OFFICIAL STATEMENT DATED NOVEMBER 16, 2004

NEW ISSUE- BOOK- ENTRY ONLY **RATINGS: See "RATINGS" herein**

In the opinion of Bond Counsel (i) interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law; and (ii) interest on the 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 Bond Counsel's Opinion.

PORT OF HOUSTON AUTHORITY
OF
HARRIS COUNTY, TEXAS

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

$9,000,000
UNLIMITED TAX
REFUNDING BONDS,
SERIES 2004A
(AMT)

CUSIP Prefix: 734260

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 (the "Authority"), Unlimited Tax Refunding Bonds, Series 2004A (AMT) (the "Bonds"). The Bonds are payable from the receipts of an annual ad valorem tax, without legal limit as to rate or amount, levied on taxable property within Harris County, Texas (the "County"). The Bonds are not issued by, nor are they in any way obligations of, the County. See "DESCRIPTION OF THE BONDS— Source of Payment of the Bonds" herein. Proceeds of the Bonds will be used to refund certain outstanding bonds of the Authority more particularly described herein (the "Refunded Bonds") and to pay costs of issuance. See "PLAN OF FINANCING."

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, 2005, 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, N.A., Dallas, Texas, is the initial paying agent/registrar (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.

The Bonds are not subject to optional redemption prior to maturity. Certain of the Bonds are subject to mandatory sinking fund redemption as described herein. See "DESCRIPTION OF THE BONDS—Redemption" herein.

FSA

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.

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 LLP, Houston, Texas, Bond Counsel. The Bonds are expected to be available for delivery through DTC on or about December 8, 2004.

$9,000,000 SERIES 2004A BONDS (AMT) [(a)]

Maturity Date (October 1)	Principal Amount	Interest Rate	Price/Yield[(b)]	CUSIP
2005	$870,000	3.00%	2.25%	734260 E6 5
2006	795,000	3.25	2.40	734260 E7 3
2007	785,000	3.25	2.60	734260 E8 1
2008	775,000	4.00	2.85	734260 E9 9
2009	765,000	4.00	3.15	734260 F2 3
2010	750,000	4.00	3.40	734260 F3 1
2011	740,000	4.00	3.56	734260 F4 9
2012	730,000	4.00	3.71	734260 F5 6
2013	715,000	4.00	3.85	734260 F6 4
2014	705,000	5.00	3.95	734260 F7 2
2015	690,000	5.00	4.05	734260 F8 0
2016	680,000	5.00	4.15	734260 F9 8

(a) The Bonds are not subject to redemption prior to maturity. See "DESCRIPTION OF THE BONDS – Redemption."

(b) The initial offering prices or yields of the Bonds are furnished by the Initial Purchaser and represent the initial offering prices to the public, which may be changed by the Initial Purchaser thereof at any time.

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 Initial Purchaser.

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.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and Appendix E – "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax-exempt status of the interest on the Bonds.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASER 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 Refunding Bonds, Series 2004A (AMT) (the "Bonds") issued pursuant to the provisions of an order (the "Order") adopted by the Commissioners Court of the County (the "Commissioners Court"), on behalf of the Authority.
Use of Proceeds	Proceeds of the Bonds will be used to refund certain outstanding bonds of the Authority more particularly described in "APPENDIX D — Refunded Bonds" (the "Refunded Bonds") and to pay costs of issuance. 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 are not subject to redemption prior to maturity. See "DESCRIPTION OF THE BONDS – 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, N.A., 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, 2005, 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	The Bonds are payable from the receipts of an annual ad valorem tax, without legal limit as to rate or amount, levied on taxable property within the County. 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."
Bond Insurance	The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC. See "BOND INSURANCE."

SELECTED AD VALOREM TAX DATA

(dollar amounts in thousands)

	Calendar Year				
	2004[a][b]	2003	2002	2001	2000
Total Assessed Value, Net of Exemptions[c]	$190,119,253	$175,712,967	$175,959,093	$167,663,608	$154,097,029
Ad Valorem Tax Rate (Per $100 of Assessed Value)	0.01673	0.02000	0.01989	0.01826	0.01830
Total Tax Levy	$31,907	$37,000	$34,995	$30,659	$28,191
Current Collections of Ad Valorem Taxes Levied[d]	—	$35,575	$32,558	$28,574	$26,144
Current Collections as a Percentage of Ad Valorem Taxes Levied	—	96.1%	93.0%	93.2%	92.7%
Total Ad Valorem Collections[e]	—	$36,690	$33,445	$29,399	$26,933
Total Collections as a Percentage of Ad Valorem Taxes Levied	—	99.1%	95.8%	95.9%	95.5%

	Calendar Year				
	2004[a]	2003	2002	2001	2000
Authority Ad Valorem Tax Bonds Outstanding	$306,425	$306,245	$331,655	$324,705	$263,745
Authority Ad Valorem Tax Bonds Outstanding as a Percentage of Assessed Value	0.16%	0.17%	0.19%	0.19%	0.17%

[a] As of June 30, 2004.
[b] Tax rates were adopted by Commissioners Court on September 28, 2004. Tax bills have not yet been mailed, and therefore there are no collections as of the date of this Official Statement.
[c] Net of exemptions and abatements.
[d] 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.
[e] 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.

Source: Harris County Tax Assessor-Collector

OFFICIAL STATEMENT

Relating to

PORT OF HOUSTON AUTHORITY
OF
HARRIS COUNTY, TEXAS

$9,000,000
UNLIMITED TAX
REFUNDING BONDS,
SERIES 2004A (AMT)

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 "Bonds"). The Bonds are issued pursuant to the provisions of an order (the "Order") 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 an order (the "Authority Order") authorizing the sale of the Bonds, containing a Continuing Disclosure Agreement and authorizing and approving certain other matters in connection with the issuance and delivery of the Bonds.

PLAN OF FINANCING

Refunding

Proceeds of the Bonds will be used to currently refund the Authority's Unlimited Tax Port Improvement Bonds, Series 1994 described in "APPENDIX D—Refunded Bonds" (the "Refunded Bonds"). The Refunded Bonds and interest due thereon will 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, N.A., Dallas, Texas (the "Escrow Agent") to the Series 2004A Escrow Fund (the "Escrow Fund") created under the Escrow Agreement to be entered into by the Authority and the Escrow Agent for the Refunded Bonds (the "Escrow Agreement").

The Order and the Authority Order for the Bonds will each provide that from the proceeds of the sale of the Bonds to the Initial Purchaser, 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 and will be used to purchase direct obligations of the United States of America (the "Federal Securities"). The Escrow Funds are irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

By the deposit of the Federal Securities and cash 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 order authorizing the Refunded Bonds and in accordance with applicable law, including Chapter 1207, Texas Government Code, as amended. It is the opinion of 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 principal of and interest on the Federal Securities and cash 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.

The Authority has covenanted to make timely deposits into the Escrow Fund from lawfully available funds, of additional funds in the amounts required to pay the principal of and interest on the Refunded Bonds should, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payments.

SOURCES AND USES OF FUNDS

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

Sources of Funds:

Principal Amount of the Bonds	$9,000,000.00
Premium	225,000.00
Total Sources of Funds	$9,225,000.00

Uses of Funds:

Refunding Escrow Deposit	$9,132,160.42
Issuance Expenses	92,839.58
Total Uses of Funds	$9,225,000.00

DESCRIPTION OF THE BONDS

General

The Bonds will be dated November 15, 2004, 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, 2005, 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 55th 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), (vi) the Orders and (vii) the Authority Order.

Source of Payment of the Bonds

The Bonds are payable from the receipts of an annual ad valorem tax, unlimited as to rate or amount, levied on taxable property within the County. See "AD VALOREM TAXES." Pursuant to the provisions of the Order, 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 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

The Bonds are not subject to redemption prior to maturity.

Book-Entry-Only System

The Authority has elected to utilize the Book-Entry-Only System of DTC, as described in this Official Statement. The obligation of the Authority is to timely pay the Paying Agent/Registrar the amount due under the Order. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described herein.

DTC will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent/Registrar, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

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.

The information in this Official Statement concerning DTC and its book-entry system has been furnished by DTC for use in disclosure documents such as this Official Statement. The Authority believes such information to be reliable, but the Authority takes no responsibility for the accuracy or completeness thereof.

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 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 (the "Bond Register") will be kept and maintained by the Authority, at the corporate trust office of the Paying Agent/Registrar, as provided in the Order 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 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 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 the 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 then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Order, provided that, without the consent of all Bondholders of outstanding Bonds 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.

Defeasance

The provisions of the Order and the obligations to the Registered Owners of any or all of the Bonds to pay the principal of and interest thereon may be defeased in any manner permitted by law, including by depositing with the Paying Agent/Registrar, the Comptroller of Public Accounts of the State of Texas or any other entity with which such deposits may be made (as specified by Section 1207.061, Texas Government Code, as amended) either: (a) cash in an amount equal to the principal amount of such Bonds plus interest thereon to the date of maturity or redemption, or (b) pursuant to an escrow or trust agreement (or, if payment or redemption shall occur on or before the next Interest Payment Date, by deposit to the debt service fund for the Bonds), cash and/or:

(1) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States;

(2) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Commissioners Court adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent;

(3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Commissioners Court adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and/or

(4) any other securities or obligations which, at the time of such defeasance, are authorized by state law to be used to effectuate a defeasance of the Bonds,

in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount of the Bonds plus interest thereon to the date of maturity or redemption; provided, however, that if any of the 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 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. 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 as described above, the County 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 County may impose an additional penalty for collection costs for certain delinquent taxes if the County has contracted with a collection attorney. The County may waive penalties and interest on delinquent taxes if the error or omission of a representative of the County 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 County 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.

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 2000 through 2004. 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 Commissioner's Court may levy on behalf of the Authority to pay the Authority's tax bonds is unlimited.

Purpose	2000	2001	2002	2003	2004
Debt Service	$0.01830	$0.01826	$0.01989	$0.02000	$0.01673

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 2000 through 2004. 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)

	Taxable Value as of January 1			
Tax Year	Real Property[(a)(b)]	Personal Property	Total[(a)(b)(c)]	Authority Tax Rate per $100 of Taxable Value
2000	$125,699,404	$28,397,625	$154,097,029	$0.01830
2001	138,032,592	29,631,016	167,663,608	0.01826
2002	145,787,868	30,171,225	175,959,093	0.01989
2003	141,948,268	33,764,699	175,712,967	0.02000
2004	159,793,885[(d)]	30,325,368[(d)]	190,119,253[(d)]	0.01673

(a) Net of exemptions and abatements.

(b) 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 2004. If requested, the County must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans or of 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 2004. Counties may also refrain from increasing the total ad valorem tax (except for increases attributable to certain improvements on residential homesteads) of disabled persons or persons 65 years of age or older and their spouses above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based on the disability or age of the owner or (2) the year such county chooses to establish such limitation. The County has not chosen to institute such tax freeze. 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.

(c) 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 October 11, 2004 was approximately $1.25 billion and such value at the end of the abatement period is currently estimated to be approximately $1.8 billion. Assessed value figures herein are net of abatements.

(d) Estimates based on Appraisal District tax supplement as of October 11, 2004.

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 2000 through 2004.

(dollar amounts in thousands)

Year	Total Tax Levy	Current Tax Collections[a]	Percent of Current Levy	Delinquent Collections[b]	Total Tax Collections	Percent of Total Collections to Levy	Delinquent Taxes Receivable[b]	
							Personal Property	Real Property
2000	$28,191	$26,144	92.7%	$789	$26,933	95.5%	$869	$1,635
2001	30,659	28,574	93.2	825	29,399	95.9	1,046	1,730
2002	34,995	32,558	93.0	887	33,445	95.8	1,091	1,770
2003	37,000	35,575	96.1	1,115	36,690	99.1	1,236	1,934
2004[c][d]	31,907	—	—	—	—	—	—	—

(a) Taxes levied in any year that 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, which is the date taxes become legally delinquent.

