casual employees from various longshoremens union halls.

### **Security**

The Coast Guard has implemented heightened security measures in the Channel following the terrorist attacks in New York and Washington, D.C. on September 11, 2001. The Coast Guard is responsible for the security level in the Channel and bears the costs of such security. The Authority has not incurred any significant additional expenses for security measures beyond its historical security expenses and has not experienced any significant decline in revenues since September 11.

### **Proposed Legislation**

The Port and Maritime Security Act of 2001 has been passed by both houses of Congress and is currently waiting for the President's signature. It requires all ports in the United States to have a comprehensive security plan. The legislation assigns additional responsibilities to the Coast Guard in regard to port security and authorizes the Maritime Administration to prescribe regulations to require port authorities to establish a maritime transportation security program. At this time, the Authority cannot predict the final form of any other legislation that may be enacted into law or future executive orders or rules or regulations that may be prescribed by federal, state or local authorities relating to port security nor the impact of such measures, if any, on Authority revenues.

### **Business of the Authority**

The Authority owns a diverse group of facilities and equipment designed for handling general cargo, containers, grain, other dry bulk materials, project and heavy-lift cargo, and virtually any other kind of cargo. In addition, the Authority leases land and railroad rights-of-way to others, licenses pipeline crossings of its property and maintains areas for depositing dredged materials.

All of these facilities are operated for hire on a first-come, first-serve basis, except for parts of the Jacintoport Terminal Wharf and Care Terminal Wharf, Bulk Materials Handling Plant, and Care Terminal Wharf, which are subject to preferential, but not exclusive, berthing arrangements; Container Terminal 6 and a portion of Terminal 5 at Barbours Cut, which is leased to Maersk-Sea-Land Service, Inc.; the automated facility at Jacintoport, which is leased to Jacintoport International, and the grain elevator at Woodhouse Terminal which is leased to Louis

Dreyfus Corporation. The privately-owned wharves-for-hire located at the Port 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 revenues from private wharves located at Bayport.

### **Port Facilities of the Authority**

The Authority owns general cargo wharves at the Turning Basin Terminal in the upper-Channel area. Each wharf can berth one or more ships depending on the length of the ship. These wharves have substantial dockside facilities, including enclosed short-term storage space, enclosed long-term storage space and short-term open storage space. Wharf 32, located within this terminal, was specifically designed for handling project and heavy-lift cargoes and has 20 acres of heavy-duty paved marshalling area.

Woodhouse Terminal, acquired in December of 1992, is located on a 100-acre tract that is a short distance downstream from the Turning Basin Terminal. The terminal includes over 250,000 square feet of warehouse space, three general cargo wharves, roll-on/roll-off ("RO/RO") ramps, rail trackage and a modern six-million-bushel-capacity grain elevator, which is under lease to Louis Dreyfus Corporation until January 2010.

The Authority owns one wharf and an associated lay berth (a temporary docking facility) for handling dry bulk cargo in the mid-Channel area. Each has the capacity for berthing one ship. A bulk materials handling plant is located at this wharf. The plant also has rail car and truck loading and unloading facilities. A portion of the plant is leased to Trans-Global Solutions until 2010 and Excalibur Minerals on a month to month basis.

In the same mid-Channel area, the Authority also owns one wharf, various warehouse facilities and buildings with certain rail trackage and other improvements and approximately 125 acres of land adjacent to the Jacintoport slip on the Channel. Berths 2 and 3 of the Jacintoport Terminal Wharf and approximately 50 acres of the land are subject to the provisions of a lease between the Authority and Jacintoport International ("JI"). This includes land adjacent to the facility on which a third party has constructed and JI operates a refrigerated, frozen and dry cargo import and export handling and storage facility.

Care Terminal, which has a general Cargo Terminal with two wharves, warehouse space, rail trackage and a paved marshaling area, was purchased in 1995. Coastal Cargo of Texas operates the terminal under a five-year lease agreement, which expires in 2003.

The Authority also owns wharves that are used for handling liquid bulk cargo. One is a barge facility and is located in the San Jacinto Bay area. The others are ship facilities and are located in the upper-Channel area. Preferential, but not exclusive, berthing rights have been granted at the barge facility and two of the ship facilities.

Barbours Cut Terminal ("BCT") provides special-purpose facilities for container, LASH (Lighter Aboard-Ship), RO/RO ships, and cruise ships. This terminal is located 25 miles downstream from the Turning Basin near the point where the Channel enters Galveston Bay and is two hours sailing time from the Gulf of Mexico. BCT's six berths provide 6,000 feet of continuous quay. Numerous wharf cranes ensure efficient and reliable handling of containers and can traverse the wharves to serve ships simultaneously or singly, as required. Container yard cranes are in use in the Authority's marshaling areas behind container berths 1, 2, 4, and 5 to transfer containers to and from land carriers. The facility also includes paved marshaling areas and warehouse space. The Authority has expanded the rail ramp point at BCT and completed building additional lead track from BCT to Deer Park and is in the process of building additional lead track from Deer Park to Pasadena Junction. The container freight station, a railroad ramp point and a RO/RO platform can handle the loading and unloading of ships carrying cargo on wheeled vehicles. This platform can serve ships using Container Terminal 1, RO/RO cargoes and transit shed cargoes.

Terminal 7, the last terminal planned for BCT, was completed in 1999 and is being used for Cruise Ships only. From May 25, 1997 until December 31, 2000, the Norwegian Cruise Line (NCL) provided for the home porting of one of their cruise vessels. During the full time that NCL sailed from the cruise terminal at BCT they were at or above 100% capacity. In January 2001 NCL left the Houston market. Premier Cruise Lines began service from BCT on May 28, 2000 and were placed in involuntary bankruptcy on September 9, 2000. Beginning February 2002, Royal Olympic Cruises is offering year round cruises from Houston through April 5, 2003.

On July 21, 1997, the Authority entered into a 20-year lease agreement with the Board of Trustees of the Galveston Wharves for its East End Container Terminal ("EECT") located at Pier 10. The Authority plans to use



the terminal to alleviate congestion at the busy BCT and accommodate container ships that must be diverted when the Channel is closed due to fog or other situations. The EECT features a continuous 1,346 foot long berth dock with a water depth of 40 feet. Other features include a paved storage area, a six-lane truck interchange station and truck scale. The Authority has fully restored three of the EECT wharf cranes for loading and unloading of containers from vessels and the remaining wharf crane will be restored as business develops. Once fully operational, estimates are that EECT will handle 60,000 to 70,000 20-foot long containers annually.

### **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 in the Port area. These facilities are leased to the Port Terminal Railroad Association, an association of the two-trunk line railroads serving Houston and the Houston Belt & Terminal Railway Company. The Authority also owns a 315-acre industrial park immediately landward and downstream from certain general cargo wharves in the upper Channel area. The park includes undeveloped Channel frontage. Much of this property is leased or rented to various private industries that independently maintain and operate these facilities.

The Authority also 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. Parts of the first and second floors are leased to outside business interests connected to the maritime industry.

The Authority's channel and turning basin at Bayport were developed in cooperation with the Humble Oil and Refining Company ("Humble," the predecessor of Exxon Company U.S.A.) and its subsidiary, Exxon Land Development Inc. ("Exxon Land"), formerly Friendswood Development Company, and serves the industries located in the Bayport Industrial Complex. The Authority believes that those facilities do not compete with the Authority's port facilities located at Barbours Cut and the Turning Basin. The Authority is in the planning and permitting process for development of the Bayport Container Terminal to be located on the Authority's property on the south side of the Bayport channel.

### **Summary of Current Operations**

Through the first ten months of 2002, the Authority's Operating Revenues are comparable to those for the same period in 2001. Higher tariffs on the importation of steel caused a significant drop in steel imports during the first five months of 2002. However, in June 2002 the Authority reduced its wharfage tariff on steel about 28% and steel imports since then have increased substantially. The Authority's reduced steel imports were offset by increases in Bulk Materials Shipments (up 26%), Grain Shipments (up 14%), Number of Containers (up 11%), and General Cargo (up 3%).

### **Significant Activities**

Revenue tonnage (including Bayport) totaled 27.3 million tons in 2001, down 5% from 2000. Between 1995 and 1998, the Port Authority experienced an average annual container TEU ("twenty-foot equivalent units") growth rate of 9.3%. From 2000 to 2001, container movements within the Authority exceeded 1,071,000 TEU's, which represents a 1% increase. This percentage drop in growth rate is due to capacity constraints at Barbours Cut Terminal, the dedicated container terminal. In addition, an increase of 31% in tonnage at the Bulk Materials Handling Plant from 2.3 million in 2000 to 3.0 million in 2001, along with an increase in Auto Imports of 40% and the increase in General Cargo of 5% contributed to the Authority's most successful year. During 2001, the Authority's operating revenues exceeded \$108.3 million, an increase of .2% compared to 2000.

In November 2001, the voters state-wide approved an amendment to the Texas State Constitution that eliminated ad valorem taxes on stored coffee beans and cocoa beans in Harris County. The Authority needed this amendment in order to be designated a Green Coffee Exchange Port. At the present time, only three ports in the United States so designated are New York, Miami and New Orleans. The Authority has filed an application for the designation with New York Board of Trade. After approval of the designation, there is an 18-month waiting period before coffee beans and cocoa beans can start arriving at the Port. Earliest estimates for shipping are the summer of 2003.

## **Authority's Capital Improvement Program**

**General.** The Authority's capital budget for 2002 is set at \$247.5 million. The majority of the expenditures are projected to be primarily for the Turning Basin Terminals (\$3.6 million), Barbours Cut (\$23.2 million), Houston Ship Channel (\$25.5 million), Real Estate (\$44.4 million) and Bayport (\$121.5 million). Funds budgeted to be used for these expenditures include the proceeds from the sale of Houston Ship Channel bonds of \$25.5 million, the sale of General Obligation Bonds for Port Improvements of \$128.7 million and Current Funds of \$93.3 million.

In addition to the expenses associated with modernization and expansion at the Authority's terminals, nearly 13% of the proposed expenses to be incurred during 2002 are attributable to the Authority's role as local sponsor of the Channel and those expenses associated with bringing the benefits of deep-draft navigation to Harris County. These expenses are associated with capital projects, which are not terminal specific, but are investments for the public benefit. These expenses include the \$25.5 million for the widening and deepening of the Channel, and \$6.0 million for the maintenance of the dredge disposal facilities used by facilities along the 50 mile long channel for the materials resulting from the maintenance dredging needed to utilize their docks.

In November 1999, the voters of Harris County approved the issuance of \$387 million in General Obligation Bonds for the start of the construction of a new container terminal known as Bayport. The sale of \$70 million of these bonds began in 2001. It is forecasted that the final sale of these bonds will occur in 2007.

**Houston Ship Channel.** Dredging is continuing on the Houston Ship Channel Project, which was authorized by Congress in 1996. Activity is proceeding on schedule to allow the navigation features of the project to be completed by December 2003. The project is divided into twenty-one separate contracts: ten for dredging including barge lanes, two for mitigation, one for the restoration of Red Fish Island, three for grass planting and five maintenance dredging contracts. Eight contracts have been awarded with six having been completed – Entrance Channel Extension, Jetty and Entrance Channel, Lower Galveston Bay, Reef Pad (mitigation), Upper Bayou and Upper Bay.

The total cost of the project over the 50-year life is expected to be \$687.4 million, to be shared by the federal government, the Authority and other non-federal interests. Federal funding for the project is approved through individual appropriation bills each fiscal year. Congress appropriated \$53.5 million for Fiscal Year 2001, and \$33.8 million for Fiscal Year 2002. Construction funds in the amount of \$67 million have been requested to continue construction of the project in fiscal year 2003. The Texas Delegation to Congress will work aggressively to retain this level of funding. In November 1989, the voters of Harris County approved the sale of \$130 million in bonds to fund the local share of the project. To date, the Port Authority has spent \$88.3 million towards its share of the project. The Authority's local share is expected to remain within the \$130 million approved by the voters.

**Bayport.** A new container complex is needed to accommodate the expanding needs of existing customers and growth arising from new customers. In response to this need, in May 1998, the Port Commission approved a conceptual Master Plan for the Bayport Terminal Complex. The facility would be built on a site most of which the Authority owns at Bayport, an industrial complex in southeast Harris County. Bayport is linked by channel to the Houston Ship Channel. Because the Bayport site is only five miles from the BCT site, customers at Bayport would benefit from the competitive rail and trucking charges and affordable ancillary services that are currently available at Barbours Cut.

At completion, the container facility at the Bayport terminal will include 7,000 feet of berth, 720 acres of container yard, buildings, equipment, cranes, an intermodal rail yard holding up to six trains, and an industrial development area. At capacity, the facility will be able to move 2.3 million TEUs annually. While the primary purpose of the Bayport Terminal Complex is to provide container terminals to keep pace with the expanding growth in container traffic, the design also includes provisions for a permanent cruise terminal. The plans would allow for the building of several cruise berths, and an east-end turning basin.

Planning for Phase 1A and 1 at Bayport is being done concurrently with the permitting of the facility. These Phases would allow for the construction of 2,500 feet of wharf, a container freight station, gate(s), administration and maintenance buildings, 107 acres of container yard and the acquisition of 6 wharf cranes and 18 rubber-tire gantry cranes. To facilitate access to the container terminal and cruise facility, dedicated entrances are planned during later phases to divert access to and from State Highway 146. These dedicated entrances will also

minimize the mixing of truck traffic with automobile traffic; and, thereby, providing a safer traffic environment. Phases 1A and 1 would allow for the annual handling of 623,000 TEUs. Phases 1A and 1 and the first phase of the cruise terminal are currently estimated to cost \$300 million.

The entire project, to be completed over an estimated 15-20 year period according to market demand, would cost approximately \$1.2 billion in 1998 dollars. According to a report prepared by Martin Associates an estimated 25,081 jobs would be generated within Harris County during the project's construction phase. They also estimated that the entire project would provide 39,309 total jobs, contribute \$1.352 billion in personal income, and generate \$159.9 million in state and local taxes. They further stated that the economic impact of this terminal, upon completion, would provide for the movement of 1.4 million containers annually.

With respect to the permitting of the facility, the Authority sought input during community meetings and workshops on the proposed plan. The Authority requested an Environmental Impact Statement ("EIS") so that community concerns would be thoroughly addressed. In October 1998, the Authority filed for the necessary permits and secured U.S. Army Corps of Engineers approval to conduct an EIS. Issues to be addressed during the permit process include the following: an analysis of alternative sites; environmental issues, such as air quality, wetlands, water quality, wildlife, visual impacts, and buffer zones; facility lighting and noise; and traffic and safety. In October 2001, the Authority submitted a revised permit application updating the facility layout.

The permitting of the facility is ongoing. The U.S. Army Corps of Engineers released the draft Environmental Statement (EIS) in November 2001. It includes an analysis of 78 alternative sites for the facility as well as environmental issues such as air quality, wetlands, water quality, visual impacts, buffer zones, facility lighting and noise, traffic and safety. The comment period on the draft EIS concluded on March 13, 2002, and the U.S. Army Corps of Engineers is expected to issue a final EIS and decision on the permit late in 2002.

The Authority is committed to being a good neighbor both during the building of the Bayport Terminal Complex and in the long run. The Authority's record of working through tough development issues – such as the widening and deepening project – is a good indicator of its concern for the health of Galveston Bay. This track record illustrates that the Authority strives for policies and programs that allow nature and industry to co-exist successfully. The Port Commission and staff have pledged to work cooperatively with its neighbors and environmental groups to accomplish its commercial goals and to provide resources and synergy for a beneficial and productive Galveston Bay.

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**Table 7 - Table of Physical Characteristics of the Port Facilities of the Authority**

	Berth Lengths (Feet)	Water Depth Below Mean Tide (Feet)	Paving Marshalling Area (Acres)	Covered Storage (Sq. Ft.)
<b>Turning Basin Terminal</b>				
48 general cargo wharves	376-600	27-38*	27.3	1,400,000
5 liquid bulk wharves	226-570	28-36*	--	--
Wharf - 32-heavy duty cargo	800	38*	20.2	--
<b>Woodhouse Terminal **</b>				
Wharf 1	660	39*	2.2	--
Wharves 2 and 3	1,250	35	--	231,750
Grain Dock	600	40	--	--
<b>Dry Bulk Cargo Facility</b>				
Wharf	650	42	--	--
Lay Berth	600	42	--	--
<b>Jacintoport</b>				
Wharves 1-3	1830	38	7.5	82,500
<b>Care Terminal</b>				
Wharf 1	500	36	9.6	45,000
Wharf 2	618	38	4.0	--
<b>San Jacinto Bay Barge Facility</b>				
Barge Berth	320	12	--	--
<b>Upper Channel Bulk Cargo Facilities</b>				
Berths	200-700	26-40	--	--
<b>Barbours Cut Terminal</b>				
LASH Berth	950	40	--	--
Container Berths 1 - 6	6,000	40	230	255,000
<b>Passenger Berth</b>				
	900	40	--	--
<b>Galveston</b>				
Container Berths 1 and 2	1,350	40	36	229,860

\* The maximum depth of the Channel in this area.

\*\* 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.

**Equipment**

**Turning Basin Terminal:** two 40 long ton capacity container cranes which serve nine berths on a rental basis. Two container yard cranes are leased to a private interest. Privately-owned mobile cranes and additional cargo handling equipment are available for hire on an hourly basis.

**Barbours Cut Terminal:**

**Container Cranes:** six 40-ton and four 50-ton and Maersk-Sealand has two 30-ton.

**Container Yard Cranes:** eight 30-ton and eighteen 40-ton.

**Other Cranes:** five 30,000 pound lifters for handling empty containers and two 40 long ton container handling machines.

**Other Equipment:** 33 heavy-duty yard tractors and 100 heavy-duty yard chassis are available for rent from the Authority.

**Galveston:**

**Container Cranes:** four 40-ton

**Yard Cranes:** one 40-ton

**Other Equipment:** 31 heavy duty terminal tractors and 22 yard chassis and nine 35-long ton container handling top loaders.

Source: Port of Houston Authority, Audited Financial Statements

## Financial Condition and Operations

The following summaries of Financial Condition and Operations for the fiscal years ended December 31, 1997 through 2001 have been prepared by the Authority.

**Table 8 - Summary of Comparative Historical Balance Sheets**  
(dollar amounts in thousands)

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Current Assets	\$ 204,721	\$ 185,391	\$ 153,624	\$ 135,507	\$ 114,886
Restricted Assets	206,214	141,038	151,392	178,363	116,513
Physical Properties	541,687	513,599	479,634	425,377	387,889
Other Assets	<u>4,564</u>	<u>5,579</u>	<u>4,256</u>	<u>1,295</u>	<u>2,073</u>
Total Assets	<u>\$ 957,186</u>	<u>\$ 845,607</u>	<u>\$ 788,906</u>	<u>\$ 740,542</u>	<u>\$ 621,361</u>
Current Liabilities	\$ 42,228	\$ 40,149	\$ 38,334	\$ 31,635	\$ 35,486
Long-Term Debt	327,837	268,487	270,573	277,773	206,399
Other Long-Term Liabilities	<u>26,130</u>	<u>23,979</u>	<u>26,370</u>	<u>25,966</u>	<u>27,498</u>
Total Liabilities	<u>\$ 396,195</u>	<u>\$ 332,615</u>	<u>\$ 335,277</u>	<u>\$ 335,374</u>	<u>\$ 269,383</u>
Contributed Capital	\$ 20,321	\$ 20,321	\$ 20,321	\$ 13,928	\$ 11,154
Retained Earnings	<u>540,670</u>	<u>492,671</u>	<u>433,308</u>	<u>391,240</u>	<u>340,824</u>
Total Equity	<u>\$ 560,991</u>	<u>\$ 512,992</u>	<u>\$ 453,629</u>	<u>\$ 405,168</u>	<u>\$ 351,978</u>
Total Equity and Liabilities	<u>\$ 957,186</u>	<u>\$ 845,607</u>	<u>\$ 788,906</u>	<u>\$ 740,542</u>	<u>\$ 621,361</u>

Source: Port of Houston Authority, Audited Financial Statements for the fiscal years indicated.

**Table 9 - Summary of Comparative Historical Operations**  
(dollar amounts in thousands)

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Operating Revenues	\$ 108,339	\$ 108,140	\$ 95,428	\$ 97,156	\$ 83,969
Operating Expenses Operations	95,518	85,134	81,108	74,557	75,884
Operating Earnings	12,821	23,006	14,320	22,599	8,085
Non-Operating Revenues	<u>11,964</u>	<u>13,392</u>	<u>4,376</u>	<u>4,922</u>	<u>3,326</u>
Income before Property Tax Revenue	\$ 24,785	\$ 36,298	\$ 18,696	\$ 27,521	\$ 11,411
Non-Operating Revenues Related					
To Property Taxes	<u>\$ 23,214</u>	<u>\$ 22,965</u>	<u>\$ 23,424</u>	<u>\$ 22,895</u>	<u>\$ 18,427</u>
Net Income	<u>\$ 47,999</u>	<u>\$ 59,363</u>	<u>\$ 42,120</u>	<u>\$ 50,416</u>	<u>\$ 29,838</u>

Source: Port of Houston Authority, Audited Financial Statements for the fiscal years indicated.

**Table 10 - Table of Annual Cargo Amounts**

In 1999 the entire Port of Houston (which includes facilities not owned by the Authority) ranked first in foreign tonnage and second in the United States in total tonnage. The following table shows the amount of cargo handled by the entire Port of Houston for each of the years 1992-2001.

(in thousands)

<u>Year</u>	<u>Short Tons</u>
2001	194,000 <sup>(a)</sup>
2000	191,419
1999	158,828
1998	169,070
1997	165,456
1996	148,183
1995	135,231
1994	143,663
1993	141,477
1992	137,664

<sup>(a)</sup> Estimate by the Authority's Trade Development Department. Actual amount not available from U.S. Corps of Engineers  
Source: U.S. Corps of Engineers.

### INVESTMENTS

The Authority invests its investable funds in investments authorized by State law in accordance with written investment policies approved by the Port Commissioners of the Authority, a copy of which is available upon request. Both state law and the Authority's investment policies are subject to change.

The Office of the Controller of the Authority invests all funds of the Authority. The Office of Financial Services of the County acts as an investment agent on behalf of the Authority. The Authority and County have separate investment portfolios that are not commingled into a single pool of investments.

#### **Investment Strategy and Policy**

Under State law, the Authority is required to invest its funds under a written investment strategy and policy that primarily emphasizes safety of principal and liquidity and that addresses investment diversification, yield, maturity, and the quality and capability of investment management. All Authority funds must be invested in investments that are consistent with the operating requirements of the Authority. The Authority's written investment policy specifically excludes investments in bankers' acceptances.

In practice, the Authority's investments are limited to obligations of the United States or its agencies and instrumentalities, collateralized mortgage obligations, certificates of deposit, fully collateralized repurchase agreements, commercial paper, municipal obligations rated AA or higher, and money market mutual funds. Under State 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."

#### **Investments**

The following percentages of the Authority's investable funds were invested in the following categories of investments as of December 31, 2001. The average remaining maturity of such investments was 321 days based on par value.

**Table 11 - Schedule of Distribution of Authority Investments**

<u>Distribution of Investments</u>	
U.S. Government Agencies Securities	58.4%
Commercial Paper	5.1
Cash and Cash Equivalents	21.2
Municipal Bonds	3.2
U.S. Treasury Notes	<u>12.1</u>
TOTAL	100.0%

## REGULATION AND LITIGATION

### Environmental Regulations and Air Quality

**Air Quality.** Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") (formerly the Texas Natural Resource Conservation Commission) may curtail new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight-county Houston-Galveston Consolidated Metropolitan Statistical Area ("CMSA") has been designated by the EPA as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA "1-hour" standard is met. Compliance with the EPA's 1-hour standard must be achieved by 2007.

To provide for annual reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent volatile organic compound and nitrogen oxide ("NOx") emission limits on sources of air emissions. In addition, any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Due to the magnitude of air emissions reductions required to achieve the EPA 1-hour ozone standard, as well as the shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community. If the Houston-Galveston area fails to demonstrate progress in reducing ozone concentrations or fails to meet the EPA's standards by 2007, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

The TCEQ has developed a State Implementation Plan ("SIP") that is intended to help the Houston-Galveston CMSA achieve compliance with the EPA 1-hour ozone standard by 2007. The SIP was adopted by the TCEQ on December 6, 2000, and approved by EPA on October 15, 2001.