(b) 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. 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.

(c) As of June 30, 2004.

(d) Tax rates were adopted by Commissioners Court on September 28, 2004. Tax bills have not yet been mailed, therefore there are no collections as of the date of this Official Statement.

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, 2003.

(Unaudited)
(dollar amounts in thousands)

Taxpayers	Type of Business	2003 Taxable Valuation [a]	Percentage of Total 2003 Taxable Valuation [b]
Exxon Mobil Corporation	Oil, Chemical Plant	$ 2,763,577	1.49%
Centerpoint Energy, Inc.	Electric Utility	2,249,887	1.22
Shell Oil Company	Oil Refinery	1,420,247	.77
Equistar Chemicals Limited Partnership	Chemical	1,071,332	.58
Southwestern Bell Telephone	Telephone Utility	1,038,554	.56
Hines Interests Ltd. Partnership	Real Estate	989,539	.53
Lyondell Chemical	Oil, Chemical Plant	721,264	.39
Crescent Real Estate	Real Estate	494,650	.27
Anhueser Busch Inc.	Brewery	485,179	.26
Chevron Phillips Chemical Company	Oil, Chemical Plant	478,043	.26
Hewlett Packard Company	Computers	437,850	.24
OXY Vinyls LP	Oil, Chemical Plant	402,430	.22
Continental Airlines, Inc.	Airline	377,673	.20
Lyondell-Citgo Refining Co.	Oil Refinery	367,029	.20
Conoco Phillips Company	Oil Refinery	343,348	.19
Total		$13,640,602	7.38%[c]

(a) Amounts shown for these taxpayers do not include taxable valuations, which may be substantial, attributable to certain subsidiaries and affiliates which are not grouped on the tax rolls with the taxpayers shown.
(b) Based on the Authority's total taxable value as of January 1, 2003.
(c) Discrepancy in total due to rounding.

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 the County for each of the tax years 2000 through 2004. The tax rates are based on assessment of taxable property at 100% of appraised value. (The tax year of the County is the calendar year, but its fiscal year begins March 1 and ends on the last day of February of the next year.) In addition to the County's ad valorem taxes, the Commissioners Court levies taxes on property in the County on behalf of the Harris County Flood Control District, the Port of Houston Authority and the Harris County Hospital District. The County Tax Assessor-Collector collects ad valorem taxes for the Harris County Flood Control District, the Port of Houston Authority 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.

	Tax Years				
Purpose	2000	2001	2002	2003	2004
County:					
Operating Fund	$0.32599	$0.33606	$0.33538	$0.34490	$0.33117
Debt Service[(a)]	0.01772	0.02368	0.03056	0.01889	0.04303
Total ($0.80 Limited Tax Rate)	0.34371	0.35974	0.36594	0.36379	0.37420
Road Bond Debt Service[(b)]:					
(Unlimited Tax Rate)	0.01531	0.02419	0.02220	0.02424	0.02566
Toll Road Authority Tax Bond:					
Debt service (Unlimited Tax Rate)[(c)]	--	--	--	--	--
Total County Tax Rate	$0.35902	$0.38393	$0.38814	$0.38803	$0.39986
Harris County Flood Control District[(d)]	$0.06173	$0.04758	$0.04174	$0.04174	$0.03318
Port of Houston Authority Debt Service[(e)]	0.01830	0.01826	0.01989	0.02000	0.01673
Harris County Hospital District[(f)]	0.20268	0.19021	0.19021	0.19021	0.19021
Total County-Wide Ad Valorem Tax Rate	$0.64173	$0.63998	$0.63998	$0.63998	$0.63998

(a) Pledged to the payment of Certificates of Obligation and Permanent Improvement Bonds.
(b) Pledged to the payment of Road Bonds.
(c) The County's policy and practice has been to provide for payment of debt service on the Toll Road Authority Tax Bond debt from toll revenues and certain other funds, and no taxes have to date been collected to provide for such debt service.
(d) The ad valorem tax rate that the Commissioners Court may levy on behalf of the Harris County Flood Control District is limited by law to a maximum of $0.30 per $100 of assessed value.
(e) 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.
(f) The ad valorem tax rate that the Commissioners Court may levy on behalf of the Harris County Hospital District is limited by law to a maximum of $0.75 per $100 assessed value.

Source: Harris County Tax Assessor-Collector

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, 2000, through December 31, 2003, and as of June 30, 2004, as a percentage of taxable value and per capita.

Fiscal Year End	Authority's Debt Outstanding (in thousands)	Authority's Taxable Value[a] (in thousands)	Authority's Debt Outstanding as a Percentage of Taxable Value	Estimated Population[b]	Authority's Tax Debt Outstanding Per Capita
2000	$263,475	$153,619,037	0.17%	3,400,578	$77
2001	324,705	167,852,831	0.19	3,460,589	94
2002	331,655	175,973,699	0.19	3,557,055	93
2003	306,245	184,267,513	0.17	3,596,086	85
2004	306,425[c]	190,119,253[c]	0.16	3,596,086[d]	85

[a] Net of exemptions and abatements. Property is assessed at 100% of appraised value.
[b] Source: For 2001, Bureau of the Census; for all other years, Houston Chamber of Commerce.
[c] As of June 30, 2004.
[d] The estimated population for the fiscal year ending December 31, 2004, is not yet available. Thus, the fiscal year 2003 number is shown here.
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.

Fiscal Year Ending 12/31	Outstanding Debt Service Requirements	Less Refunded Debt Service Requirements	The Bonds Principal	The Bonds Interest	The Bonds Total	Total Outstanding Debt Service Requirements[(a)]
2004	$ 33,909,270					$33,909,270
2005	33,449,370	$1,352,250	$870,000	$293,163	$1,163,163	33,260,283
2006	32,588,833	1,303,500	795,000	334,100	1,129,100	32,414,433
2007	31,718,533	1,254,750	785,000	308,263	1,093,263	31,557,045
2008	30,823,078	1,205,250	775,000	282,750	1,057,750	30,675,578
2009	29,949,443	1,155,000	765,000	251,750	1,016,750	29,811,193
2010	27,131,049	1,104,375	750,000	221,150	971,150	26,997,824
2011	25,499,305	1,053,750	740,000	191,150	931,150	25,376,705
2012	23,931,255	1,003,125	730,000	161,550	891,550	23,819,680
2013	23,350,300	952,500	715,000	132,350	847,350	23,245,150
2014	21,768,035	901,875	705,000	103,750	808,750	21,674,910
2015	21,236,630	851,250	690,000	68,500	758,500	21,143,880
2016	20,709,230	800,625	680,000	34,000	714,000	20,622,605
2017	19,421,468					19,421,468
2018	15,740,318					15,740,318
2019	14,045,183					14,045,183
2020	9,422,520					9,422,520
2021	9,436,430					9,436,430
2022	9,451,968					9,451,968
2023	9,474,018					9,474,018
2024	9,494,710					9,494,710
2025	7,513,035					7,513,035
2026	7,535,645					7,535,645
2027	1,149,750					1,149,750
Total[(a)]	$468,749,371	$12,938,250	$9,000,000	2,382,475	$11,382,475	$467,193,597

(a) May be differences in totals due to rounding
Source: First Southwest Company

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 tax debt determined as of September 30, 2004, adjusted to include the Bonds and exclude the Refunded Bonds.

Fiscal Year (End of Feb)	County Ltd. Tax Bonds	County Unltd. Tax Bonds	Toll Road Unltd. Tax Bonds (a)	Flood Control Ltd. Tax Bonds (b)	Port of Houston Authority Unltd. Tax Bonds	Grand Total (c)
2005[(d)]	$56,300,954	$42,878,549	$ 75,868,269	$ 29,100,017	$ 33,909,270	$ 238,057,059
2006	76,899,268	51,972,397	75,453,269	38,070,412	33,260,283	275,655,629
2007	76,300,339	52,865,759	75,413,269	35,127,524	32,414,433	272,121,324
2008	74,756,135	54,394,865	74,863,269	34,437,744	31,557,045	270,009,058
2009	77,012,134	52,124,478	74,988,031	30,846,244	30,675,578	265,646,465
2010	77,786,352	51,892,678	87,220,694	30,130,144	29,811,193	276,841,061
2011	73,489,476	56,500,103	86,496,694	27,728,632	26,997,824	271,212,729
2012	79,098,325	50,862,728	85,577,444	25,418,257	25,376,705	266,333,459
2013	82,054,583	46,606,318	85,312,031	25,206,707	23,819,680	262,999,319
2014	77,347,983	49,338,545	85,105,613	25,014,982	23,245,150	260,052,273
2015	79,138,007	47,553,645	84,494,981	23,497,644	21,674,910	256,359,187
2016	79,724,039	46,969,370	60,148,275	22,328,276	21,143,880	230,313,840
2017	80,748,994	45,942,995	44,204,397	21,147,513	20,622,605	212,666,504
2018	80,750,385	45,939,901	43,639,441	21,146,088	19,421,468	210,897,283
2019	65,763,878	45,940,801	43,062,831	36,129,975	15,740,318	206,637,803
2020	50,565,685	45,943,345	42,471,594	51,326,413	14,045,183	204,352,220
2021	50,570,310	45,943,326	41,871,031	51,321,850	9,422,520	199,129,037
2022	48,953,753	45,942,045	30,229,681	52,939,138	9,436,430	187,501,047
2023	48,946,458	45,943,750	29,601,491	52,947,238	9,451,968	186,890,905
2024	48,964,663	45,941,250	28,965,684	52,929,625	9,474,018	186,275,240
2025	90,531,156	45,942,750	28,317,072	11,361,738	9,494,710	185,647,426
2026	31,982,890	-	18,325,500	-	7,513,035	57,821,425
2027	31,997,980	-	17,682,500	-	7,535,645	57,216,125
2028	32,059,425	-	17,039,500	-	1,149,750	50,248,675
2029	28,195,275	-	16,396,500	-	-	44,591,775
2030	21,730,217	-	15,753,500	-	-	37,483,717
2031	21,773,072	-	15,110,500	-	-	36,883,572
2032	21,841,712	-	14,467,500	-	-	36,309,212
2033	21,909,885	-	13,824,500	-	-	35,734,385
2034	-	-	13,181,500	-	-	13,181,500
	$ 1,687,193,333	$ 1,017,439,598	$1,425,086,561	$ 698,156,161	$ 467,193,597	$ 5,295,069,250

(a) The County's policy and practice has been to provide for payment of debt service on the Toll Road Tax Bonds from toll road revenues and certain other funds, and no tax has to date been collected to provide for such debt service

(b) Includes the $191,765,000 Harris County Flood Control District Contract Tax Refunding Bonds, Series 2003-B and the $139,865,000 Harris County Flood Control District Contract Tax and Refunding Bonds, Series 2004A, both of which are payable from contractual payments made by the County to the District secured by the County's limited tax.

(c) Discrepancies in totals due to rounding.

(d) Reflects debt service for the entire fiscal year.

Source: Harris County, Office of Financial Services

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 Authority has remaining $25,700,000 of such bonds authorized but unissued. See "THE AUTHORITY — Authority's Capital Improvement Program — Houston Ship Channel."