Compliance dates for emission controls specified in the recently approved SIP are generally set for between 2002 and 2006, depending on the rule. Major emission reduction projects in the SIP include the following: (1) implementation of a NOx emissions banking and trading system that will cap overall point source emissions of NOx; (2) reductions in speed limits on highways within the nonattainment area; (3) other transportation control measures designed to reduce the overall use of automobiles within the Houston-Galveston ozone nonattainment area; (4) improved vehicle inspection to identify and require repairs of high-pollutant emitting vehicles; (5) implementation of cleaner diesel fuel standards; (6) institution of California small engine standards; (7) an approximately 90% reduction in NOx emissions from industrial and commercial point sources; (8) enforceable commitments to develop further control measures such as diesel emulsion (specialty fuel) and tailpipe controls for heavy-duty equipment; and (9) voluntary commitments to reduce emissions from local government pollution sources and other sources through the Voluntary Mobile Emissions Program ("VMEP"). Many of these measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the Houston-Galveston area.

In addition to the emission reductions that will be required for the Houston-Galveston CMSA to achieve compliance with the EPA 1-hour ozone standard by the 2007 deadline, further emission reductions may be required in order to achieve compliance with a new "8-hour" ozone standard and fine particulate (soot) standards that the

EPA is in the process of implementing nationwide. Although the EPA initially adopted its "8-hour" ozone standard and new soot standards several years ago, implementation of the new standards was delayed when the American Trucking Association challenged the standards in federal court. On March 26, 2002, the U.S. Court of Appeals for the D.C. Circuit issued a final ruling upholding the new standards and authorizing the EPA to proceed with implementation of the new standards. The EPA has indicated that it will proceed first to collect air monitoring data from across the United States to determine which areas of the country are not in compliance with the new ozone and soot standards. Once the necessary data has been obtained, the EPA will then move to designate "non-attainment" areas that will then be required to develop emission control plans for achieving compliance with the new standards. Initial designation of non-attainment areas is expected to occur in 2004-2005, after which time emission control strategies will be developed and implemented. Based on preliminary sampling data, it appears that the Houston-Galveston CMSA will be classified as a non-attainment area under the new "8-hour" ozone standard, and it is also possible that the area could be classified as non-attainment under the new fine particulate (soot) standard. If the Houston-Galveston area is classified as non-attainment under either standard, then the TCEQ will be required to develop additional air emission controls, and it is possible that these additional controls could have a negative impact on the area's economic growth and development.

Other threats to development include lawsuits filed under the Clean Air Act by plaintiffs seeking to influence transportation planning. For example, in August of 2000, Environmental Defense, Sierra Club, and several local environmental groups filed a lawsuit to stop highway development in the Houston-Galveston area. The organizations challenged the manner in which Houston ensures that its future transportation plans conform with the goals of the Clean Air Act. The groups' primary concern was "urban sprawl". Although this suit was settled in a manner that protected road and transit development, the same groups have now filed lawsuits challenging portions of the recently approved SIP. Any successful court challenge to the EPA-approved SIP could result in the imposition of even more stringent air emission controls or sanctions that could threaten continued growth and development in the Houston-Galveston area.

It remains to be seen exactly what steps will ultimately be required to meet federal air quality standards, how the EPA may respond to developments as they occur, and what impact such steps and any EPA responses may have upon the economy and the business and residential communities in the CMSA.

**Port of Houston Authority.** The Authority has undertaken a number of environmental-related initiatives. In connection with the Bayport Terminal Project, in 1999 the Authority established a four-member Community Advisory Group to get input on the development of the projects. In addition, in May 2000, the Authority presented to the public a proposed Project XL environmental program, which it submitted to the EPA. The Authority's Project XL is a tenant environmental compliance program the goal of which is to increase the level of environmental compliance by Authority tenants through environmental auditing of tenant operations, training and the development of compliance plans and manuals. The Authority was also selected by the EPA to participate in a local government Environmental Management System ("EMS") Initiative. An EMS is a set of management processes and procedures that allow an organization to analyze, control, and reduce the environmental impact of the organization's activities, products and services and operate with greater efficiency and control. Benefits expected include improved overall environmental performance (including areas not currently regulated), expanded pollution prevention opportunities and improved compliance. In August 2002, the EPA recognized the Authority as the first port in the United States to achieve compliance with the ISO 14001 standards for its EMS for the BCT and the Authority's central maintenance facility.

With respect to air quality issues, the Authority has also undertaken a number of initiatives in order to allow continued productivity at the marine terminals while still allowing the region to meet air quality goals. Such initiatives include a fuel emulsion demonstration project, a selective catalytic reduction ("SC") demonstration project and refinements of emissions inventory. The fuel emulsion demonstration project is being coordinated with the TCEQ and the EPA and is intended, among other things, to help identify actual emissions reductions and determine if emulsion degrades the operational capability of equipment. The SC demonstration project is a catalytic reduction demonstration that focuses on the 500 horsepower mobile engine family. The emissions inventory refinements project is a joint effort by the Authority and the TCEQ to better quantify non-road emissions associated with port-related activities.

### **Area Topography and Land Subsidence**

The land surface in certain areas of the County has subsided several feet since 1943 and the subsidence is continuing. The principal causes of subsidence are considered to be the withdrawal of groundwater and, to a lesser



extent, oil and gas production. Subsidence may impair development in certain areas and expose such areas to flooding and severe property damage in the event of storms and hurricanes, and thus may affect assessed valuations in those areas. In 1975, the Texas Legislature created the Harris-Galveston Coastal Subsidence District to provide regulatory control over the withdrawal of groundwater in Harris and Galveston Counties in an effort to limit subsidence. This state agency, with no powers to levy taxes or incur debt, encompasses an area which includes the existing surface water supplies, provides an alternative source of water to meet many industrial and domestic water needs and, with the reduction of withdrawal of groundwater, the rate of subsidence has been reduced.

### **Pending Litigation**

The Authority is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of the performance of governmental functions, certain of which seek substantial damages. Such litigation or claims include claims for damages from alleged personal injuries and property damage, discriminatory employment practices; various claims from contractors for amounts under construction contracts; and various other liability claims. The status of such matters ranges from claims to early discovery. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The Authority intends to defend these suits vigorously. The Authority cannot predict, as of the date hereof, the final outcome of any of such claims and suits.

In addition, there is a possible unasserted claim for remediation of contamination on the Authority's property that could be brought by Federal and/or State agencies. The Authority has sustained groundwater and soil contamination of its property due to the releases of hazardous chemicals from a pesticide facility adjacent to the Authority's property. The Authority has not manufactured, generated, or released such hazardous substances, nor has it contracted with the plant facility to use or manufacture any of the substances that have caused the contamination. Therefore, the Authority has taken the position that it is an innocent land owner as that term is defined by the laws of the State of Texas and that it is exempt from liability for site cleanup. Management of the Authority believes it is unlikely that any Federal or State agency will assert the Authority liability for the clean up of contaminants from the adjacent pesticide facility which has migrated on to the Authority's property.

The Authority was served as a defendant in United States District Court for the Southern District of Texas. The plaintiffs are pipeline companies that own pipelines crossing the Houston Ship Channel at various points. The pipeline companies allege the cost of removal or relocation of their pipelines in order to widen and deepen the Houston Ship Channel should be borne by the Authority. The federal district court entered final judgment against the Authority concluding that the Authority and not the pipeline companies, is responsible for the cost of pipeline removal or relocation. The Federal District Court's judgment was nonmonetary. The Authority and the U.S. Army Corps of Engineers are appealing the district court judgment to the United States Court of Appeals for the Fifth Circuit. The Authority cannot predict the final outcome of the appeal.

The Authority is the plaintiff in a case against GB BioSciences, et.al., alleging that for almost 50 years the GB Biosciences' facility has manufactured pesticides and disposed of chemical wastes in areas owned, operated or controlled by them. The GB BioSciences' facility and its disposal areas are directly adjacent to a number of separate tracts of land owned by the Authority. The GB BioSciences' facility has contaminated these properties. The Authority's lawsuit seeks recovery of the Authority's investigative and legal fees and other costs associated with this matter, damages (including property and punitive damages), declaratory judgment, and to have GB BioSciences, et al ordered to abate, remove and remediate all contamination. Trial is set for June 2003.

### **BONDHOLDERS' REMEDIES**

The Orders pursuant to which the Bonds are issued obligate the Commissioners Court to levy, assess, and collect, separate annual ad valorem taxes which will be sufficient to pay, when due, principal of and interest on the Bonds. The Orders, however, make no provisions for (1) other security for the payment of the Bonds, (2) express remedies in the event of default, (3) acceleration of maturity of the Bonds if default occurs, or (4) a trust to protect the rights of the owners of the Bonds.

Although a registered owner of the Bonds could presumably obtain a judgment against the Authority, if a default occurred in the payment of principal of or interest on the Bonds, such judgment could not be satisfied by execution against any property of the Authority. The only principal remedy, if a default occurs, is a mandamus proceeding to compel the Commissioners Court to levy, assess and collect a separate limited annual ad valorem tax sufficient to pay the principal of and interest on the Bonds as it becomes due. It might be necessary to enforce such

remedy on a periodic basis, because no provision exists in the Orders or otherwise for acceleration of maturity of the Bonds.

The enforcement of a claim for payments of principal of or interest on the Bonds, including the remedy of mandamus, would be subject to the applicable provision of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally.

## TAX MATTERS

### Tax Exemption

In the opinion of Andrews & Kurth, L.L.P., Houston, Texas, and Law Offices of Francisco Medina, Houston, Texas, Co-Bond Counsel, (a) interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law (except with respect to interest on the Series 2002B Bonds for any period during which any Series 2002B Bond is held by a "substantial user" or a "related person" thereto as provided in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code")), (b) the Series 2002A Bonds are not "private activity bonds" under the Code and, therefore, interest on the Series 2002A Bonds is not an item of tax preference for purposes of determining the alternative minimum tax imposed on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations, and (c) the Series 2002B Bonds are "private activity bonds" under the Code and, therefore, interest on the Series 2002B Bonds is an item of tax preference for purposes of determining the alternative minimum tax imposed on individuals and corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the Authority file an information report with the Internal Revenue Service. The Authority has covenanted in the Authority Orders that it will comply with these requirements.

Co-Bond Counsel's opinion will assume continuing compliance with the covenants of the Authority Orders pertaining to those sections of the Code which affect the exclusion from income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the Authority with respect to matters solely within the knowledge of the Authority, which Co-Bond Counsel has not independently verified. If the Authority should fail to comply with the covenants in the Authority Orders or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum taxable income of an individual or corporation will include items of tax preference under the Code, such as the amount of interest received on "private activity bonds," such as the Series 2002B Bonds, issued after August 7, 1986. Accordingly, Co-Bond Counsel's opinion will state that interest on the Series 2002B Bonds is an item of tax preference includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. Because interest on tax-exempt obligations, such as the Series 2002A Bonds, is included in a corporation's "adjusted current earnings," ownership of the Series 2002A Bonds could subject a corporation to alternative minimum tax consequences.

Except as stated above, Co-Bond Counsel will express no opinion as to any other federal, state, or local tax consequences under present law or proposed legislation resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds.

The statutes, regulations, published rulings, and court decisions upon which Co-Bond Counsel have based their opinions are subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Internal Revenue Service (the "Service"). There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds. No ruling has been sought from

the Service and the opinions of Co-Bond Counsel are not binding on the Service. The Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service will treat the Authority as the taxpayer and the owners of the Bonds may have no right to participate in the audit process. In responding to or defending an audit with respect to the Bonds, the Authority may have different or conflicting interest from the owners of the Bonds.

The opinions set forth above are based upon existing law and Co-Bond Counsel's knowledge of the facts on the date of issuance of the Bonds. Such opinions are an expression of professional judgment and not a guarantee of result. Co-Bond Counsel assume no obligation to update or supplement their opinions to reflect any facts or circumstances that may come to their attention or any changes in law that may occur after the date of issuance of the Bonds.

### **Tax Accounting Treatment of Discount and Premium Bonds**

The initial public offering price of certain stated maturities of the Bonds may be less than the stated redemption price at maturity (as defined in section 1272 of the Code and Income Tax Regulations thereunder) on the Bonds (the "Original Issue Discount Bonds"). Assuming that all of the Original Issue Discount Bonds have been initially offered and a substantial amount of each maturity thereof has been sold to the general public in arm's length transactions for a price (with no other consideration being included) for not more than the initial offering prices stated in the Official Statement, an amount equal to the difference between the initial public offering price of an Original Issue Discount Bond and the stated redemption price at maturity constitutes "original issue discount" to the initial purchaser of such Original Issue Discount Bond. Such original issue discount may result from the payment of accrued interest by the initial purchaser, bonds having an interest payment period longer than six months, or the purchase by the initial purchaser at a discount from the face amount of the Bonds. Under existing law, such initial purchaser is entitled to exclude from gross income an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such purchaser. **For a discussion of certain collateral federal tax consequences, see discussion set forth below.**

In the event of the redemption, sale, or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, the amount realized by such purchaser in excess of the basis of such Original Issue Discount Bond in the hands of such purchaser (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial purchaser) is includable in gross income.

Original issue discount is considered to be accrued actuarially in accordance with the constant interest method over the life of the Original Issue Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Original Issue Discount Bond. The allocation of such original issue discount will generally result in an amount treated as interest that is different than the amount of the payment denominated as interest actually received by the owner thereof during the taxable year.

The federal income tax consequences of the acquisition, ownership, redemption, sale, or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All purchasers of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of the treatment of interest accrued upon redemption, sale, or other disposition of, such Original Issue Discount Bonds and with respect to the federal, state, local, and foreign tax consequences of the acquisition, ownership, redemption, sale, or other disposition of, such Original Issue Discount Bonds.

The initial public offering price of certain stated maturities of the Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price, and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a

sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. All purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the federal, state, local, and foreign tax consequences of acquisition, ownership, redemption, sale, or other disposition of, such Premium Bonds.

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings, and court decisions, all of which are subject to change or modification retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred expenses allocable to, tax-exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE RECEIPT OR ACCRUAL OF INTEREST ON OR THE ACQUISITION, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Series 2002A Bonds will be included in the "adjusted current earnings" of certain corporations for purposes of computing their alternative minimum tax imposed by section 55 of the Code. Interest on the Series 2002B Bonds is an item of tax preference for determining the alternative minimum tax imposed on individuals and corporations.

Interest on the Bonds may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

Under section 6012 of the Code, owners of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns with respect to federal income taxes.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount (defined below) of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the owner at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **State, Local, and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

## **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) 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 trustees, and for the sinking fund of municipalities or other political subdivisions or public agencies of the State of Texas. 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 (V.T.C.A., Government Code, Chapter 2256), 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 opinion of the Attorney General of Texas and the legal opinions of Andrews & Kurth, L.L.P., Houston, Texas, and the Law Offices of Francisco Medina, Houston, Texas, Co-Bond Counsel, as to the validity of the Bonds under the Constitution and laws of the State of Texas. The opinions of Co-Bond Counsel will be based upon an examination of transcripts of certain proceedings taken by the Authority incident to the issuance and delivery of the Bonds. Certain legal matters will be passed upon for the Port by its Special Disclosure Counsel, Vinson & Elkins, L.L.P., Houston, Texas. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Fulbright & Jaworski, L.L.P. and Burney & Foreman, Houston, Texas.

The fees of Co-Bond Counsel for their services with respect to the Bonds are contingent upon the issuance and delivery of the Bonds.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Authority Order, the Authority made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Authority is required to observe this agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the Authority Order, the Authority will be obligated to provide certain updated financial information and operating data annually and timely notice of specified material events, to certain information vendors. This information is available to securities brokers and others who subscribe to receive information from the vendors.

### **Annual Reports**

The Authority annually will provide certain updated financial information and operating data to all NRMSIRs and any SID, defined below. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement in APPENDIX A and under schedules listed in APPENDIX C. The Authority will update and provide this information within six months after the end of each fiscal year. The Authority will provide updated information to each nationally recognized municipal securities information repository ("NRMSIR") and any state information depository ("SID") designated for the State and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

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 updated information will include audited financial statements 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 within the required time. Any such financial statements will be prepared in accordance with the accounting

principles described in APPENDIX A or such other accounting principles as the Authority may be required to employ from time to time pursuant to State law or regulation.

The Authority's current fiscal year-end is the last day of December. Accordingly, the Authority must provide updated information by June 30 in each year, unless the Authority changes its fiscal year. If the Authority changes its fiscal year, it will notify each NRMSIR and any SID of the change.

#### **Material Event Notices**

The Authority also will provide timely notices of certain events to certain information vendors. Specifically, the Authority will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. Neither the Bonds, the Orders, nor the Authority Order make any provision for credit or liquidity enhancement or requiring the funding of debt service reserves. In addition, the Authority will provide timely notice of any failure by the Authority to provide annual financial information or operating data and audited financial statements in accordance with its agreement described above under "Annual Reports." The Authority will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board (the "MSRB").

#### **Availability of Information from NRMSIRs and SID**

The Authority has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of and beneficial owners of the Bonds only if the holders comply with the procedures and pay the charges established by such NRMSIRs or SID or obtain the information through securities brokers who have done so.

The Municipal Advisory Council of Texas has been designated by the State as a SID and the SEC has determined that it is a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947.

#### **Limitations and Amendments**

The Authority has agreed to update information and to provide notices of material 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 Bonds 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 a series consent 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 such series. 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 the representative of the Initial Purchasers of the Bonds of such series 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 C—Summary of Tables and Schedules Related to Continuing Disclosure of Information."

### **Compliance with Prior Undertakings**

The Authority previously made Continuing Disclosure Agreements in accordance with the Rule in connection with its offerings of various series of its bonds. The Authority has complied in all material respects with those agreements, except that the financial information and operating data to have been provided to each NRMSIR and SID by June 30, 2002 was not provided until August 8, 2002 due to a delay in the availability of the Authority's audit for the fiscal year ended December 31, 2001.

### **Audited Financial Report of the Authority**

The Authority requires that an annual audit be performed by an independent public accounting firm in accordance with generally accepted auditing standards. The audit of the fiscal year ended December 31, 2001, and additional financial information are available for public inspection, or copies may be obtained by written request, to the extent permitted by law, addressed to the Controller of the Authority. See "FINANCIAL STATEMENTS."

## **FINANCIAL STATEMENTS**

APPENDIX A to this Official Statement contains the financial statements of the Authority for the fiscal year ended December 31, 2001. These financial statements of the Authority as of December 31, 2001, included in this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report included with such financial statements in APPENDIX A. The Authority has not requested Deloitte & Touche LLP to reissue its audited financial statements and Deloitte & Touche LLP has not performed any procedures in connection with this Official Statement.

## **GASB 34 IMPLICATIONS FOR THE AUTHORITY**

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, "Basic Financial Statements Management's Discussion and Analysis – for State and Local Governments." The objective of this Statement is to enhance the clarity and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The Authority must implement GASB 34 for its fiscal year beginning January 1, 2002. While adoption of this Statement will significantly alter the presentation of financial information, Authority management believes that there will be no material adverse impact to the Authority's financial position, results of operation, or cash flows.

## **UNDERWRITING**

First Southwest Company, as representative on behalf of the syndicate of underwriters (collectively, the "Underwriters"), has agreed to purchase all of the Bonds, if any of the Bonds are purchased from the Authority, upon the satisfaction of certain conditions, and will offer the Bonds to the public initially at the offering prices stated on the cover page hereof. The Underwriters have further agreed to pay an aggregate purchase price for all of the Bonds of \$22,958,890.15 (representing the par amount of the Bonds, less a net original issue discount of \$125,153.50 on the Series 2002A Bonds plus a net premium on the Series 2002B Bonds of \$207,996.85 and less an underwriting discount of \$183,953.20). The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices other than the prices stated on the cover page hereof, and such prices may be changed by the Underwriters from time to time.

## **RATINGS**

Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Ratings Services ("S&P") have assigned their municipal bond ratings of "AA+", "Aa1", and "AA+", respectively, to general obligation bonds of the Authority, including the Bonds.

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.

#### **FINANCIAL ADVISOR**

Coastal Securities (the "Financial Advisor") has been employed by the Authority to assist the Authority in issuing the Bonds. Although the firm has assisted in drafting this Official Statement, the firm has not independently verified any of the data contained in it nor conducted a detailed investigation of the affairs of the Authority to determine the accuracy or completeness of this Official Statement. No person should presume that the limited participation of such firm means that such firm assumes any responsibility for the accuracy or completeness of any of the information contained in this Official Statement.

The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and delivery thereof.

#### **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 Orders and the information with respect thereto included in the Orders.

This Official Statement was approved by the Port Commission.



**APPENDIX A**

**FINANCIAL STATEMENTS OF THE AUTHORITY**

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## **INDEPENDENT AUDITORS' REPORT**

**Port Commission  
Port of Houston Authority of  
Harris County, Texas**

We have audited the accompanying balance sheets of the Port of Houston Authority of Harris County, Texas (the "Authority"), as of December 31, 2001 and 2000, and the related statements of revenues, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, in 2001 the Authority changed its method of accounting for contributed capital to conform to the Statement of Governmental Accounting Standards No. 33 and, retroactively, restated the 2000 financial statements for the change.

The statistical tables and other information, listed in the foregoing table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the Authority. Such additional information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

June 6, 2002

Port of Houston Authority of Harris County, Texas  
**Balance Sheets**  
December 31, 2001 and 2000  
(in thousands)

<b>Assets</b>	<u>2001</u>	<u>2000</u>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$50,174	\$56,810
Investments	98,795	84,126
Receivables		
Trade (net of allowances for doubtful accounts of \$1,389 in 2001 and \$1,100 in 2000)	21,587	25,877
Receivables due from Government Grant	0	443
Accrued Interest Receivable	1,168	1,354
Prepaid Expenses	1,642	1,628
Inventory	256	226
Total Current Assets	<u>173,622</u>	<u>170,464</u>
<b>Restricted Assets</b>		
Cash and Cash Equivalents	26,415	12,844
Investments	154,175	101,664
Property Taxes Receivable (net of allowance for uncollected taxes of \$4,870 in 2001 and \$4,644 in 2000)	25,124	25,844
Accrued Interest Receivable	500	686
Total Restricted Assets	<u>206,214</u>	<u>141,038</u>
<b>Property</b>		
Land	56,991	56,991
Channel Land and Improvements	92,026	55,720
Railroads	32,249	31,189
Buildings	64,699	62,581
Improvements other than Buildings	328,058	288,248
Machinery and Equipment	117,042	108,595
Construction in Progress	128,541	167,861
	<u>819,606</u>	<u>771,185</u>
Less Accumulated Depreciation and Amortization	277,919	257,586
Property, net	<u>541,687</u>	<u>513,599</u>
<b>Long - Term Investments</b>	<u>31,099</u>	<u>14,927</u>
<b>Other Assets</b>		
Installment Sale Receivable	1,990	2,262
Deferred Dredging Charges	1,077	983
Other	1,497	2,334
Total Other Assets	<u>4,564</u>	<u>5,579</u>
<b>Total</b>	<u><b>\$957,186</b></u>	<u><b>\$845,607</b></u>

See notes to financial statements

Port of Houston Authority of Harris County, Texas  
**Balance Sheets**  
December 31, 2001 and 2000  
(in thousands)

<b>Liabilities and Equity</b>	<u>2001</u>	<u>2000</u>
<b>Current Liabilities (payable from current assets)</b>		
Accounts Payable and Accrued Liabilities	\$11,778	\$9,297
Obligations under Capital Lease	515	543
Total Current Liabilities (payable from current assets)	12,293	9,840
<b>Current Liabilities (payable from restricted assets)</b>		
Current Maturities of Long - Term Debt		
Revenue Bonds	4,710	4,225
Unlimited Tax Bonds	16,110	26,070
Accrued Interest Payable		
Revenue Bonds	236	277
Unlimited Tax Bonds	6,315	5,110
Contracts Payable and Accrued Liabilities	2,564	2,327
Total Current Liabilities (payable from restricted assets)	29,935	38,009
<b>Long - Term Debt, net of current maturities</b>	327,837	260,787
<b>Other Noncurrent Liabilities</b>		
Advances from Developer	16,328	13,896
Accrued Vacation and Sick Leave	3,644	3,339
Obligations under Capital Leases	3,802	4,317
Deferred Income	2,028	2,317
Other	328	110
Total Other Noncurrent Liabilities	26,130	23,979
Total Liabilities	396,195	332,615
<b>Equity</b>		
Retained Earnings		
Reserved for Debt Service		
Revenue Bonds	3,225	4,039
Unlimited Tax Bonds	27,341	27,842
Reserved for Revenue Bond Debt		
Retirement and Contingency	5,826	5,776
Unreserved	504,278	455,014
	540,670	492,671
Contributed Capital	20,321	20,321
Total Equity	560,991	512,992
<b>Total</b>	<b>\$957,186</b>	<b>\$845,607</b>