On November 2, 1993, voters of the Authority authorized the issuance of $150,000,000 of bonds payable from the levy of an unlimited ad valorem tax to provide funding to pay costs of acquiring, 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 therein, including, without limitation, channels and turning basins, wharves, docks, warehouses, grain elevators, bunkering facilities, towing facilities and bulk handling facilities. The Refunded Bonds were issued pursuant to the November 2, 1993 voter authorization. The Authority has remaining none of such bonds authorized but unissued.

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 remaining $317 million of such bonds authorized but unissued. See "THE AUTHORITY — Authority's Capital Program — Bayport."

Commercial Paper Program

The Authority has authorized the issuance of Unlimited Tax Commercial Paper Notes, Series A (the "Series A Notes") in the aggregate principal amount of $150,000,000, pursuant to the elections held on November 7, 1989 (the "1989 Election") and November 2, 1999 (the "1999 Election"). The liquidity provider for the Series A Notes is Bank of America, N.A. (the "Bank") and the maturity date of the liquidity facility is August 20, 2006, unless extended by agreement of the Authority and the Bank. The Series A Note Program is administered by the County pursuant to an interlocal agreement with the Authority. As of October 26, 2004, $1.5 million of Series A Notes were outstanding pursuant to the 1989 Election and no Series A Notes were outstanding pursuant to the 1999 Election. The Authority expects to issue future commercial paper notes as necessary.

Estimated County-Wide and Overlapping Ad Valorem Tax Debt

In addition to the taxing entities mentioned above, approximately 31 cities, towns and villages, 24 independent school districts, four college districts and approximately 328 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[(a)]	$1,587,667	
Harris County Flood Control District[(b)]	403,430	
Port of Houston Authority[(c)]	306,245	$2,297,342
Cities:		
Houston[(d)]	$1,610,934	
Other Cities[(e)]	391,604	2,002,538
Independent School Districts, College Districts and Harris County Department of Education[(f)]		6,640,871
Utility Districts[(g)]:		2,312,805
Total		$13,253,556

[(a)] Excludes $717,527,049 of Toll Road Tax Bonds as of September 30, 2004. 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.

[(b)] Includes the $191,765,000 Harris County Flood Control District Contract Tax Refunding Bonds, Series 2003-B and the $139,865,000 Harris County Flood Control District Contract Tax and Refunding Bonds, Series 2004A, both of which are payable from contractual payments made by the County to the District secured by the County's limited tax.

[(c)] Excludes the Bonds and includes the Refunded Bonds.

[(d)] 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. Does not include commercial paper. As of March 31, 2004.

[(e)] 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.

[(f)] Aggregate net debt estimated by the Municipal Advisory Council of Texas as of various dates for 24 independent school districts and four college districts located in the County.

[(g)] Aggregate net debt as estimated by the Municipal Advisory Council of Texas as of various dates for approximately 328 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, 2003, is included in the Authority's financial statements attached hereto as APPENDIX A.

THE AUTHORITY

General

The Authority is a navigation district and independent political subdivision of the State of Texas, operating pursuant to Texas statute, including Chapter 117, Acts of the 55th Legislature, Regular Session, 1957, as amended, and Chapters 60, 61 and 62 of the Texas Water Code. The Authority by statute operates independently of other governmental entities, with the exception that the County, upon request of the Authority, sets the Authority's tax rate, levies the Authority's tax and issues and authorizes the Authority's general obligation bonds and commercial paper notes. The County Auditor by statute serves as the Authority's auditor, and the County Treasurer serves as the Treasurer of the Authority. 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 492 regular employees on December 31, 2003; and during 2003, employed 392 casual employees from various longshoremen 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. Under the guidance of the Captain of the Port, the Authority has taken certain steps and precautions to address the possibility of future terrorist attacks.

Future Legislation

The United States Congress and the Texas Legislature are each scheduled to convene in regular session in January 2005. Certain legislation, if enacted, may affect the operations of the Authority. At this time, the Authority cannot predict the final form of any 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, 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 18.5 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 230,000 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 two wharves 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 through 2009 and Excalibur Minerals on a month-to-month basis.

In the same mid-Channel area, the Authority owns Jacintoport Terminal. This approximately 125 acre terminal consists of three wharves, various warehouse facilities and buildings, and has rail trackage and other improvements. Also included is a refrigerated, frozen, and dry cargo facility used for both cargo handling and storage. All three wharves and approximately 50 acres of land are subject to the provisions of the lease between the Authority and Seaboard Corporation and Jacintoport Acquisition Partnership, LP.

Care Terminal, which is 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 ten-year lease agreement, which expires in 2012.

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 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. Building additional lead track from Deer Park to Pasadena Junction is on hold pending resolution of certain pipeline issues. 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 February 2002 through April 5, 2003, Royal Olympic Cruises offered cruises from Terminal 7. The Norwegian Cruise Line signed a 36-month berthing agreement and began offering year-round cruises in November 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.

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.

Summary of Current Operations

Through the first nine months of 2004, the Authority's Operating Revenues have increased 11% from Operating Revenues for the first nine months of 2003. Steel imports have increased 64% during the same period. In addition to the steel increases, general cargo is up 19%. Export of bagged goods is up 44% and TEUs ("twenty-foot equivalent units") increased 12%. G&A expenses are 14% lower in 2004 compared to 2003.

Significant Activities

Revenue tonnage (including Bayport) totaled 30.0 million tons in 2003, up 5% from 2002. From 2002 to 2003, container movements within the Authority exceeded 1,243,000 TEU's, which represents an 8% increase. In addition, an increase of 25% in tonnage at the Bulk Materials Handling Plant from 3.8 million in 2002 to 4.8 million in 2003, along with an increase in General Cargo of 3% contributed to the Authority's most successful year. During 2003, the Authority's operating revenues exceeded $120.9 million, an increase of 11.6% compared to 2002.

Authority's Capital Improvement Program

General. The Authority's capital budget for 2004 is set at $304.7 million. The majority of the expenditures are projected to be primarily for Security (11.0 million), Barbours Cut ($20.3 million), Houston Ship Channel ($13.1 million), Real Estate ($37.3 million) and Bayport ($213.0 million). Funds budgeted to be used for these expenditures include the proceeds from the sale of Houston Ship Channel bonds of $14.7 million, the sale of General Obligation Bonds for Port Improvements of $214.1 million and Current Funds of $90.6 million.

In addition to the expenses associated with modernization and expansion at the Authority's terminals, nearly 4.3% of the proposed expenses to be incurred during 2004 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 $13.1 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 first $70 million of these bonds was issued in 2001. See "AUTHORIZED BUT UNISSUED BONDS."

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 2004. 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 $705.2 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 $36 million for Fiscal Year 2003, and $35.5 million for Fiscal Year 2004. Construction funds in the amount of $29 million have been requested to continue construction of the project in Fiscal Year 2005. 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 $104.3 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 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 6 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 29,151 jobs would be generated within Harris County during the project's construction phase. They also estimated that the entire project would provide 32,163 total jobs, contribute $1.42 billion in personal income, and generate $128.1 million in state and local taxes. They further stated that the economic impact of this terminal to the region would be an estimated $2.4 billion annually. The 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 has been ongoing. The U.S. Army Corps of Engineers released the draft 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 released the final EIS in May 2003. The record of decision was issued in December 2003 and the permit was issued in January 2004. Contracts for the initial dredging and construction of 1,660 feet of wharves and 57 acres of container yards have been awarded and work has begun. The first phase of Bayport is due to open in 2006.

The Authority is committed to being a good neighbor both during the building of the Bayport Terminal Complex and in the long term. 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.)
Turning Basin Terminal				
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	--
Woodhouse Terminal **				
Wharf 1	660	39*	2.2	--
Wharves 2 and 3	1,250	35	--	231,750
Grain Dock	600	40	--	--
Dry Bulk Cargo Facility				
Wharf	800	42	--	--
Lay Berth	400	42	--	--
Jacintoport				
Wharves 1— 3	1830	38	7.5	82,500
Care Terminal				
Wharf 1	500	36	9.6	45,000
Wharf 2	618	38	4.0	--
San Jacinto Bay Barge Facility				
Barge Berth	320	12	--	--
Upper Channel Bulk Cargo Facilities				
Berths	200-700	26-40	--	--
Barbours Cut Terminal				
LASH Berth	950	40	--	--
Container Berths 1 — 6	6,000	40	230	255,000
Passenger Berth	900	40		
Galveston				
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. 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: two 30-ton and thirty-seven 40-ton.
Other Cranes: five 30,000 pound lifters for handling empty containers and three 40 long ton container handling machines.
Other Equipment: 33 heavy-duty yard tractors and 125 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 summary tables of the Authority's Financial Condition and Operations for the fiscal years ended December 31, 1999 through 2003 have been prepared by the Authority.

Table 8 — Summary of Comparative Statement of Net Assets

(dollar amounts in thousands)

	2003	2002	2001	2000	1999
Current and Other Assets	$ 416,158	$ 422,913	$ 415,499	$ 332,008	$ 309,272
Capital Assets	607,408	572,168	541,687	513,599	479,634
Total Assets	$ 1,023,566	$ 995,081	$ 957,186	$ 845,607	$ 788,906
Long-Term Liabilities	$ 341,894	$ 373,515	$ 372,759	$ 284,766	$ 296,943
Other Liabilities	40,028	26,067	23,436	47,849	38,334
Total Liabilities	$ 381,922	$ 399,582	$ 396,195	$ 332,615	$ 335,225
Invested in capital asset, net of related debt	$ 397,063	$ 359,244	$ 337,229	$ 336,140	$ 311,763
Restricted	57,844	56,928	53,024	19,015	19,382
Unrestricted	186,737	179,327	170,738	157,837	122,536
Total Net Assets	$ 641,644	$ 595,499	$ 560,991	$ 512,992	$ 453,681
Total Equity and Liabilities	$ 1,023,566	$ 995,081	$ 957,186	$ 845,607	$ 788,906

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

Table 9 — Summary of Comparative Historical Operations

(dollar amounts in thousands)

	2003	2002	2001	2000	1999
Operating Revenues	$ 120,902	$ 108,331	$ 108,339	$ 108,140	$ 95,428
Operating Expenses	114,010	106,787	95,518	85,134	81,108
Operating Earnings	6,892	1,544	12,821	23,006	14,320
Non-Operating Revenues	11,144	4,349	11,964	13,392	4,376
Income before Property Tax Revenue	$ 18,036	$ 5,893	$ 24,785	$ 36,298	$ 18,696
Non-Operating Revenues Related					
To Property Taxes	$ 28,109	$ 28,615	$ 23,214	$ 22,965	$ 23,424
Net Income	$ 46,145	$ 34,508	$ 47,999	$ 59,363	$ 42,120

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

Table 10 - Table of Annual Cargo Amounts

In 2003 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 1994-2003.

(in thousands)

Year	Short Tons
2003	[a]
2002	177,561
2001	185,050
2000	186,567
1999	158,828
1998	169,070
1997	165,456
1996	148,183
1995	135,231
1994	143,663

[a] Amount not available until 2005.
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, 2003. The average remaining maturity of such investments was 423 days based on par value.

Table 11 - Schedule of Distribution of Authority Investments

Distribution of Investments	
U.S. Government Agencies Securities	55.3%
Cash and Cash Equivalents	44.7
TOTAL	100.0%

REGULATION AND LITIGATION

Environmental Regulations and Air Quality

Air Quality. Under the Clean Air Act Amendments of 1990, the eight-county Houston-Galveston Consolidated Metropolitan Statistical Area ("CMSA") was designated by the Environmental Protection Agency ("EPA") as a severe non-attainment area under the 1-hour ozone standard. EPA required the Texas Commission on Environmental Quality ("TCEQ") to develop a State Implementation Plan ("SIP") demonstrating that the Houston-Galveston area would attain the 1-hour standard by 2007. TCEQ successfully developed this SIP. The SIP was approved by the EPA on October 15, 2001.