See notes to financial statements

Port of Houston Authority of Harris County, Texas  
**Statements of Revenues, Expenses and Changes in Retained Earnings**  
For the Years Ended December 31, 2001 and 2000  
(in thousands)

	2001	2000
<b>Operating Revenues</b>		
Vessel and Cargo Services	\$86,906	\$88,297
Rental of Equipment and Facilities	15,510	14,878
Grain Elevator	1,511	1,980
Bulk Materials	2,134	1,543
Other	2,278	1,442
Total	<b>108,339</b>	<b>108,140</b>
<b>Operating Expenses</b>		
Maintenance and Operation of Facilities	51,267	47,234
General and Administrative	22,504	16,385
Depreciation and Amortization	21,767	21,515
Total	<b>95,518</b>	<b>85,134</b>
<b>Operating Income</b>	<b>12,821</b>	<b>23,006</b>
<b>Nonoperating Revenues (Expenses)</b>		
Interest Income	9,481	10,560
Interest Expense on Bonds	(1,816)	(2,084)
Other, net	786	204
Total	<b>8,451</b>	<b>8,680</b>
<b>Income before Nonoperating Revenues (Expenses)     Related to Property Taxes</b>	<b>21,272</b>	<b>31,686</b>
<b>Nonoperating Revenues (Expenses)     Related to Property Taxes</b>		
Property Taxes	30,922	28,424
Interest Income on Unlimited Tax Bond Funds	1,174	1,662
Interest Expense on Unlimited Tax Bonds	(7,729)	(6,083)
Property Tax Expense	(1,030)	(919)
Other	(123)	(119)
Total	<b>23,214</b>	<b>22,965</b>
<b>Contribution from State Agency</b>	<b>3,513</b>	<b>4,712</b>
<b>Net Income</b>	<b>47,999</b>	<b>59,363</b>
<b>Retained Earnings, January 1</b>	<b>492,671</b>	<b>433,308</b>
<b>Retained Earnings, December 31</b>	<b>\$540,670</b>	<b>\$492,671</b>

See Notes to financial Statements

Port of Houston Authority of Harris County, Texas  
**Statements of Cash Flows**  
For the Years Ended December 31, 2001 and 2000  
(in thousands)

	2001	2000
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$109,875	\$95,184
Cash Paid to Suppliers for Goods and Services	(32,228)	(28,356)
Cash Paid to Employees for Services	(24,935)	(24,050)
Cash Paid for Employee Benefits	(10,950)	(9,735)
Cash from Other Services	1,350	1,909
Cash Paid for Other Purposes	(113)	(1,346)
	<u>42,999</u>	<u>33,606</u>
Net Cash Provided by Operating Activities		
<b>Cash Flows from Noncapital Financing Activities</b>		
Repayment of Advances From Developer	2,432	(1,539)
Property Taxes Received	31,380	28,137
Property Tax Collection Expenses Paid	(907)	(1,030)
	<u>32,905</u>	<u>25,568</u>
Net Cash Provided by Noncapital Financing Activities		
<b>Cash Flows from Capital Financing Activities</b>		
Contributed Capital from Governmental Grant	0	3,527
Proceeds from Issuance of Long - Term Debt	87,300	20,700
Issuance Costs of Long - Term Debt	(331)	(97)
Repayment of Long - Term Debt and Funding of Escrow	(30,838)	(21,145)
Interest on Long - Term Debt	(14,045)	(15,645)
Acquisition and Construction of Capital Assets	(43,049)	(52,073)
Proceeds from Retirement of Assets	258	123
	<u>(705)</u>	<u>(64,610)</u>
Net Cash Used in Capital Financing Activities		
<b>Cash Flows From Investing Activities</b>		
Purchase of Investments	(343,229)	(227,222)
Proceeds from Maturities of Investments	264,392	233,713
Interest on Investments	10,573	16,790
	<u>(68,264)</u>	<u>23,281</u>
Net Cash Provided by (Used in) Investing Activities		
<b>Net Increase in Cash and Cash Equivalents</b>	<b>6,935</b>	<b>17,845</b>
<b>Cash and Cash Equivalents, January 1</b>	<b>69,654</b>	<b>51,809</b>
<b>Cash and Cash Equivalents, December 31</b>	<b>\$76,589</b>	<b>\$69,654</b>
<b>Current Cash and Cash Equivalents</b>	<b>\$50,174</b>	<b>\$56,810</b>
<b>Restricted Cash and Cash Equivalents</b>	<b>\$26,415</b>	<b>\$12,844</b>

See notes to financial statements



Port of Houston Authority of Harris County, Texas  
**Statements of Cash Flows - Continued**  
For the Years Ended December 31, 2001 and 2000  
(in thousands)

	2001	2000
<b>Reconciliation of Operating Income to</b>		
<b>Net Cash Provided by Operating Activities</b>		
Operating Income	<b>\$12,821</b>	\$23,006
 Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities		
Depreciation and Amortization	<b>21,757</b>	21,448
Provision for Doubtful Accounts	<b>390</b>	442
Miscellaneous Nonoperating Income (Expense)	<b>1,237</b>	563
 Change in Assets and Liabilities		
Decrease (Increase) in Trade and Other Receivables	<b>5,659</b>	(12,646)
Decrease (Increase) in Deferred Dredging	<b>(1,184)</b>	(1,062)
(Increase) Decrease in Prepaid Expense	<b>(347)</b>	327
(Increase) Decrease in Inventory	<b>(30)</b>	24
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<b>3,225</b>	1,347
(Decrease) Increase in Payable to Port Development	<b>(544)</b>	491
Increase (Decrease) in Accrued Vacation and Sick Leave	<b>305</b>	(44)
(Decrease) Increase in Deferred Gain	<b>(290)</b>	(290)
Net Cash Provided by Operating Activities	<b><u>\$42,999</u></b>	<b><u>\$33,606</u></b>
 Noncash Investing, capital, and financing activities:		
Contributions of capital assets from government	<b>3,513</b>	3,980
Increase(Decrease) in fair value of investments	<b>507</b>	(187)

See notes to financial statements

Port of Houston Authority of Harris County, Texas  
**Notes to the Financial Statements**  
For the Years Ended December 31, 2001 and 2000

**1. Summary of Significant Accounting Policies**

**Reporting Entity**

The Port of Houston Authority of Harris County, Texas ("Authority") is an independent political subdivision created under the Constitution of the State of Texas. The Port Commission, composed of seven commissioners governs the Authority. Harris County, Texas ("County") and the City of Houston, Texas ("City of Houston") each appoint two commissioners to the Port Commission and jointly appoint the Chairman. The City of Pasadena, Texas ("City of Pasadena") and the Harris County Mayors and Councils Association ("Association"), representing 26 cities, each appoint one commissioner. Under state law, the County Auditor serves as the Auditor of the Authority and 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 exercise financial accountability over the Authority. The Authority is considered a primary governmental entity since it satisfies all of 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.

The financial statements of the Authority include all operations and activities of the Authority for which the Port Commission has financial accountability as defined above.

**Basis of Accounting**

The Authority follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of all Governmental Accounting Standards Board "GASB" pronouncements as well as the Financial Accounting Standards Board "FASB" pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The Port of Houston Authority is a Phase 1 Government (total annual revenues of \$100 million or more) and will be adopting the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, for the fiscal year beginning January 1, 2002 and ending December 31, 2002.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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**Statement of Cash Flows**

All highly liquid time deposits and investments with maturity of three months or less when purchased are considered to be cash equivalents. Certificates of deposit with maturities over three months are considered time deposits. Cash flows of the Authority are reported using the direct method.

**Inventory**

Inventory consists of materials and supplies and is stated at cost, determined on an average cost method.

**Property Taxes**

Property taxes (net of collection expenses) are used to pay debt service of the unlimited tax bonds. Property is appraised, and a lien on such property becomes enforceable, as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Property taxes are levied September 1 for the year in which assessed. Taxes become delinquent February 1 of the following year and are subject to interest and penalty charges. The County 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, 2001 and 2000 were \$769,000 and \$919,000, respectively.

The tax rates for the years ended December 31, 2001 and 2000 were \$.01826 and \$.01830 per \$100 assessed valuation, respectively.

**Investments**

All investments are recorded at fair value based upon quoted market prices with the difference between the purchase price and market price being recorded as interest income. For disclosure of custodial risk for all investments see Note 2 on Investments.

**Property and Depreciation**

Property constructed or acquired by purchase is stated at cost. Property received as a contribution is stated at estimated fair value on the date received. The Authority capitalizes, as a cost of its constructed assets, the interest expense of related borrowings less the interest earned on temporary investment of the proceeds of those borrowings from the date of borrowing. Capitalization increased the cost of assets constructed by the Authority by approximately \$1,800,000 and \$3,580,000 in 2001 and 2000, respectively.

Port of Houston Authority of Harris County, Texas  
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Depreciation is computed using the straight-line method over the following useful lives:

Railroads	25-40 years
Buildings	20-40 years
Improvements other than Buildings	20-50 years
Machinery and Equipment	3-20 years

### **Deferred Dredging Charges**

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 deferred charges and amortized over three to four years.

### **Premiums (Discounts) on Bonds Payable and Issuance Costs**

Premiums (discounts) on bonds payable are amortized on a straight-line basis over the term of the bonds. Bond issuance costs are expensed when incurred except for issuance costs of refunding bonds, incurred before December 1996, which are amortized on a straight-line basis over the term of the new debt. Effective January 1, 1997, issuance costs and premiums and discounts are amortized using the interest cost basis.

### **Vacation and Sick Leave**

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 employments. Upon termination, 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 at year end of up to a maximum of 12 days of their unused sick leave, limited to \$167 per day.

### **Reclassifications**

Certain amounts for 2000 have been reclassified to conform with the 2001 Presentation.

### **New Pronouncements**

In December 1998, The Governmental Accounting Standards Board (GASB) issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". This statement requires governments to recognize contributions to proprietary funds and to other governmental entities that use proprietary fund accounting as revenues, not contributed capital. This statement became effective for financial statements for periods beginning after June 15, 2000. The implementation

Port of Houston Authority of Harris County, Texas  
**Notes to the Financial Statements**  
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of GASB No. 33 resulted in contributed capital being recognized as revenue in the Statement of Revenues, Expenses, and Changes in Retained Earnings.

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements Management Discussion and Analysis—for State and Local Governments". The objective of this Statement is to enhance the clarity and usefulness of the general-purpose external financial reports of the state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The Authority must implement GASB 34 for its fiscal year beginning January 1, 2002. Although Authority management believes that there will be no material adverse impact to the Authority's financial position, results of operations or cash flows as a result of GASB 34, adoption of the Statement will significantly alter the presentation of financial information.

In April of 2000, the GASB issued Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues". This is an amendment to Statement No. 33 in which recipient governments of derived tax revenues or imposed nonexchange revenues should recognize revenues for a period equal to cash received during the period and cash received after the end of a period should be recognized as revenues of the period.

In June of 2001, the GASB issued Statement No., 37, "Basic Financial Statements-and-Management's Discussion and Analysis-for State and Local Governments: Omnibus". This is an amendment of GASB Statements No. 21 and No. 34 and is to be implemented in conjunction with Statement No. 34 in fiscal year beginning January 1, 2002.

In June of 2001, the GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures". This Statement establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violation of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers. This Statement is to be implemented in conjunction with Statement No. 34 in fiscal year beginning January 1, 2002.

## **2. Cash and Investments**

The Authority's cash and cash equivalents balance of \$76,589,000 and \$69,654,000 as of December 31, 2001 and 2000, respectively, are maintained in demand accounts and mutual funds managed by a major fund manager. The bank balance per the bank statements at December 31, 2001 and 2000 was \$78,994,000 and \$71,293,000, respectively, of which the amount on deposit in demand accounts is fully covered by the federal deposit insurance through the FDIC or collateralized with securities held by the Authority's depository institution in joint safekeeping at the Federal Home Loan Bank of Dallas in the Authority's name. The mutual funds are invested primarily in direct obligations of the U.S. Government or its agencies and are not subject to categorization in accordance with GASB Statement No. 3, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools".

Port of Houston Authority of Harris County, Texas  
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In accordance with authorized state statutes, the Authority invests in fully collateralized or insured time deposits, direct debt securities of the United States or its agencies, commercial paper, money market mutual funds, collateralized mortgage obligations, the underlying security for which is guaranteed by an agency of the United States, and fully collateralized repurchase agreements. The repurchase agreements must be purchased pursuant to a master repurchase agreement which specifies the rights and obligations of both parties and requires that the securities involved in the transactions be held in a safekeeping account subject to the control and custody of the Authority. Investments in security repurchase agreements may be made only with the Authority's depository bank or with state or national banks domiciled in the State of Texas. The Authority did not invest in repurchase agreements during 2001 or 2000.

The Authority's investments are categorized below to give an indication of the level of risk with Category 1 being the lowest level of risk to Category 3 being the highest level of risk. Investments are included in the credit risk categories as follows:

Category 1: Investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name.

Category 2: Uninsured and unregistered investments, with securities held by the Authority's counterparty's trust department or agent in the Authority's name.

Category 3: Uninsured and unregistered investments, with securities held by the Authority's counterparty, or by its trust department or agent, but not in the Authority's name.

Shown below are the Authority's investments by risk category as of December 31, 2001 and 2000 (in thousands):

	<b>2001 Categories</b>			<b>Total</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
<b>U.S. Treasury Notes</b>	\$43,277	\$0	\$0	\$43,277
<b>U.S. Government Agencies Securities</b>	210,622	0	0	210,622
<b>Commercial Paper</b>	18,269	0	0	18,269
<b>Municipal Bonds</b>	11,901	0	0	11,901
<b>Total</b>	<u>\$284,069</u>	<u>\$0</u>	<u>\$0</u>	<u>\$284,069</u>

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	<b>2000 Categories</b>			<b>Total</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
<b>U.S. Treasury Notes</b>	\$2,507	\$0	\$0	\$2,507
<b>U.S. Government Agency Securities</b>	169,574	0	0	169,574
<b>Commercial Paper</b>	17,438	0	0	17,438
<b>Municipal Bonds</b>	11,198	0	0	11,198
<b>Total</b>	<u>\$200,717</u>	<u>\$0</u>	<u>\$0</u>	<u>\$200,717</u>

**3. Sale of World Trade Building**

In January 1999, the World Trade Center was sold by the Authority to Paladio Development Ltd., a Texas limited partnership, with Paladio Management, Inc., a Texas corporation as the Sole General Partner, for the sum of \$4,000,000. The Authority received a down payment of \$400,000 and a promissory note for \$3,600,000 payable in nine equal installments of \$400,000 with the first installment due on or before one year from the date of the promissory note. The present value of this note as of December 31, 2001 totaled \$2,262,000 with \$272,000 classified as Current Receivables and \$1,990,000 in Installment Sale Receivable. This transaction resulted in a deferred gain of \$2,998,000, which was \$2,027,000 as of December 31, 2001. This balance will be written off in equal installments over the life of the promissory note.

Port of Houston Authority of Harris County, Texas  
**Notes to Financial Statements**  
For the Years ended December 31, 2001 and 2000  
(Continued)

**4. Long - Term Debt**

**Outstanding Long - Term Debt**

Long - Term Debt is summarized as follows (in thousands):

	Interest Rate %	Issue Date	Maturity	December 31	
				2001	2000
<b>Revenue Bonds:</b>					
Series 1977	3.50 - 7.00	2-01-77	2002	\$2,600	\$5,000
Series 1992, Refunding	3.80 - 6.50	2-26-92	2006	19,525	21,280
<b>Special Purpose Revenue Bonds:</b>					
Series 1964	2.50	7-01-64	2004	240	310
Total Revenue Bonds				22,365	26,590
Less Unamortized Discounts				(94)	(116)
Revenue Bonds, Net				22,271	26,474
<b>Unlimited Tax Refunding Bonds:</b>					
Series 1993	3.20 - 4.55	07-01-93	2001	0	1,445
Series 1997 *	4.75 - 5.00	10-23-97	2013	25,525	28,525
Series 1999B	5.00 - 5.25	09-28-99	2009	5,045	5,735
Series 2000B	4.55 - 5.50	10-15-00	2011	7,565	8,700
Total Unlimited Tax Refunding Bonds				38,135	44,405
Add (Subtract) Unamortized Premiums/(Discounts) and Deferred Loss				945	1,055
Unlimited Tax Refunding Bonds, Net				39,080	45,460
<b>Unlimited Tax Port Improvement Bonds:</b>					
Series 1990	6.50 - 8.50	07-15-90	2011	0	8,700
Series 1992A	5.50 - 7.50	01-07-92	2013	6,315	6,845
Series 1992B	5.60 - 7.60	12-01-92	2013	1,800	2,325
Series 1994	6.50 - 8.50	12-01-94	2016	11,250	12,000
Series 1995	4.90 - 6.90	11-01-95	2017	9,600	10,200
Series 1996	5.50 - 7.50	04-01-96	2017	41,600	44,200
Series 1997	4.80 - 5.375	07-09-97	2018	23,800	25,200
Series 1998A	3.80 - 5.00	11-17-98	2019	72,900	76,950
Series 1998B	3.40 - 5.40	11-17-98	2019	6,300	6,650
Series 1999A	5.5	09-28-99	2024	13,705	14,000
Series 2000A	4.25 - 5.10	10-15-00	2024	12,000	12,000
Series 2001A	5.0	11-01-01	2026	17,300	0
Series 2001B	4.00 - 5.00	11-01-01	2026	70,000	0
				286,570	219,070
Add Unamortized Premiums/(Discounts)				736	78
				287,306	219,148
Total Long-Term Debt				348,657	291,082
Less Current Maturities				(20,820)	(30,295)
Long - Term Debt (net of unamortized premium/(discount))				\$327,837	\$260,787

\* The Refunding Bonds, Series 1997A, consist of \$ 23,040,000 Current Interest Bonds at 4.75 - 5.00 to mature 2000 - 2013 and \$ 2,485,000 Capital Appreciation Bond at 4.80 - 4.85 to mature 2006 - 2007.



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All of the net revenues of the Authority are pledged for the payment of debt service of the revenue bonds (“first-lien bonds”). Net revenues, as defined by the various bond resolutions include substantially all of the Authority’s revenues and expenses other than those related to (a) the Bayport operations, (b) interest earned on certain bond funds, (c) revenues from property taxes levied by the Authority, (d) interest expense on revenue and unlimited tax bonds, and (e) depreciation and amortization. The revenue bond resolutions further require that the net revenues, as defined, equal at least 150% of the average annual debt service on the first-lien bonds before additional first-lien bonds can be sold. Net revenues for 2001 and 2000 were 900% and 1,008% of the respective year’s average annual debt service.

All of the net revenues, as defined, from the Bayport operations (see Note 8) are pledged for the payment of debt service of the Special Purpose Revenue Bonds, Series 1964.

There is no legal debt margin as to the issuance of the unlimited tax bonds.

**Debt Service Requirements**

Total debt service requirements as of December 31, 2001 are as follows (in thousands):

Year Ending December 31	Bond Principal		Bond Interest		Total
	Revenue	Unlimited Tax	Revenue	Unlimited Tax	
2002	\$4,710	\$16,110	\$1,264	\$16,394	\$38,478
2003	4,280	18,250	992	15,905	39,427
2004	4,440	18,305	720	14,971	38,436
2005	4,380	18,350	438	14,022	37,190
2006	4,555	16,190	148	15,321	36,214
2007-2011	-	84,350	-	55,376	139,726
2012-2016	-	72,880	-	32,508	105,388
2017-2021	-	47,495	-	14,825	62,320
2022-2026	-	32,775	-	4,941	37,716
<b>Total</b>	<b>\$22,365</b>	<b>\$324,705</b>	<b>\$3,562</b>	<b>\$184,263</b>	<b>\$534,895</b>

All bonds generally mature serially based on stated maturity dates. However, all bonds may be redeemed prior to their maturities in accordance with provisions of the various bond resolutions at par except Revenue Bond Series 1977, which is currently at 100%.

Port of Houston Authority of Harris County, Texas  
**Notes to Financial Statements**  
For the Years Ended December 31, 2001 and 2000  
(Continued)

At December 31, 2001, the Authority had \$41,700,000 remaining of the \$130,000,000 in authorized but not issued unlimited tax bonds for improvement to the Houston Ship Channel, which were approved by voters in an election in November 1989.

At December 31, 2001, the Authority also had \$317,000,000 remaining of the \$387,000,000 in authorized but not issued unlimited tax bonds for construction of Bayport which was approved by the voters in an election in November 1999.

**Bond Refundings**

At various times the Authority 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 all future debt service on the refunded bonds. Accordingly, the trust account assets and the liabilities for the bonds to be defeased are not included in the Authority's financial statements. At December 31, 2001, the outstanding balance of the defeased unlimited tax bond was \$39,500,000.

During 2000, the Authority issued \$8,700,000 unlimited tax refunding bonds and used the proceeds, net of issuance cost, to establish an irrevocable escrow fund to provide for all future debt service requirements on the outstanding tax bond, series 1990, that was refunded in January, 2001. As a result, the series 1990 bonds are considered to be defeased and the liability for such bonds have been removed from the financial statements of the Authority in 2001. At December 31, 2001, there was no balance of these defeased tax refunding bonds. The gain of \$47,841 was realized on the refunding and is being amortized on an interest cost basis over the life of the bond issue which runs through October 1, 2011. The gain was determined as follows (in thousands):

Principal balance of refunded bonds		\$8,700
Less:		
Total payments to trustee:		
Face amount of refunding issue	\$8,700	
Premium received	101	
Issuance Costs	<u>(51)</u>	
Total	8,750	
Accrued interest payable	<u>(98)</u>	<u>(8,652)</u>
Deferred gain on refunding		<u>\$ 48</u>

Port of Houston Authority of Harris County, Texas  
**Notes to Financial Statements**  
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(Continued)

The Authority reduced its aggregate debt service payments by approximately \$781,000 over the next 10 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$553,000.

Subsequent to December 31, 2001 the Authority sold Revenue Refunding bonds in the amount of \$22,285,000 which will be used to defease the remaining principal of the Series 1977 and Series 1992 Refunding Revenue bonds in May, 2002. The Revenue Refunding Bonds, Series 2002 will be paid over five (5) years with the final payment due May, 2006.

**5. Bond Restrictions**

The bond resolutions require that during the period in which the bonds are outstanding, the Authority must create and maintain certain accounts (“funds”) to receive the proceeds from the sale of the bonds, property taxes levied and the net revenues, as defined, derived from the operation of the Authority’s facilities. These assets can be used only in accordance with the terms of the bond resolutions to pay the capital costs of enlarging, extending or improving the Authority’s facilities or to pay the debt service cost of the related bonds.