The 1-hour ozone SIP includes numerous volatile organic compound ("VOC") and nitrogen oxide ("NOx") emission controls designed to reduce ozone levels in the Houston-Galveston area. Compliance dates for emission controls specified in the 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 emission of NOx; (2) implementation of a diesel engine emission reduction incentive program called the Texas Emission Reduction Plan Program; (3) other transportation control measures designed to reduce on-road mobile source emission within the Houston-Galveston 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 80% reduction in NOx emissions from industrial and commercial point sources and utility reductions; (8) equipment controls for highly-reactive VOC emission from the petrochemical industry; (9) enforceable commitments to develop further control measures such as diesel emulsion and tailpipe controls for heavy duty equipment; and (10) voluntary commitments to reduce emissions through the Voluntary Mobile Emission Program. TCEQ is now in the process of evaluating whether the above controls will suffice or whether additional reductions will be necessary to meet the 1-hour ozone standard. This evaluation is called the "mid-course correction" and was a commitment made by the TCEQ in the 1-hour SIP. TCEQ is expected to reveal the results of the mid-course correction and any proposed rules for further emission controls by mid-2004.

In addition to the emission reductions required under the 1-hour SIP, and any new controls developed from the mid-course correction, further emission reductions will be required to achieve EPA's new more stringent ozone standard – the 8-hour ozone standard. EPA issued the 8-hour ozone standard in July 1997. EPA found that the 1-hour standard was inadequate for protecting public health. Scientific studies showed that ozone could affect human health at lower levels and over longer exposure times than one hour.

The 8-hour ozone standard was litigated for several years, but on April 15, 2004, EPA designated the Houston-Galveston area a "moderate" non-attainment area under the new standard. The TCEQ now must develop an 8-hour ozone SIP by July 2007. This new SIP must demonstrate that the Houston-Galveston area will attain the 8-hour ozone standard by 2010.

Port of Houston Authority. The Authority has undertaken a number of environmental-related initiatives in the last several years. The Authority was 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. The EPA and TCEQ recognized the Authority as the first port in the United States to achieve compliance with the ISO 14001 standards for its EMS for the Barbours Cut Terminal and the Authority's Central Maintenance Facilities. Additionally, the Authority was accepted into the EPA's National Environmental Performance Tract program in 2003.

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, particulate traps and fuel vapor enhancer demonstration projects and refinements of emissions inventories. With the success of the fuel emulsion project, the Authority received grant funding through the Texas Emissions Reduction Plan ("TERP") to expand the program to 61 pieces of equipment. The Authority has also been successful in receiving TERP funding for the replacement of a fireboat engine and the purchase of seven new pieces of cargo handling equipment.

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 appealed the district court judgment to the United States Court of Appeals for the Fifth Circuit. On January 30, 2004, the Fifth Circuit unanimously vacated the district court's order and rendered judgment in favor of the Authority and the U.S. Army Corps of Engineers. On April 1, 2004, the Fifth Circuit denied the pipelines' petition for rehearing. It is anticipated that the pipelines will file a petition for writ of certiorari to the U.S. Supreme Court, but that filing is not yet due. The Authority cannot predict the final outcome of this lawsuit.

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. As part of a settlement agreement executed on December 19, 2003, GB BioSciences has agreed to indemnify the Authority for certain losses and liabilities associated with that plant's contamination of certain Authority property. Pursuant to the terms of the settlement, the defendants paid the Authority a total of $30 million in cash in 2003 and paid $5 million in 2004 in exchange for certain releases by the Authority and the Authority's agreement to promptly stabilize and decommission the Authority's Greens Bayou Dredge Disposal Area. As part of the settlement, GB BioSciences also purchased portions of the Authority's impacted property and has agreed to perform Remediation Operations on the Authority's property to address the contamination and name the Authority as an additional insured on insurance policies issued to GB BioSciences in connection with work it is to perform. It is not anticipated that the Authority will have liability for the cleanup of contaminants from the adjacent pesticide facility which will have migrated onto Authority property.

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 LLP, Houston, Texas, 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 Bonds for any period during which any 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")) and (b) the Bonds are "private activity bonds" under the Code and, therefore, interest on the 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 Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Authority Order 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 Bond Counsel has not independently verified. If the Authority should fail to comply with the covenants in the Authority Order 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 Bonds, issued after August 7, 1986. Accordingly, Bond Counsel's opinion will state that interest on the 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.

Except as stated above, 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 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 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 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. 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 Premium Bonds

The initial public offering price of certain stated maturities of the Bonds (the "Premium Bonds") are 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 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 LLP, Houston, Texas, Bond Counsel, as to the validity of the Bonds under the Constitution and laws of the State of Texas. The opinions of 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.

The fees of 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 Purchaser 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 initially became obligated to make annual disclosure of certain financial information by filing with the state information depository ("SID") and each nationally recognized municipal securities information repository ("NRMSIR") in an offering that took place in 1995. Due to an administrative oversight, certain required financial information and audited financial statements for fiscal year end 2001 were not timely filed with the SID. Certain required financial information and audited financial statements were not timely filed with the NRMSIRs for fiscal years ending 1999 through 2002. The Authority mistakenly stated it had fully complied with all aspects of Rule 15c2-12 in its Official Statements for its 2000 and 2001 bond offerings, and only disclosed the late filing to the SID in its 2002 bond offering. All financial information has since been filed, as well as a notice of late filing. The Authority has implemented procedures to ensure timely filing of all future information.

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, 2003, 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, 2003. These financial statements of the Authority as of December 31, 2003, 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.

REGISTRATION, SALE AND DISTRIBUTION

The Bonds have not been registered under the federal Securities Act of 1933, as amended (in reliance upon an exemption therefrom), or the blue sky laws of any jurisdiction. The Resolution has not been qualified under the federal Trust Indenture Act of 1939, as amended (in reliance upon an exemption therefrom).

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix E to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2004 Financial Security's total policyholders' surplus and contingency reserves were approximately $2,255,933,000 and its total unearned premium reserve was approximately $1,561,771,000 in accordance with statutory accounting principles. At September 30, 2004, Financial Security's total shareholder's equity was approximately $2,612,989,000 and its total net unearned premium reserve was approximately $1,286,985,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

INITIAL PURCHASER

After requesting competitive bids for the Bonds, the Authority accepted the bid of Citigroup Global Markets Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover of this Official Statement at a price of $9,225,000, which reflects the par amount of the Bonds, plus a premium of $225,000. The Initial Purchaser's obligation to purchase the Bonds is subject to certain conditions precedent, and it will be obligated to purchase all of the Bonds if any are purchased. The Authority can give no assurance that any trading market will be developed for the Bonds after their sale by the Authority to the Initial Purchaser. The Authority has no control over the price at which the Bonds are subsequently sold and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

RATINGS

Fitch Ratings ("Fitch") and Standard & Poor's Ratings Services ("S&P") have assigned their municipal bond ratings of "AA+" and "AA+", respectively, to general obligation bonds of the Authority. Fitch and S&P have assigned their municipal ratings of "AAA" and "AAA," respectively, to the Bonds by virtue of the municipal bond insurance policy to be issued by Financial Security concurrently with the issue of 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.

OFFICIAL STATEMENT CERTIFICATE

At the time the Bonds are delivered, the Initial Purchaser shall receive a certificate or certificates, dated as of the date of the delivery, signed on behalf of the Authority by the Executive Director or other appropriate Authority official, and by the Director, Office of Financial Services of the County, acting solely in their respective official capacities, substantially to the effect that to the best of their knowledge and belief, as of the date of the delivery of the Bonds to the Initial Purchaser, the Official Statement, as then supplemented or amended, does not contain an untrue statement of a material fact and does not omit to state a material fact necessary to make the statements therein, in light of circumstances under which they were made, not misleading. Such certificate shall not cover any information relating to taxing entities other than the Authority or any information in the Appendices to the Official Statement.

In rendering such certificate, the persons executing it may state that they have relied on their examination of the records of the Authority relating to matters within their own area of responsibility, and their discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the Authority as to matters not within their respective areas of responsibility.

FINANCIAL ADVISOR

First Southwest Company has been retained by the Authority as its Financial Advisor in connection with the issuance of the Bonds and, in such capacity, such firm has assisted the Authority in the preparation of documents. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

Although the Financial Advisor has read and participated in the preparation of this Official Statement, such firm has not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from records of the Authority and from other sources that are believed to be reliable, including financial records of the Authority and other entities that may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Financial Advisors as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

First Southwest Company may also from time to time provide other services to the Authority.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the Authority, that are not purely historical are forward-looking statements, including statements regarding expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Authority on the date thereof, and the Authority assumes no obligation to update any such forward-looking statements. It is important to note that the actual results of the Authority could differ materially from those in such forward-looking statements.

The forward-looking statements in this Official Statement are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Authority. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

MISCELLANEOUS

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

This Official Statement was approved by the Port Commission.

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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 statements of net assets of the Port of Houston Authority of Harris County, Texas (the "Authority") as of December 31, 2003 and 2002, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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, 2003 and 2002, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and schedule of funding progress – Port of Houston Authority Restated Retirement Plan are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The introductory section, statistical section and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Authority's management. Such information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2004, 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

May 28, 2004

Management's Discussion and Analysis
(unaudited)

As management of the Port of Houston Authority of Harris County, Texas ("Authority") we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2003, December 31, 2002 and December 31, 2001. We encourage readers to consider the information that we have furnished in our letter of transmittal, which can be found on pages 5 through 14 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The net assets of the Authority at December 31, 2003 were $641,644. Of this amount, $186,737 are considered unrestricted net assets.
- The Authority's net assets increased by $46,145 for the fiscal year ended December 31, 2003.
- The Authority's total assets increased by $28,485 during the fiscal year ended December 31, 2003. The major component in this increase was the increase in cash and cash equivalents of $118,401 offset by a decrease in investments-current of $59,866 and investments-long term of $55,936.
- The Authority's total liabilities decreased by $17,660 during the fiscal year ended December 31, 2003. The major component in this decrease was the reduction of $23,331 in long-term debt, net of current maturities due to the debt service payments on the general obligation bonds in 2003 with no new general obligation bonds being issued in 2003.
- 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.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise the following: 1) statements of net assets, 2) statements of revenues, expenses, and changes in net assets, 3) statements of cash flows, and 4) notes to the financial statements. The basic financial statements can be found on pages 28 through 54 of this report. This report also contains other supplementary information in addition to the basic financial statements themselves.

The statements of net assets present information of all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets present information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected property taxes and earned but unused vacation leave).

The basic financial statements include not only the Port of Houston Authority (known as the primary government), but also two legally separate blended component units, Port Development Corporation ("PDC") and Port of Houston Authority International Corporation ("POHAIC"). Financial information for these component units is reported in conjunction with the primary government.

Since the Authority follows enterprise fund accounting and reporting requirements there are statements of cash flows included as part of the basic financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees and can be found on page 55 of this report.

Statistical information presented on a multi-year basis and other information including disclosures for compliance with the Securities and Exchange Commission Rule 15c2-12 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Statistical and other information can be found on pages 56 through 80 of this report.

Financial Analysis

By far the largest portion of the Authority's net assets (62%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt, used to acquire those assets, and excluding any remaining debt proceeds that are still outstanding. The Authority uses these assets to provide services to its customers; consequently these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Authority's net assets (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (29%) may be used to meet the Authority's ongoing obligations to employees and creditors.

Port of Houston Authority Net Assets

	2003	2002	2001
Current and other assets	**$ 416,158**	$422,913	$415,499
Capital assets	**607,408**	572,168	541,687
Total assets	**1,023,566**	995,081	957,186
Long-term liabilities	**341,894**	373,515	372,759
Other liabilities	**40,028**	26,067	23,436
Total liabilities	**381,922**	399,582	396,195
Invested in capital assets, net of related debt	**397,063**	359,244	337,229
Restricted net assets	**57,844**	56,928	53,024
Unrestricted net assets	**186,737**	179,327	170,738
Total net assets	**$ 641,644**	$595,499	$560,991

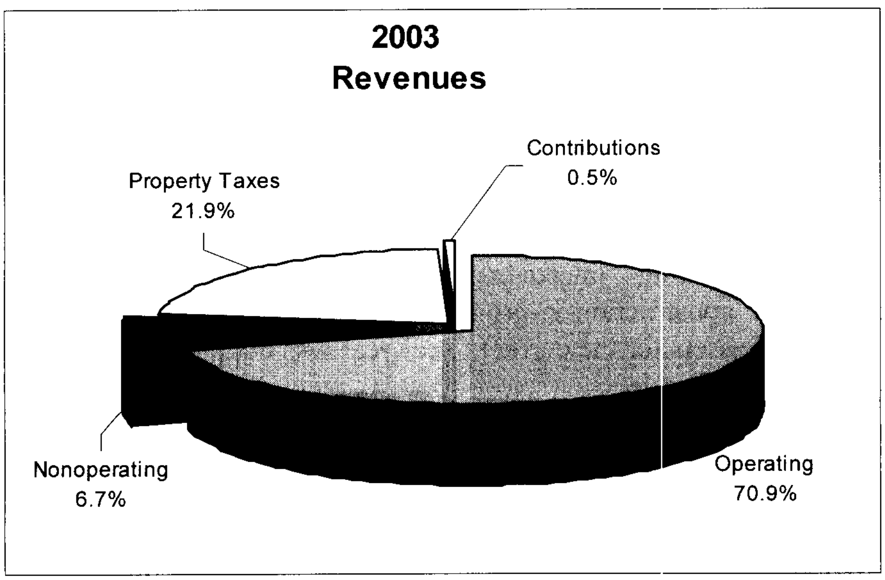
The Authority's net assets increased by $46,145 during the fiscal year ended December 31, 2003. During fiscal year 2003, net assets invested in capital net of related debt increased $37,819 with an increase in capital assets of $35,240 plus a reduction in outstanding debt net of unspent proceeds of $2,579. During fiscal year 2003, net assets restricted remained steady with a slight increase of $916. The remainder of the increase in net assets of $7,410 is unrestricted.

Key elements of this increase are identified in the following schedule of Changes in Net Assets and related explanations.

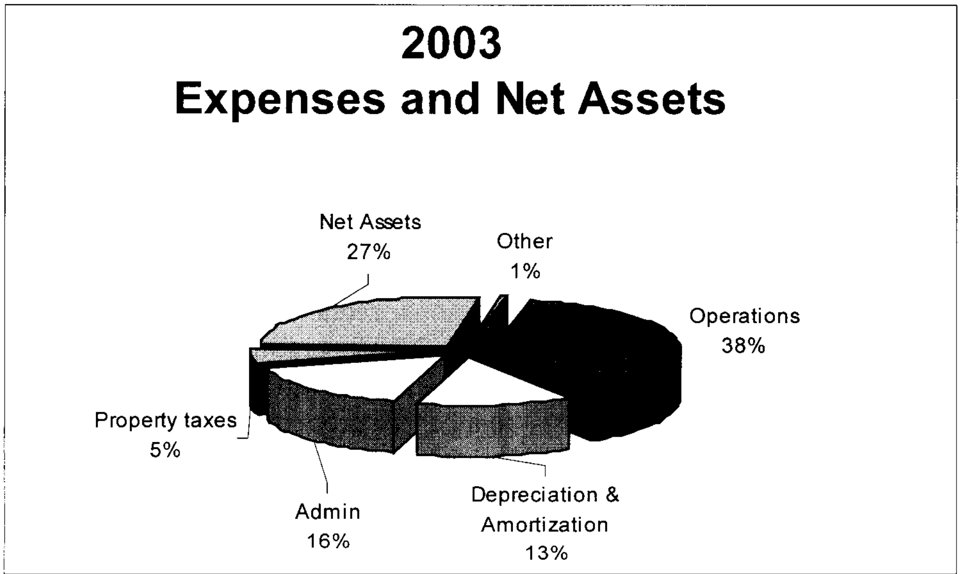
Port of Houston Authority
Changes in Net Assets

	2003	2002	2001
Operating revenues:			
Vessel and cargo services	$ 101,085	$ 88,923	$ 86,906
Rental of equipment & facilities	14,977	15,340	15,510
Grain elevator	840	838	1,511
Bulk materials	2,978	2,662	2,134
Other	1,022	568	2,278
Nonoperating revenues:			
Interest income	3,243	5,650	9,481
Other	8,207	226	786
Nonoperating revenues related to property taxes:			
Property taxes	37,396	35,447	30,922
Interest income on unlimited tax bonds	(286)	2,179	1,174
Total Revenues	169,462	151,833	150,702
Operating expenses:			
Maintenance and operation of facilities	63,735	55,713	51,257
General and administrative	26,776	28,494	22,504
Depreciation and amortization	23,499	22,580	21,757
Nonoperating expenses-			
Interest expense on revenue bonds	1,176	1,541	1,816
Nonoperating expenses related to property taxes:			
Interest expense on unlimited tax bonds	7,639	7,344	7,729
Property tax expense	931	1,329	1,030
Other, net	431	338	123
Total Expenses	124,187	117,339	106,216
Income before contributions	45,275	34,494	44,486
Contribution from state agency	870	14	3,513
Net Income	46,145	34,508	47,999
Net assets, January 1	595,499	560,991	512,992
Net assets, December 31	$641,644	$595,499	$560,991

Vessel and cargo services revenues increased 14% in 2003 to $101,085. Tariffs were increased in 2003 over 2002 an average of 3%. However, tariffs for steel remained at $1.65 per short ton, which was the same as the tariff in 2002. The increase by the federal government on the tariffs on steel products enacted in 2002 was eliminated in late 2003. In addition, the Authority chose to increase the tariff on the storage of containers from $1.50 per day to $10 per day for 20 foot containers and $20 per day for 40 foot containers. The decrease in steel imports (29%) was offset by increases in bagged goods exports (7%), bulk materials (25%), containers TEU's (8%), auto exports (48%), and general cargo (3%). Total Authority tonnage of 30.0 million tons was up 5% from 2002. Non-operating revenues interest income in 2003 decreased $2.4 million which was related to a decrease in interest income because of reductions of earnings from the Authority's investments due to market conditions, reduced investment balances and to adjust investments to market value at year end. Non-operating revenues other increased approximately $8 million due to the settlement of a lawsuit in which the Authority was the plaintiff. Non-operating revenues related to property taxes in 2003 increased approximately $2.0 million. This was due primarily to an increase in property taxes related to an increase in the tax base.



Maintenance and operation of facilities expenses increased by $8.0 million (14%) from 2002. The majority of the increase was made up of the following: a) increases in salaries and benefits of $4.2 million; and b) increase in maintenance of buildings, machinery and equipment, materials and supplies of $3.5 million. General and administration expenses decreased $1.7 million with the majority of the decrease due to reduced legal expenses offset by an increase in salaries and benefits. Depreciation and amortization increased $.9 million.



Capital Asset and Debt Administration

Capital assets: The Authority's investment in capital assets as of December 31, 2003, amounts to $607.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, railroads, machinery and equipment, and construction-in-progress. The total increase in the Authority's investment in capital assets for the current fiscal year was 6%.

Major capital asset events during the current fiscal year included the following:

- Machinery & equipment increased $15 million primarily due to the purchase of 10 RTG cranes in 2003.
- Improvement other than buildings increased $23 million primarily due to pavement retrofit at Terminal 3 in 2003.
- Capitalized interest (net of capitalized income) totaling $6.6 million was added to the cost of assets for 2003.
- Construction-in-progress increased $16.3 million in 2003 due primarily to Pavement and Utilities construction at Terminal 6 of $5.2 million and Widening and Deepening of the Houston Ship Channel of $10.1 million.
- Accumulated depreciation increased $20.0 million in 2003.

PORT OF HOUSTON AUTHORITY Capital Assets
(net of depreciation)

	2003	2002	2001
Land	**168,167**	$167,531	$149,017
Buildings	**17,351**	18,492	19,905
Improvements other than buildings	**188,528**	177,275	180,448
Railroads	**33,617**	34,731	13,259
Machinery and equipment	**57,275**	47,936	50,517
Construction-in-progress	**142,470**	126,203	128,541
	$607,408	$572,168	$541,687

Additional information on the Authority's capital assets can be found in Note 5 on pages 39 and 40 of this report.

Long-term debt: At the end of the current fiscal year, the Authority had total long-term debt outstanding of $320.6 million (net of unamortized premium/(discount). Of this amount, $307.4 million was Unlimited Tax Port Improvement Bonds and Unlimited Tax Refunding Bonds (referred to as General Obligation Bonds) and whose debt service is paid from ad valorem taxes levied and collected by Harris County Tax Assessor and Collector. The balance of the Authority's long-term debt of $13.2 million, represents bonds secured solely by the revenues of the Authority and therefore are referred to as Revenue Bonds.

Outstanding Debt
General Obligation and Revenue Bonds
(net of unamortized premium/(discount))

	2003	2002	2001
General Obligation Bonds:			
Unlimited Tax Port Improvement Bonds	**$ 272.0**	$291.6	$287.3
Unlimited Tax Refunding Bonds	**35.4**	41.4	39.0
Total General Obligation Bonds	**307.4**	333.0	326.3
Revenue Bonds	**13.2**	17.9	22.3
Total Long-Term Debt	**320.6**	350.9	348.6
Less Current Maturities	**(22.7)**	(29.7)	(20.8)
Long-term debt (net of unamortized premium/discount)	**$297.9**	$321.2	$327.8

The Authority's total long-term debt decreased $30.3 million during the current fiscal year. The key factor in this decrease was reductions due to debt service payments of $23.3 million and $7.0 million of defeased bonds outstanding at December 31, 2002 and defeased in January 2003.

The Authority issued $7.06 million unlimited tax refunding bonds and used the proceeds, net of issuance cost, to establish an irrevocable escrow trust to provide for all future debt service requirement on the outstanding tax bonds, series 1992, that were refunded in January 2003. As a result, the Series 1992 Bonds are considered to be defeased and the liability for such bonds have been removed from the financial statements of the Authority in 2003. The Authority reduced its aggregate debt service payments by approximately $782 over the next ten years.

The Authority maintains an AA+ rating from Fitch Ratings, Aa1 from Moody's Investors Service, Inc., and AA+ from Standard & Poor's Ratings Services on its general obligation bonds. The refunding revenue bonds were rated Aaa by Moody's Investors Service, Inc. and AAA by Standard & Poor's Rating Services.

Additional information on the Authority's long-term debt can be found in Note 8 on page 43 of this report.

Economic Factors and Next Year's Budget and Rates

- Inflationary trends in the Houston-Galveston area (increase of 2.7%) were higher than the all cities index (increase of 1.9%).
- Due to the increase in U.S. tariffs on steel, the number of steel ships coming to the Authority's docks decreased in 2003 to 165 from 220 in 2002. However, with the lifting of the tariffs in late 2003, the Authority believes that steel will increase in the second half of 2004.
- Due to the overall market conditions, the total number of ships calling on Authority docks decreased in 2003 (2,875) versus 2002 (2,973).
- The container ships that did call at the Authority's docks carried more tons in 2003 (11,911,000) versus 2002 (11,007,000).