**6. Capital Lease Commitments**

On July 21, 1997, the Authority entered into a 20-year lease agreement with the Board of Trustees of the Galveston Wharves for its East End Container Terminal located at Pier 10. Contained in the agreement is a provision that various fixed assets, including several container and yard cranes, tractors, trailers, and other equipment, which will become property of the Authority after 15 years. The Authority also began leasing computer equipment in July 1997 that results in the transfer of ownership to the Authority at the conclusion of the lease. Both are classified as capital leases. The total present value of lease payments as of December 31, 2001 of \$4,317,000 consist of \$515,000 in Current Liabilities and \$3,802,000 in Non-current Liabilities. Future minimum lease payments are as follows for the years ended December 31 (in thousands):

2002	\$ 739
2003	674
2004	648
2005	599
2006	543
2007 - 2012	<u>2,394</u>
Total Lease Payments	5,597
Less: Amount representing interest	<u>(1,280)</u>
 Present value of minimum lease payments	 <u><u>\$4,317</u></u>

Port of Houston Authority of Harris County, Texas  
**Notes to Financial Statements**  
For the Years Ended December 31, 2001 and 2000  
(Continued)

**7. Contributed Capital**

In 1998, the Governmental Accounting Standards Board issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" (Statement No. 33) which established accounting and financial reporting standards about when (in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources and required governments to recognize capital contributions to proprietary funds and to other governmental entities that use proprietary fund accounting as revenues in the statements of revenues, expenses, and changes in retained earnings, not directly to contributed capital. Requirements of Statement No. 33 were effective for financial statements for periods beginning after June 15, 2000. The Authority implemented Statement No. 33 at the beginning of January 2001. As a result of implementation, the accounting changes related to contributed capital construction projects funded by the federal government which benefit the Authority are reflected in the statements of revenues, expenses, and changes in retained earnings for 2001 and the financial statements for 2000 have been restated to conform with the adoption and presentation of the accounting change. As a result, certain amounts in the statements of revenues, expenses and changes in retained earnings and balance sheets have been restated from the amounts previously reported to adopt the new accounting principle as follows:

	<b>As Previously Reported (000's)</b>	<b>As Restated (000's)</b>
At December 31, 2000:		
Retained earnings – Unreserved	\$450,302	\$455,014
Contributed Capital	25,033	20,321
As of December 31, 2000:		
Contributions from State Agency		4,712
Net Income	54,651	59,363

**8. Bayport Facilities**

Certain land and port facilities of the Bayport Division were acquired or constructed using the proceeds from the Special Purpose Revenue bonds, Series 1964, and interest-free advances (including the interest earnings on the invested portions thereof) from the developer of an adjacent industrial park. The developer also agreed to advance to the Authority amounts necessary to cover maintenance and operating expenses of the Bayport facilities if, and to the extent that, gross revenues from the operations of the Bayport facilities were insufficient. Such construction and operating advances amounted to \$16,328,000 at December 31, 2001 and

Port of Houston Authority of Harris County, Texas  
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(Continued)

\$13,896,000 at December 31, 2000. All such advances will be repaid only from net revenues, if any, of the Bayport Division earned through the year 2013.

Effective October 27, 1997, the Authority, the developer, and the Bayport Operators entered into an Agreement of Compromise and Settlement (the "Agreement") that resolves various legal disputes in connection with the Authority's property at Bayport, including disputes as to reimbursement of the developer for amounts previously advanced. The Agreement provides for an increased user fee (from 22¢ per ton of liquid to 24¢) to be credited to the Bayport Reimbursement Account through July 31, 2013. All proceeds of this fee will be used for payment of amounts then due upon the Special Purpose Revenue Bonds, Series 1964, for payment of certain of the Authority's operating expenses relating to Bayport, and for the repayment of amounts advanced to the Authority by the developer. The Agreement limits repayments to the developer to the sum of \$21.5 million (plus any additional advances made by the developer) and also provides that all repayment obligations of the Authority to the developer shall finally terminate on July 13, 2013. The Agreement provided for the payment of \$2,232,205 by the Authority to the developer in exchange for the developer's final release of all of the developer's rights concerning the Authority's property at Bayport. The Agreement contains various other provisions, including provisions addressing allocation of maintenance costs for the Bayport Channel and Turning Basin among the Authority, the developer and Private Operators at Bayport. The Agreement supersedes all prior agreements between the Authority and developer and was contingent upon the U.S. Corps of Engineers' approval of offshore disposal of Bayport dredge material. Such approval was received in October of 1998.

The Authority had recorded approximately \$19,900,000 in advances from the developer at the time the new agreement was signed and has not recorded the additional \$1,600,000 in possible repayments since management does not, at this time, believe that such future net revenues will be sufficient to pay all of the currently existing advances. The repayments during the twelve months ending December 31, 2001 and 2000 were approximately \$1,211,000 and \$1,539,000 respectively.

## **9. Retirement Plan**

### **Plan Description**

The Port of Houston Authority Restated Retirement Plan ("the Plan") is a single employer noncontributory defined benefit retirement plan covering all permanent, full-time employees after the completion of one year of employment. The Authority's Port Commission, the Pension Committee and Melanie Sherman, the Plan Administrator, control and manage the operation and administration of the Plan. Compass Bank (the Trustee") serves as the trustee of the Plan. The Plan issues a stand-alone financial report that may be obtained by requesting such report from the Port of Houston Authority of Harris County, P.O. Box 2562, Houston, TX 77252, Attention: Controller. Employees vest in the plan after five years of continuous service with the Authority. The Authority's payroll for employees covered by the Plan for the plan years

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(Continued)

ended July 31, 2001 and 2000 was \$18,779,000 (82% of the total payroll of \$22,825,000) and \$17,550,000 (81% of total payroll of \$21,784,000) respectively.

Vested employees who retire at age 65 are entitled to an annual retirement benefit, payable monthly, for five years certain and for life thereafter, in an amount equal to the lesser of 2.3% of their average monthly base earnings, multiplied by their number of years of credited service, or 70% of the average monthly base earnings. Monthly base earnings are those of the highest consecutive five years out of the ten years immediately preceding retirement. The Plan also provides early and late retirement options with benefits adjusted accordingly, as well as death and disability benefits. These benefit provisions and all other plan requirements are established and approved by the Port Commission.

**Actuarially Determined Contribution Requirements and Contributions Made**

The Authority's funding policy provides for actuarially determined annual contributions, which include the normal cost and amortization of the unfunded frozen actuarial accrued liability.

	<u>Actuarial Valuation Method</u>		
Actuarial Valuation Date	08/01/01	08/01/00	08/01/99
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Dollar, (closed)	Level Dollar, (closed)	Level Dollar, (closed)
Amortization Period in Years	30	30	30
Asset Valuation Method	Market Value	Market Value	Market Value
Actuarial Assumptions:			
Investment Return	7.5%	7.5%	7.5%
Projected Salary Increases	3.0% - 8.0%	3.0% - 8.0%	3.0% - 8.0%
Inflation	3.5%	3.5%	3.5%
Cost of Living Adjustment	None	None	None

The required contributions to the Plan, including payments of the unfunded actuarial accrued liability, are actuarially determined as if the Authority were subject to Sections 412 and 404 of the Internal Revenue Code, even though the Authority is not subject to these rules.

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(Continued)

**Plan Statistics**  
**For Plan Years July 31, 2001, 2000, and 1999**  
**Actuarial Valuation Report as of August 1, 2001, 2000, and 1999**

	<u>2001</u>	<u>% Covered Payroll</u>	<u>2000</u>	<u>% Covered Payroll</u>	<u>1999</u>	<u>% Covered Payroll</u>
Actuarial Determined Employer Contribution Normal Cost	\$1,258,538	6.7%	\$1,169,320	6.4%	\$1,011,261	6.2%
Annual Pension Cost	\$2,136,112		\$1,126,800		\$1,011,261	
% of APC Contributed	100%		100%		100%	
NPO	None		None		None	

**Schedule of Funding**

Actuarial Valuation Date	08/01/01	08/01/00	08/01/99
Actuarial Value of Assets	\$64,677,712	\$70,309,053	\$70,935,582
Actuarial Accrued Liability (AAL)	\$77,033,505	\$73,452,556	\$70,939,814
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	\$ 12,355,793	\$ 3,143,503	\$ 4,232
Funded Ratio	84.0%	95.7%	100.0%
Annual Covered Payroll (Actuarial)	\$18,778,969	\$17,550,162	\$16,388,149
UAAL as a % of Covered Payroll	65.8%	17.9%	0.0%

**10. Postretirement Benefits**

In addition to providing pension benefits, the Authority provides certain postretirement health care and life insurance benefits for the retired employees and their spouses through provisions

Port of Houston Authority of Harris County, Texas  
**Notes to Financial Statements**  
For the Years Ended December 31, 2001 and 2000  
(Continued)

enacted by the authority of the Port Commission. At December 31, 2001, 241 former employees were eligible for these benefits. The Authority funds all of the premiums for retiree life insurance and a portion of the health insurance premiums. Continuation of these benefits and the Authority's contributions are dependent on periodic authorization by the Port Commission.

The health insurance benefits provided to retirees are the same as those offered to active employees though retirees have the option of securing their own insurance and receiving a monthly reimbursement from the Authority for a portion of the costs. 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. Active employees receive life insurance coverage valued at 150% of their current annual salary.

For the fiscal years ended December 31, 2001 and 2000, the cost of retiree health benefits, recorded on a pay-as-you-go basis and net of contributions from retirees, was \$1,293,200 and \$909,000, respectively. Retiree life benefits costs were \$12,300 and \$12,500, respectively.

**11. Operating Leases**

The Authority leases to others some of its land, buildings and improvements and cargo handling equipment. As of December 31, 2001, minimum rental payments to be received by the Authority under the operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows (in thousands):

2002	\$11,439
2003	12,272
2004	12,316
2005	10,616
2006	9,000
Thereafter	<u>80,626</u>
Total	<u>\$136,269</u>

In addition, the Port Terminal Railroad Association ("PTRA") leases certain railroad facilities from the Authority under a ten-year renewable agreement. The agreement provides for a yearly adjustment in rent on August 1, based on the percentage change in the Producer Price Index (all commodities) from the previous August 1. Effective August 1, 2001, the monthly rental is \$110,645. The Authority invoiced PTRA approximately \$1,325,000 and \$1,300,000 under this agreement in 2001 and 2000, respectively.



Port of Houston Authority of Harris County, Texas  
**Notes to Financial Statements**  
For the Years Ended December 31, 2001 and 2000  
(Continued)

**12. Risk Management**

The Authority has purchased retrospective-rated insurance policies for workers compensation, general liability and automobile liability. At December 31, 2001, the Authority was insured for the following loss limitations:

	<u>Workers' Compensation</u>	<u>General Liability</u>	<u>Automobile Liability</u>
Per Accident	\$200,000	\$100,000	\$100,000
Bodily Injury	Not Applicable	200,000	200,000

The Authority's insurance policy also includes a maximum loss liability provision of \$1.755 million for the period from March 1, 2001 through February 28, 2002. Settled claims did not exceed the insurance coverage during the last three fiscal years.

The claims liability of \$714,000, reported at December 31, 2001, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, 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.

Changes in claim liability amounts in fiscal years 2001 and 2000 were as follows:

	<u>2001</u>	<u>2000</u>
Unpaid claims and claim adjustment		
Expenses at beginning of year	<u>\$444,000</u>	<u>\$1,200,000</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	<u>565,000</u>	717,000
Increases in provision for insured events of prior years	<u>483,000</u>	
Total incurred claims and claim adjustment expenses	<u>1,048,000</u>	<u>717,000</u>
Payment		
Claims and claim adjustment expenses attributable to insured events of the current year	<u>381,000</u>	717,000
Claims and claim adjustment refunds attributable to insured events of prior ears	<u>397,000</u>	<u>756,000</u>
Total Payment	<u>778,000</u>	<u>1,473,000</u>
Total unpaid claims and claim adjustment expenses at year end	<u>\$714,000</u>	<u>\$444,000</u>

Port of Houston Authority of Harris County, Texas  
**Notes to Financial Statements**  
For the Years Ended December 31, 2001 and 2000  
(Continued)

### 13. Commitments and Contingencies

#### Commitments

At December 31, 2001 the Authority had committed approximately \$66 million for supplies, services, the purchase of equipment and the expansion of facilities.

#### Litigation and Claims

The Authority is the defendant in various legal actions that arise in the normal course of business. No prediction as to the result of such litigation or claims can be made, but the Authority, based on consultation with outside counsel, believes the outcome of such matters will not materially affect its financial position.

There is a possible unasserted claim for remediation of contamination on the Port's property that could be brought by Federal and/or State agencies. The Authority has sustained groundwater and soil contamination of its property due to the releases of hazardous chemicals from a pesticide facility adjacent to the Authority's property. The Authority has not manufactured, generated, or released such hazardous substances, nor has it contracted with the plant facility to use or manufacture any of the substances that have caused the contamination. Therefore, the Authority has taken the position that it is an innocent land owner as that term is defined by the laws of the State of Texas and that it is exempt from liability for site cleanup. Management of the Authority believes it is unlikely that any Federal or State agency will assert the Authority liability for the clean up of contaminants from the adjacent pesticide facility which has migrated on to the Port property.