All of the above factors were considered in preparing the Authority's budget for the 2004 fiscal year. The Authority increased tariffs an average of 3% effective January 2, 2004, and this increase contributed to an overall projected increase in operating revenues for 2004 of 3.5%.

Requests for Information

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Office of the Controller, Port of Houston Authority, 111 East Loop North, Houston, Texas 77029.

Port of Houston Authority
Statement of Net Assets
December 31, 2003 and 2002
(in thousands)

	2003	2002
Assets		
Current Assets		
Cash and cash equivalents	**136,328**	60,029
Investments - current	**60,802**	71,715
Receivables (net of allowance for uncollectibles)	**17,068**	25,714
Inventories	**246**	258
Prepaids	**2,077**	2,738
Investments - long term	**19,116**	53,620
Deferred charges	**4,984**	7,032
Restricted assets:		
Cash and cash equivalents	**63,290**	21,188
Property Tax Receivables	**31,024**	29,011
Investments - current	**72,245**	121,198
Investments - long term	**8,978**	30,410
Capital Assets (net of accumulated depreciation):		
Land	**168,167**	167,531
Buildings	**17,351**	18,492
Improvements other than buildings	**188,528**	177,275
Railroads	**33,617**	34,731
Machinery and equipment	**57,275**	47,936
Construction-in-progress	**142,470**	126,203
Total assets	**1,023,566**	995,081
Liabilities		
Accounts payable and other current liabilities	**19,593**	16,825
Deferred revenue	**13,437**	2,524
Liabilities payable from restricted assets:		
Current maturities of long-term debt		
Revenue bonds	**4,395**	4,320
Unlimited tax bonds	**18,345**	25,410
Accrued interest payable		
Revenue bonds	**103**	132
Unlimited tax bonds	**6,892**	6,553
Contracts payable and accrued liabilities	**3**	33
Total current liabilities (payable from restricted assets)	**29,738**	36,448
Long-term debt, net of current maturities	**297,878**	321,209
Other noncurrent liabilities:		
Due in more than one year	**21,276**	22,576
Total liabilities	**381,922**	399,582
Net Assets		
Invested in capital assets, net of related debt	**397,063**	359,244
Restricted for:		
Capital	**30,429**	30,683
Debt Service	**27,415**	26,245
Unrestricted	**186,737**	179,327
Total net assets	**641,644**	595,499

See notes to financial statements

Port of Houston Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2003 and 2002
(in thousands)

	2003	2002
Operating revenues:		
Vessel and cargo services	**$101,085**	$88,923
Rental of equipment and facilities	**14,977**	15,340
Grain elevator	**840**	838
Bulk materials	**2,978**	2,662
Other	**1,022**	568
Total	**120,902**	108,331
Operating expenses:		
Maintenance and operation of facilities	**63,735**	55,713
General and administrative	**26,776**	28,494
Depreciation and amortization	**23,499**	22,580
Total	**114,010**	106,787
Operating income	**6,892**	1,544
Nonoperating revenues (expenses):		
Interest income	**3,243**	5,650
Interest expense on bonds	**(1,176)**	(1,541)
Other, net	**8,207**	226
Total	**10,274**	4,335
Income before nonoperating revenues (expenses) related to property taxes	**17,166**	5,879
Nonoperating revenues (expenses) related to property taxes:		
Property taxes	**37,396**	35,447
Interest income on unlimited tax bonds	**(286)**	2,179
Interest expense on unlimited tax bonds	**(7,639)**	(7,344)
Property tax expense	**(931)**	(1,329)
Other, net	**(431)**	(338)
Total nonoperating revenues (expenses)	**28,109**	28,615
Income before contributions	**45,275**	34,494
Contribution from state agency	**870**	14
Net income	**46,145**	34,508
Net assets, January 1	**595,499**	560,991
Net assets, December 31	**$641,644**	$595,499

See notes to financial statements

Port of Houston Authority of Harris County, Texas

Statements of Cash Flows

For the Years Ended December 31, 2003 and 2002

(in thousands)

	2003	2002
Cash Flows from Operating Activities		
Cash Received from Customers	$122,186	$112,071
Cash Paid to Suppliers for Goods and Services	(38,174)	(42,329)
Cash Paid to Employees for Services	(26,925)	(27,510)
Cash Paid for Employee Benefits	(22,402)	(14,924)
Cash from Other Services	19,205	810
Cash Paid for Other Purposes	(466)	(264)
Net Cash Provided by Operating Activities	53,424	27,854
Cash Flows from Noncapital Financing Activities		
Repayment of Advances From Developer	(1,197)	(1,138)
Property Taxes Received	34,405	31,829
Property Tax Collection Expenses Paid	(1,063)	(911)
Grants Received from State and Federal Agencies	45	0
Net Cash Provided by Noncapital Financing Activities	32,190	29,780
Cash Flows from Capital Financing Activities		
Grants Received from State and Federal Agencies	825	
Proceeds from Issuance of Long - Term Debt	7,060	38,285
Issuance Costs of Long - Term Debt	(305)	(492)
Repayment of Long - Term Debt and Funding of Escrow	(30,207)	(43,940)
Interest on Long - Term Debt	(17,311)	(17,207)
Acquisition and Construction of Capital Assets	(49,855)	(45,853)
Proceeds from Retirement of Assets	592	272
Net Cash Used in Capital Financing Activities	(89,201)	(68,935)
Cash Flows From Investing Activities		
Purchase of Investments	(208,193)	(393,578)
Proceeds from Maturities of Investments	322,182	401,883
Interest on Investments	7,999	7,624
Net Cash Provided by Investing Activities	121,988	15,929
Net Increase in Cash and Cash Equivalents	118,401	4,628
Cash and Cash Equivalents, January 1	81,217	76,589
Cash and Cash Equivalents, December 31	$199,618	$81,217
Current Cash and Cash Equivalents	$136,328	$60,029
Restricted Cash and Cash Equivalents	$63,290	$21,188

See notes to financial statements

Port of Houston Authority of Harris County, Texas

Statements of Cash Flows - Continued

For the Years Ended December 31, 2003 and 2002

(in thousands)

	2003	2002
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	**$6,892**	$1,544
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	**23,499**	22,580
Provision for Doubtful Accounts	**120**	121
Miscellaneous Nonoperating Income (Expense)	**8,603**	546
Change in Assets and Liabilities		
Increase (Decrease) in Trade and Other Receivables	**507**	4,033
Decrease (Increase) in Deferred Dredging	**0**	(4,596)
Decrease in Prepaid Expense	**(25)**	(33)
Decrease (Increase) in Inventory	**12**	(2)
Increase in Accounts Payable and Accrued Liabilities	**2,513**	3,854
Decrease (Increase) in Accrued Vacation and Sick Leave	**390**	97
Increase in Deferred Revenue	**10,913**	(290)
Net Cash Provided by Operating Activities	**$53,424**	**$27,854**
Noncash Investing, capital, and financing activities:		
Contributions of capital assets from government	**0**	14
Increase(Decrease) in fair value of investments	**(1,115)**	42

See notes to financial statements

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 government 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 and its blended component units for which the Port Commission has financial accountability as defined above. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended Component Units

The Port Development Corporation ("PDC") was organized by the Authority under the State of Texas Development Corporation Act of 1979. PDC is a nonprofit corporation that issues industrial development revenue bonds to promote and develop commercial, industrial and manufacturing enterprises and to promote and encourage employment and public welfare. The issuance of any such bonds is approved by the Board of Directors (the "Board") of PDC and the Texas Economic Development Commission ("TEDC"). Net earnings of PDC may be distributed to the Authority by action of the Board or upon dissolution of PDC. PDC is considered a blended component unit of the Authority as the governing boards of the Authority and PDC are substantially the same and the Authority is able to impose its will on PDC, as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, The Financial Reporting Entity.

The Port of Houston Authority International Corporation ("POHAIC"), was organized during the fiscal year 2002 for the purpose of aiding, assisting and acting on behalf of the Authority in the performance of its governmental functions to promote the common good and general welfare of the Authority by providing consulting services to international port authorities and private businesses, including, but not limited to, terminal operators, engineering firms and construction companies, in the areas, among others, of trade development, administration, facilities, land, equipment, operations, security/protection and general management and to promote, develop, encourage and maintain employment, commerce and economic development in the Authority. POHAIC is considered a blended component unit of the Authority under the provisions of GASB No. 14 as the Authority (1) appoints a voting majority of POHAIC's board, (2) is able to impose its will on POHAIC and (3) the board of the Authority and POHAIC are substantially the same.

Basis of Accounting

The Authority follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of all 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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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 these estimates.

Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal revenues of the Authority are charges to customers for sales and services. The Authority also recognizes revenue in the form of rents and consulting fees. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

All cash and highly liquid time deposits and short-term investments with original maturities 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.

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.

Trade Receivables

All trade receivables are shown net of an allowance for uncollectible accounts. Allowances are calculated using a two-part formula. An average of the last five years' bad debt write-offs is calculated. Since this number is usually small, approximately 100% of the accounts in excess of one year are added to derive an allowance that, in the opinion of management, is reasonable.

Inventory

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

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Deferred Dredging and Disposal Area Management Program ("DAMP")

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.

DAMP costs represent the cost of preparing a disposal site for subsequent placing of dredged material on the site. Charges are accumulated during the preparation period and, when the site is completed, are capitalized in deferred charges and amortized over a five-year period.

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 enforeceable, 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, 2003 and 2002 were $587 and $583, respectively.

The tax rates for the years ended December 31, 2003 and 2002 were $.02000 and $.01989 per $100 assessed valuation, respectively.

Restricted Assets

Restricted assets consist of capital and debt service restrictions. Restricted capital assets consist of the net proceeds in excess of unspent proceeds for unlimited tax improvement bonds. Restricted assets for debt service consist of proceeds available from taxes receivable as well as the proceeds from revenue bonds as stated in applicable bond covenants.

(in thousands)

Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than $1 and an estimated useful life of one year or greater. 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 cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. 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 $6,613 and $5,440 in 2003 and 2002, respectively.

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

Premiums (Discounts) on Bonds Payable and Issuance Costs

Effective January 1, 1997, issuance costs, premiums and discounts are amortized using the interest cost basis. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 employment. 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 $195 per day.

New Pronouncements

In May 2002 the GASB issued Statement No. 39, "Determining Whether Certain Organizations Are Component Units—An Amendment of GASB Statement No. 14," which is effective for financial statements for periods beginning after June 15, 2003. GASB No. 39 amends GASB No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The adoption of GASB No. 39 did not have a material impact on the financial statements of the Authority.

GASB No. 40, "Deposit and Investment Risk Disclosures," was issued in March 2003 and addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, GASB No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The management of the Authority does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority. This statement is effective for periods beginning after June 15, 2004.

In November 2003, the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This statement will, among other things, establish accounting and financial reporting standards for the impairment of capital assets. Under this statement, a capital asset is considered impaired when its service utility has declined significantly and unexpectantly. This statement is effective for periods beginning after June 15, 2004. Management of the Authority has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

GASB No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," was issued May 2004 and establishes uniform financial reporting by state and local government entities for Other Postemployment Benefit plans. This statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. This statement is effective for periods beginning after December 15, 2005. Management of the Authority has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Reclassifications - Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

2. Cash and Investments

The Authority's cash and cash equivalents balance of $199,618 and $81,217 as of December 31, 2003 and 2002, respectively, are maintained in demand accounts and mutual funds managed by a major fund manager. The bank balance at December 31, 2003 and 2002 was $201,829 and $83,403, 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 Reserve Bank of Chicago 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 No. 3, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

(in thousands)

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. 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 2003 or 2002.