The Authority was served as a defendant in United States District Court for the Southern District of Texas. The plaintiffs are pipeline companies that own pipelines crossing the Houston Ship Channel at various point. The pipeline companies allege the cost of removal or relocation of their pipelines in order to widen and deepen the Houston Ship Channel should be borne by the Authority. The federal district court entered final judgment against the Authority concluding that the Authority and not the pipeline companies, is responsible for the cost of pipeline removal or relocation. The Federal District Court's judgment was nonmonetary. The Authority and the U.S. Army Corps of Engineers are appealing the district court judgment to the United States Court of Appeals for the Fifth Circuit. The Authority cannot predict the final outcome of the appeal.

The Authority is the plaintiff in a case against GB BioSciences, et.al., alleging that for almost 50 years the GB Biosciences' facility has manufactured pesticides and disposed of chemical wastes in areas owned, operated or controlled by them. The GB BioSciences' facility and its disposal areas are directly adjacent to a number of separate tracts of land owned by the Authority. The GB BioSciences' facility has contaminated these properties. The Authority's lawsuit seeks recovery of the Authority's investigative and legal fees and other costs associated with this matter, damages (including property and punitive damages), declaratory judgment, and to have GB BioSciences, et al ordered to abate, remove and remediate all contamination. Trial is set for June 2003.

**APPENDIX B**  
**CO-BOND COUNSEL OPINIONS**

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**ANDREWS & KURTH L.L.P.**  
**600 Travis, Suite 4200**  
**Houston, Texas 77002**

**LAW OFFICES OF FRANCISCO G. MEDINA**  
**1111 North Loop West, Suite 820**  
**Houston, Texas 77008**

December 12, 2002

WE HAVE ACTED as Co-Bond Counsel for Port of Houston Authority of Harris County, Texas (the "Authority") in connection with an issue of bonds (the "Bonds") described as follows:

PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS UNLIMITED TAX PORT IMPROVEMENT BONDS, SERIES 2002A (Non-AMT), dated October 15, 2002, in the aggregate principal amount of \$16,000,000 maturing on October 1 in each year from 2005 through and including 2022 and 2027. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the orders (the "Orders") adopted by the Port Commission of the Authority and the Commissioners Court of Harris County, Texas authorizing their issuance.

WE HAVE ACTED as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Orders. The transcript contains certified copies of certain proceedings of the Authority; certain certifications and representations and other material facts within the knowledge and control of the Authority, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. R-1.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the Authority or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Authority's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the Authority enforceable in accordance with the terms and conditions

thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without limit as to rate or amount, upon taxable property located within the Authority, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds will be excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and the Bonds will not be treated as "private activity bonds" within the meaning of section 141 of the Code. Accordingly, interest on the Bonds will not be included as an alternative minimum tax preference item for individuals and corporations under section 57(a)(5) of the Code, except that interest on the Bonds will be included in the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax imposed on corporations by section 55 of the Code. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in its Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Co-Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON all tax-exempt obligations, including the Bonds, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. Purchasers of Bonds are directed to the discussion entitled "TAX EXEMPTION" set forth in the Official Statement.

UNDER EXISTING LAW and based upon the assumptions stated in the Official Statement prepared for use in connection with the sale of the Bonds, it is also our opinion as follows: (1) the difference between (a) the stated redemption price at maturity of each Bond maturing in the years 2009, 2010 and 2013 through 2022, inclusive, and 2027 (the "Discount Bonds"); and (b) the initial offering price at which a substantial amount of the such Discount Bonds of the same maturity were sold to the public, as described in Official Statement,

constitutes original issue discount with respect to each such Discount Bond in the hands of an owner who purchased such Discount Bond at the initial offering price in the initial public offering of the Bonds; and (2) such initial owner is entitled to exclude from gross income for federal income tax purposes with respect to such Discount Bond that portion of the original issue discount deemed to be earned for federal income tax purposes during the period that such Discount Bond continues to be owned by such owner. In the event of the redemption, sale or other taxable disposition of such Discount Bond prior to its stated maturity, however, any amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount deemed to be earned during the period for which such Discount Bond was held by such initial owner) is includable in gross income for federal income tax purposes.

PURCHASERS OF DISCOUNT BONDS in the initial public offering are directed to the discussion entitled "TAX EXEMPTION – Tax Accounting Treatment of Original Issue Discount and Premium Bonds" set forth in the Official Statement for purposes of determining the portion of the original issue discount which is deemed to be earned for federal income tax purposes during the period such Bonds are held by an initial owner. The federal income tax consequences of the purchase, ownership, and redemption, sale or other taxable disposition of Discount Bonds which are not purchased in the initial public offering at the initial offering price may be determined according to rules which differ from those described above and in the Official Statement.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals who may otherwise qualify for the earned income tax credit and taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

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**ANDREWS & KURTH L.L.P.**  
**600 Travis, Suite 4200**  
**Houston, Texas 77002**

**LAW OFFICES OF FRANCISCO G. MEDINA**  
**1111 North Loop West, Suite 820**  
**Houston, Texas 77008**

December 12, 2002

WE HAVE ACTED as Co-Bond Counsel for Port of Houston Authority of Harris County, Texas (the "Authority") in connection with an issue of bonds (the "Bonds") described as follows:

PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS UNLIMITED TAX REFUNDING BONDS, SERIES 2002B (AMT), dated October 15, 2002, in the aggregate principal amount of \$7,060,000 maturing on October 1 in each year from 2003 through and including 2013. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the orders (the "Orders") adopted by the Port Commission of the Authority and the Commissioners Court of Harris County, Texas authorizing their issuance.

WE HAVE ACTED as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Orders. The transcript contains certified copies of certain proceedings of the Authority; certain certifications and representations and other material facts within the knowledge and control of the Authority, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. R-1.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the Authority or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Authority's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the Authority enforceable in accordance with the terms and conditions

thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without limit as to rate or amount, upon taxable property located within the Authority, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds will be excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except with respect to interest on any Bond for any period during which such Bond is held by a "substantial user" of the facilities financed by the Bonds or a "related person" thereto as provided in Section 147(a) of the Code. The Bonds will be treated as "private activity bonds" within the meaning of section 141 of the Code. Interest on the Bonds will be an item of tax preference for purposes of determining the alternative minimum tax imposed on individuals and corporations.

The opinion set forth in the preceding paragraph is subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in its Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Co-Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON all tax-exempt obligations, including the Bonds, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. Purchasers of Bonds are directed to the discussion entitled "TAX EXEMPTION" set forth in the Official Statement.

UNDER EXISTING LAW and based upon the assumptions stated in the Official Statement prepared for use in connection with the sale of the Bonds, it is also our opinion as follows: (1) the difference between (a) the stated redemption price at maturity of each Bond maturing in the years 2012 and 2013 (the "Discount Bonds"); and (b) the initial offering price at which a substantial amount of the such Discount Bonds of the same maturity were sold to the

public, as described in Official Statement, constitutes original issue discount with respect to each such Discount Bond in the hands of an owner who purchased such Discount Bond at the initial offering price in the initial public offering of the Bonds; and (2) such initial owner is entitled to exclude from gross income for federal income tax purposes with respect to such Discount Bond that portion of the original issue discount deemed to be earned for federal income tax purposes during the period that such Discount Bond continues to be owned by such owner. In the event of the redemption, sale or other taxable disposition of such Discount Bond prior to its stated maturity, however, any amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount deemed to be earned during the period for which such Discount Bond was held by such initial owner) is includable in gross income for federal income tax purposes.

PURCHASERS OF DISCOUNT BONDS in the initial public offering are directed to the discussion entitled "TAX EXEMPTION – Tax Accounting Treatment of Original Issue Discount and Premium Bonds" set forth in the Official Statement for purposes of determining the portion of the original issue discount which is deemed to be earned for federal income tax purposes during the period such Bonds are held by an initial owner. The federal income tax consequences of the purchase, ownership, and redemption, sale or other taxable disposition of Discount Bonds which are not purchased in the initial public offering at the initial offering price may be determined according to rules which differ from those described above and in the Official Statement.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals who may otherwise qualify for the earned income tax credit and taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

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## APPENDIX C

### SUMMARY OF TABLES AND SCHEDULES RELATED TO CONTINUING DISCLOSURE OF INFORMATION

Table 1	- AUTHORITY AD VALOREM TAXES	- Table of Authority Tax Rates
Table 2	- AUTHORITY AD VALOREM TAXES	- Table of Authority Taxable Values and Tax Rates
Table 3	- AUTHORITY AD VALOREM TAXES	- Table of Authority Tax Levies, Collections, and Delinquencies
Table 4	- AUTHORITY AD VALOREM TAXES	- Table of Principal Taxpayers
Table 5	- AUTHORITY AD VALOREM TAX DEBT	- Table of Ad Valorem Tax Debt Comparisons
Table 6	- AUTHORITY AD VALOREM TAX DEBT	- Table of Debt Service Requirements
Table 7	- THE AUTHORITY	- Table of Physical Characteristics of the Port Facilities of the Authority
Table 8	- THE AUTHORITY	- Financial Condition and Operations – Summary of Comparative Historical Balance Sheets
Table 9	- THE AUTHORITY	- Financial Condition and Operations – Summary of Comparative Historical Operations
Table 10	- THE AUTHORITY	- Table of Annual Cargo Amounts
Table 11	- INVESTMENTS	- Current Investments – Schedule of Distribution of Authority Investments

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**APPENDIX D**

**Description of Refunded Bonds**

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
<b>UNLIMITED TAX PORT IMPROVEMENT BONDS, SERIES 1992A:</b>					
	10/01/2003	5.900%	\$530,000.00	12/20/2002	\$100.00
	10/01/2004	6.000%	530,000.00	12/20/2002	100.00
	10/01/2005	6.000%	525,000.00	12/20/2002	100.00
	10/01/2006	6.100%	525,000.00	12/20/2002	100.00
	10/01/2007	6.100%	525,000.00	12/20/2002	100.00
	10/01/2008	6.150%	525,000.00	12/20/2002	100.00
	10/01/2009	6.200%	525,000.00	12/20/2002	100.00
	10/01/2010	6.250%	525,000.00	12/20/2002	100.00
	10/01/2011	6.300%	525,000.00	12/20/2002	100.00
	10/01/2012	5.500%	525,000.00	12/20/2002	100.00
	10/01/2013	5.500%	<u>525,000.00</u>	12/20/2002	100.00
			\$5,785,000.00		
<b>UNLIMITED TAX PORT IMPROVEMENT BONDS, SERIES 1992B:</b>					
	10/01/2003	5.875%	\$525,000.00	12/20/2002	\$100.00
	10/01/2004	6.000%	525,000.00	12/20/2002	100.00
	10/01/2005	6.125%	25,000.00	12/20/2002	100.00
	10/01/2006	6.125%	25,000.00	12/20/2002	100.00
	10/01/2007	6.125%	25,000.00	12/20/2002	100.00
	10/01/2008	6.125%	25,000.00	12/20/2002	100.00
	10/01/2009	6.125%	25,000.00	12/20/2002	100.00
	10/01/2010	6.125%	25,000.00	12/20/2002	100.00
	10/01/2011	6.125%	25,000.00	12/20/2002	100.00
	10/01/2012	6.125%	25,000.00	12/20/2002	100.00
	10/01/2013	6.125%	<u>25,000.00</u>	12/20/2002	100.00
			\$1,275,000.00		
			\$7,060,000.00		

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**PORT OF HOUSTON AUTHORITY  
OF  
HARRIS COUNTY**  
(a political subdivision of the State of Texas  
having boundaries coterminous with Harris County)

**UNLIMITED TAX PORT IMPROVEMENT BONDS, SERIES 2002A (NON-AMT)**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2002B (AMT)**

**PORT COMMISSION**

James T. Edmonds .....	Chairman		
Kase L. Lawal .....	Vice Chairman	Jimmy Burke .....	Commissioner
Steve L. Phelps .....	Commissioner	Cheryl Thompson-Draper .....	Commissioner
James W. Fonteno, Jr .....	Commissioner	Janiece Longoria .....	Commissioner
H. Thomas Kornegay .....	Executive Director		
Wade M. Battles .....	Managing Director		
Martha T. Williams .....	General Counsel		
Tommy J. Tompkins, CPA .....	County Auditor		
Jack Cato .....	County Treasurer		