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: 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, 2003 and 2002:

2003

	Categories			
	1	**2**	**3**	**Total**
U.S. Government Agencies Securities	$161,141	$0	$0	$161,141
Total	$161,141	$0	$0	161,141

2002

	Categories			
	1	**2**	**3**	**Total**
U.S. Government Agencies Securities	$274,434	$0	$0	$274,434
Commerical Paper	2,509	0	0	2,509
Total	$276,943	$0	$0	276,943

(in thousands)

3. Receivables

Receivables as of year end including the applicable allowances for uncollectible accounts are as follows:

Trade rceivables, net:	**2003**	**2002**
Trade accounts	$16,213	$17,141
Damage claims	1,606	1,177
Less allowance for doubtful accounts	(1,319)	(1,307)
Trade accounts, net	16,500	17,011
Other receivables:		
Accrued receivables	0	7,168
Accrued interest	559	1,235
Other	9	300
Total other receivables	568	8,703
Total receivables, net	$17,068	$25,714

4. 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. The Authority received a down payment of $400 and a promissory note for $3,600 payable in nine equal installments of $400 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, 2003 totaled $1,398 all classified as deferred charges. This transaction resulted in a deferred gain of approximately $2,998, which totaled $1,448 and $1,738 as of December 31, 2003 and 2002, respectively. This balance will be written off in equal installments over the life of the promissory note.

(in thousands)

5. Capital Assets

Capital asset activity for the year ended December 31, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$60,886	$213	$0	$61,099
Channel improvements	106,645	1,135	712	107,068
Construction-in-progress	126,203	54,273	38,006	142,470
Total capital assets, not be depreciated	293,734	55,621	38,718	310,637
Capital assets, being depreciated:				
Buildings	65,446	900	0	66,346
Improvements other than buildings	336,142	23,349	33	359,458
Railroads	55,000	144	0	55,144
Machinery and equipment	120,321	15,446	1,396	134,371
Total capital assets, being depreciated	576,909	39,839	1,429	615,319
Less accumulated depreciation for:				
Buildings	(46,954)	(2,041)	0	(48,995)
Improvements other than buildings	(158,867)	(12,074)	11	(170,930)
Railroads	(20,269)	(1,258)	0	(21,527)
Machinery and equipment	(72,385)	(6,107)	1,396	(77,096)
Total accumulated depreciation	(298,475)	(21,480)	1,407	(318,548)
Total capital assets, being depreciated, net	278,434	18,359	22	296,771
Total capital assets, net	$572,168	$73,980	$38,740	$607,408

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Capital Asset activity for the year ended December 31, 2002 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$56,991	$3,895	$0	$60,886
Channel improvements	92,026	14,619	0	106,645
Construction-in-progress	128,541	55,879	58,217	126,203
Total capital assets, not be depreciated	277,558	74,393	58,217	293,734
Capital assets, being depreciated:				
Buildings	64,699	747	0	65,446
Improvements other than buildings	328,058	8,234	150	336,142
Railroads	32,249	22,751	0	55,000
Machinery and equipment	117,042	3,368	89	120,321
Total capital assets, being depreciated	542,048	35,100	239	576,909
Less accumulated depreciation for:				
Buildings	(44,794)	(2,160)	0	(46,954)
Improvements other than buildings	(147,610)	(11,299)	42	(158,867)
Railroads	(18,990)	(1,279)	0	(20,269)
Machinery and equipment	(66,525)	(5,866)	6	(72,385)
Total accumulated depreciation	(277,919)	(20,604)	48	(298,475)
Total capital assets, being depreciated, net	264,129	14,496	191	278,434
Total capital cssets, net	$541,687	$88,889	$58,408	$572,168

(in thousands)

6. Operating Leases

The Authority leases to others some of its land, buildings and improvements and cargo handling equipment. Cost of the assets under lease totaled $43,793 with a carrying value of $19,040 and current year depreciation of $909. As of December 31, 2003, 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 :

2004	$ 12,994
2005	11,368
2006	10,611
2007	8,368
2008	7,316
Thereafter	69,408
Total	$120,065

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, 2003, the monthly rental is $113. The Authority invoiced PTRA approximately $1,331 and $1,322 under this agreement in 2003 and 2002, respectively.

7. 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, 2003 was approximately $3,325 and consisted of approximately $477 in current liabilities and approximately $2,848 in noncurrent liabilities. Future minimum lease payments are as follows for the years ended December 31:

(in thousands)

2004	$648
2005	599
2006	543
2007	488
2008	424
2009 - 2012	1,362
Total Lease Payments	4,064
Less: Amount representing interest	(739)
Present value of minimum lease payments	$3,325

Cost of assets under lease are $6,430 with accumulated depreciation of $3,105 and current year depreciation of $477.

(in thousands)

8. Long-Term Debt and Noncurrent Liabilities

Changes in Long-Term Liabilities - 2003

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds Payable					
Revenue Bonds	$17,335	$0	$4,320	$13,015	$4,395
General Obligation Bonds	331,655	0	25,410	306,245	18,345
Less deferred amounts:	1,949	0	591	1,358	0
Total Bonds Payable	350,939	0	30,321	320,618	22,740
Other noncurrent liabilities:					
Capital Leases	3,802	0	477	3,325	477 (1)
Compensated Absences	3,985	2,978	2,588	4,375	259 (1)
Advances from Developer	15,190	1,600	2,797	13,993	0
Other	320	0	1	319	0
Total other noncurrent liabilities	$23,297	$4,578	$5,863	$22,012	$736

Changes in Long-Term Liabilities - 2002

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds Payable					
Revenue Bonds	$22,365	$17,175	$22,205	17,335	$4,320
General Obligation Bonds	324,705	23,060	16,110	331,655	25,410
Less deferred amounts:	1,587	636	274	1,949	0
Total Bonds Payable	348,657	40,871	38,589	350,939	29,730
Other noncurrent liabilities:					
Capital Leases	4,317	0	515	3,802	477 (1)
Compensated Absences	3,865	738	618	3,985	244 (1)
Advances from Developer	16,328	0	1,138	15,190	0
Other	328	0	8	320	0
Total other noncurrent liabilities	$24,838	$738	$2,279	$23,297	$721

(1) Included in accounts payable and other noncurrent liabilities

Port of Houston Authority of Harris County, Texas
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Long - Term Debt

Outstanding Long - Term Debt

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

	Original Issue	Interest Rate %	Issue Date	Maturity	December 31 2003	December 31 2002
Revenue Bonds:						
Series 2002, Refunding	22,285	2.00 - 5.00	02/20/02	2013	12,935	17,175
Special Purpose Revenue Bonds-						
Series 1964	1,900	2.50	07/01/64	2004	80	160
Total Revenue Bonds					13,015	17,335
Add (Subtract) Unamortized Premiums/(Discounts) and Deferred Loss					202	542
Revenue Bonds, Net					13,217	17,877
Unlimited Tax Refunding Bonds:						
Series 1997 *	28,000	4.75 - 5.00	10/23/97	2013	19,120	22,315
Series 1999B	6,435	5.00 - 5.25	09/28/99	2009	3,700	4,365
Series 2000B	8,700	4.55 - 5.50	10/15/00	2011	5,960	6,755
Series 2002B	7,060	5.50 - 4.25	12/12/02	2013	5,905	7,060
Total Unlimited Tax Refunding Bonds					34,685	40,495
Add (Subtract) Unamortized Premiums/(Discounts) and Deferred Loss					752	943
Unlimited Tax Refunding Bonds, Net					35,437	41,438
Unlimited Tax Port Improvement Bonds:						
Series 1992A	10,000	5.50 - 7.50	01/07/92	2013	0	5,785
Series 1992B	10,000	5.60 - 7.60	12/01/92	2013	0	1,275
Series 1994	15,000	6.50 - 8.50	12/01/94	2016	9,750	10,500
Series 1995	12,000	4.90 - 6.90	11/01/95	2017	8,400	9,000
Series 1996	42,000	5.50 - 7.50	04/01/96	2017	36,400	39,000
Series 1997	28,000	4.80 - 5.375	07/09/97	2018	21,000	22,400
Series 1998A	81,000	3.80 - 5.00	11/17/98	2019	64,800	68,850
Series 1998B	7,000	3.40 - 5.40	11/17/98	2019	5,600	5,950
Series 1999A	14,000	5.5	09/28/99	2024	13,070	13,395
Series 2000A	12,000	4.25 - 5.10	10/15/00	2024	11,400	11,705
Series 2001A	17,000	5.0	11/01/01	2026	16,860	17,300
Series 2001B	70,000	4.00 - 5.00	11/01/01	2026	68,280	70,000
Series 2002 A	16,000	3.00 - 5.00	12/12/02	2027	16,000	16,000
Total Unlimited Tax Port Improvement Bonds					271,560	291,160
Add Unamortized Premiums/(Discounts)					404	464
Unlimited Tax Port Improvement Bonds, Net					271,964	291,624
Total Long-Term Debt					320,618	350,939
Less Current Maturites					(22,740)	(29,730)
Long - Term Debt (net of unamortized premium/(discount)					$297,878	$321,209

* The Refunding Bonds, Series 1997A, consist of $16,635,000 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.

(in thousands)

The Authority periodically issues long term debt for the purpose of improving the facilities of the Authority, improve marine safety, and enhance environmental protection. At December 31, 2003, the Authority had $25,700 remaining of the $130,000 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, 2003, the Authority also had $317,000 remaining of the $387,000 in authorized but not issued unlimited tax bonds for construction which was approved by the voters in an election in November 1999. During 2003, the Authority certified that a necessity existed for the issuance of up to $150,000 of the 1999 Authorization in the form of commercial paper notes. As of December 31, 2003 no commercial paper has been issued.

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 2003 and 2002 were 861% and 494% of the respective year's average annual debt service.

All of the net revenues, as defined, from the Bayport operations (see Note 9) 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, 2003 are as follows:

	Bond Principal		Bond Interest		
Year Ending December 31	Revenue	Unlimited Tax	Revenue	Unlimited Tax	Total
2004	$4,395	$18,345	515	$15,564	$38,819
2005	4,265	18,820	307	14,629	38,021
2006	4,355	16,665	101	15,924	37,045
2007	-	16,450	-	15,269	31,719
2008	-	18,670	-	12,153	30,823
2009-2013	-	82,505	-	47,356	129,861
2014-2018	-	71,580	-	27,296	98,876
2019-2023	-	39,935	-	11,895	51,830
2024-2027	-	23,275	-	2,418	25,693
Total	$13,015	$306,245	$923	$162,504	$482,687

(in thousands)

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.

Outstanding Industrial Development Revenue Bonds

PDC has issued bonds on behalf of various users to promote industrial development. Each bond issue includes a covenant that indemnifies PDC and the Authority against any and all losses related to the projects funded by the bond. The bonds are payable solely by payments from the users, as defined under the loan agreements, and PDC is under no obligation to repay the bonds from any other source. All payments are made directly by the users to the trustees. The balance of such bonds outstanding was $43,670 and $48,370 as of December 31, 2003 and 2002 respectively, according to information received from the trustees. No bond was written off as uncollectible during 2003.

Revenue Bonds Outstanding

Receiving Entity	Date Issued	Interest Rate	Maturity Date	Amount Issued	Balance
Mine Safety Applicance Co.	12/01/83	Variable	01/01/09	750	750
Mitsui & Co. U.S.A., Inc	12/03/85	Variable	12/01/05	15,100	15,100
Mitsui & Co. U.S.A., Inc	12/06/85	Variable	12/01/05	4,400	4,400
Pasadena Terminal Company, Inc.	12/01/84	Variable	12/01/04	40,000	12,820
Cargill Inc.	04/25/87	7.70%	03/01/07	1,000	1,000
Stolt Terminals (Houston)	01/11/89	Variable	01/15/14	9,600	9,600
Total				$70,850	$43,670

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, 2003, the outstanding balance of the defeased unlimited tax bond was $46,560.

(in thousands)

During 2002, the Authority issued $7,060 of 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 1992, that was refunded in January 2003. The Series 1992 bonds were considered to be defeased and the liability for such bonds were removed from the financial statements of the Authority in 2003. A gain of $15 was realized on the refunding in January 2003 and will be amortized on an interest cost basis over the life of the bond issue which runs through October 1, 2013. The gain was determined as follows :

Principal balance of refunded bonds		$7,060
Less:		
Total payments to trustee:		
Face amount of refunding issue	$7,060	
Premium received	150	
Issuance Costs	(57)	
Total	7,153	
Accrued interest payable	(108)	(7,045)
Deferred gain on refunding		$ 15

The Authority reduced its aggregate debt service payments by approximately $782 over the next ten years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $650.

Also during 2002, the Authority issued $22,285 of revenue refunding bonds and used the proceeds, net of issuance costs, to establish an irrevocable escrow fund to provide for all future debt service requirements on the outstanding revenue refunding bonds, Series 1992 and revenue bonds Series 1977 that were refunded in May, 2002. As a result, the series refunding bonds, Series 1992 and the revenue bond Series 1977 were considered to be defeased and the liability for such bonds were removed from the financial statements of the Authority in 2002. The outstanding balance of the defeased bonds were $22,125. A gain of $72 was realized on the refunding and will be amortized on an interest cost basis over the life of the bond issue which runs through May 1, 2006. The gain was determined as follows:

Principal balance of refunded bonds		$22,125
Less:		
Total payments to trustee:		
Face amount of refunding issue	$22,285	
Premium received	840	
Issuance Costs	(374)	
Total	22,751	
Accrued interest payable	(698)	(22,053)

(in thousands)

Deferred gain on refunding	$ 72

The Authority reduced its aggregate debt service payments by approximately $1,206 over the next ten years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1,123.

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.

Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the U.S. Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment for each issue every five years. Arbitrage liability for tax-exempt debt subject to the Tax Reform Act issued through December 31, 2003 amounted to $3. The estimated liability is updated annually for any tax-exempt issuance or changes in yields until payment of the calculated liability is due.

9. 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. The liability for construction and operating advances amounted to approximately $13,993 and $15,190 at December 31, 2003 and 2002, respectively. All such advances are to 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 $21,500 (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 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 recorded $19,900 in advances from the developer at the time the new agreement was signed and has recorded an additional $1,600 in possible repayments during 2003 since at this time it was determined that future net revenues would be sufficient to pay all of the existing advances. The repayments during the 12 months ending December 31, 2003 and 2002 were approximately $2,797 and $1,138, respectively.

10. Retirement Plan

Plan Description

The Port of Houston Authority Restated Retirement Plan (" 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 ended July 31, 2003 and 2002 was $21,969 (81% of the total payroll of $27,106) and $20,257 (80% of total payroll of $25,285), 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.

(in thousands)

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 unfounded frozen actuarial accrued liability.

Actuarial Valuation Method

Actuarial Valuation Date	08/01/03	08/01/02	08/01/01
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.

Components of the unfunded actuarial liability are amortized as level dollar amounts using the closed basis. Components consisting of actuarial gains and losses are amortized over five years. Components consisting of amendments are amortized over 30 years, except the 8/95 amendment that is amortized over 5 years. Components consisting of revised assumptions are amortized over ten years. Components consisting of revised actuarial methods are amortized over 30 years. The resulting equivalent single amortization base is amortized over a maximum of 30 years.

(in thousands)

Plan Statistics
For Plan Years July 31, 2003, 2002, and 2001
Actuarial Valuation Report As of August 1, 2003, 2002, and 2001

	2003	**% Covered Payroll**	**2002**	**% Covered Payroll**	**2001**	**% Covered Payroll**
Actuarial Determined Employer Contribution Normal Cost	$1,482	6.7%	$1,334	6.6%	$1,259	6.7%
Annual Pension Cost	$6,916		$3,229		$2,136	
% of APC Contributed	100%		100%		100%	
NPO	None		None		None	

11. 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 enacted by the authority of the Port Commission. At December 31, 2003, 245 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. Retirees receive life insurance coverage valued at $5,000, $10,000 or $15,000 based on the salary at retirement date.

For the fiscal years ended December 31, 2003 and 2002, the cost of retiree health benefits, recorded on a pay-as-you-go basis and net of contributions from retirees, was $1,754 and $1,538, respectively. Retiree life benefit costs for 2003 and 2002 were $19 and $12 respectively.

(in thousands)

12. Risk Management

The Authority is exposed to risk of financial loss from fire, windstorm, explosion and other perils that could damage or destroy assets and properties and cause loss of income should assets and properties be shut down for an extended period of time. The Authority is also exposed to third-party bodily injury and property damage claims arising from the operation and ownership of its properties and from losses resulting from on-the-job injuries sustained by employees.

The Authority has purchased retrospective-rated insurance policies for workers compensation, general liability and automobile liability. At December 31, 2003, the Authority was insured for the following loss limitations:

	Workers' Compensation	General Liability	Automobile Liability
Per Accident	$200	$100	$100
Bodily Injury	Not Applicable	200	200

The Authority's insurance policy also includes a maximum loss liability provision of $4,359 for the period from March 1, 2003 through March 1, 2004. Settled claims did not exceed the insurance coverage during the last three fiscal years.

The claims liability of $159 reported at December 31, 2003, is based on the requirements of GASB 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. Such liability was actuarially determined. The liability includes amounts for claims that have been incurred but not reported.

(in thousands)

Changes in claim liability amounts in fiscal years 2003 and 2002 were as follows:

	2003	2002
Unpaid claims and claim adjustment Expenses at beginning of year	**$37**	$714
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	**403**	557
Changes in provision for insured events of prior years	**518**	(327)
Total incurred claims and claim adjustment expenses	**921**	230
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	**168**	566
Claims and claim adjustment refunds attributable to insured events of prior ears	**631**	341
Total payment	**799**	907
Total unpaid claims and claim adjustment Expenses at year end	**$159**	$37

13. Commitments and Contingencies

Commitments

At December 31 2003 the Authority had committed approximately $26,000 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.

(in thousands)

The Authority was 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. As part of a settlement agreement executed on December 19, 2003, GB BioSciences has agreed to indemnify the Authority for certain losses and liabilities associated with that plant's contamination of certain Authority property. Pursuant to the terms of the settlement, the defendants paid the Authority a total of $30 million in cash in 2003 and will pay $5 million in 2004 in exchange for certain releases by the Authority and the Authority's agreement to promptly stabilize and decommission the Authority's Greens Bayou Dredge Disposal Area. As part of the settlement, GB BioSciences also purchased portions of the Authority's impacted property and has agreed to perform Remediation Operations on the Authority's property to address the contamination and name the Authority as an additional insured on insurance policies issued to GB BioSciences in connection with work it is to perform. It is not anticipated that the Authority will have liability for the cleanup of contaminants from the adjacent pesticide facility which have migrated on to Authority property. The $30 million is reflected in the financial statements as follows:

$ 8.1 Million	Taken as non-operating revenue in 2003
11.1 Million	Reduction in current year litigation costs for suit
10.8 Million	Deferred for offset of future expenses per settlement

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. On January 30, 2004, the Fifth Circuit unanimously vacated the district court's order and rendered judgment in favor of the Authority and the U.S. Army Corps of Engineers. On April 1, 2004, the Fifth Circuit denied the pipelines' petition for rehearing. It is anticipated that the pipelines will file a petition for writ of certiorari to the U. S. Supreme Court, but that is not yet due. The Authority cannot predict the final outcome of this lawsuit.

(in thousands)

Required Supplementary Information

Port of Houston Authority Restated Retirement Plan
Schedule of Funding Progress

a)	Actuarial Valuation Date	08/01/03	08/01/02	08/01/01
b)	Actuarial Value of Assets	\$66,992	\$59,638	\$64,678
c)	Actuarial Accrued Liability (AAL)	\$83,562	\$80,188	\$77,034
d)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (c-b)	\$16,570	\$20,550	\$12,356
e)	Funded Ratio (b/c)	80.2%	74.4%	84.0%
f)	Annual Covered Payroll (Actuarial)	\$21,969	\$20,257	\$18,779
g)	UAAL as a % of Covered Payroll (d/f)	75.4%	101.4%	65.8%

APPENDIX B

FORM OF BOND COUNSEL OPINION

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ANDREWS KURTH LLP
ATTORNEYS

600 Travis, Suite 4200
Houston, Texas 77002
713.220.4200 Phone
713.220.4285 Fax
andrewskurth.com

December __, 2004

WE HAVE ACTED as 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 2004A (AMT), dated November 1, 2004, in the aggregate principal amount of $9,000,000 maturing on October 1 in each year from 2005 through and including 2016. 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 (the "County") authorizing their issuance.

WE HAVE ACTED as 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 County, 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 or refinanced 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 Internal Revenue Code of 1986, as amended (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 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 MATTERS" set forth 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.

APPENDIX C

SUMMARY OF TABLES AND SCHEDULES RELATED TO CONTINUING DISCLOSURE OF INFORMATION

Table 1	—	AUTHORITY AD VALOREM TAXES	—	Table of Authority Tax Rates
Table2	—	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

Port of Houston Authority
Unlimited Tax Refunding Bonds, Series 2004A (AMT)

Schedule of Refunded Bonds

Issue	Maturity Date (October 1)	Refunded Principal Amount	Interest Rate	Redemption Price	Call Date (December 20)	CUSIPs
Unlimited Tax Port Improvement Bonds, Series 1994	2005	$750,000	6.50%	100%	2004	734260 NB 4
	2006	750,000	6.50	100	2004	734260 NC 2
	2007	750,000	6.60	100	2004	734260 ND 0
	2008	750,000	6.70	100	2004	734260 NE 8
	2009	750,000	6.75	100	2004	734260 NF 5
	2010	750,000	6.75	100	2004	734260 NG 3
	2011	750,000	6.75	100	2004	734260 NH 1
	2012	750,000	6.75	100	2004	734260 NJ 7
	2013	750,000	6.75	100	2004	734260 NK 4
	2014	750,000	6.75	100	2004	734260 NL 2
	2015	750,000	6.75	100	2004	734260 NM 0
	2016	750,000	6.75	100	2004	734260 NN 8
TOTAL		$9,000,000				

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APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

SPECIMEN

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

[Countersignature]

By ______________________

By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

SPECIMEN

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

UNLIMITED TAX REFUNDING BONDS, SERIES 2004A (AMT)

PORT COMMISSION

James T. Edmonds .... Chairman

Kase L. Lawal .... Vice Chairman

Steve L. Phelps .... Commissioner

James W. Fonteno, Jr .... Commissioner

Jimmy Burke .... Commissioner

Cheryl Thompson-Draper .... Commissioner

Janiece Longoria .... Commissioner

H. Thomas Kornegay .... Executive Director

Wade M. Battles .... Managing Director

Thomas G. Schroeter..................... Associate General Counsel

Barbara J. Schott, CPA .... County Auditor

Jack Cato .... County Treasurer