

## OFFICIAL STATEMENT DATED JULY 28, 2010

*In the opinion of Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, except for the interest on any Bond while such Bond is held by a substantial user of the facilities financed or refinanced with the proceeds of the Bonds or a related person thereto, subject to the matters described under "TAX EXEMPTION" herein, and (ii) interest on the Bonds is not includable in the alternative minimum taxable income of individuals or corporations. See "TAX EXEMPTION" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for individuals and corporations.*

\$255,935,000

PORT OF HOUSTON AUTHORITY  
OF HARRIS COUNTY, TEXAS

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

\$147,940,000

\$85,665,000

\$22,330,000

Unlimited Tax Refunding Bonds,  
Series 2010D-1 (Non-AMT)Unlimited Tax Port Improvement Bonds,  
Series 2010D-2 (Non-AMT)Unlimited Tax Refunding Bonds,  
Series 2010E (Non-AMT)

Interest Accrual Date: Date of Delivery

CUSIP Prefix: 734260

Due: October 1 (see inside cover page)

The Port of Houston Authority of Harris County, Texas (the "Authority") hereby offers for sale its \$147,940,000 Unlimited Tax Refunding Bonds, Series 2010D-1 (Non-AMT) (the "Series 2010D-1 Bonds"), its \$85,665,000 Unlimited Tax Port Improvement Bonds, Series 2010D-2 (Non-AMT) (the "Series 2010D-2 Bonds") and its \$22,330,000 Unlimited Tax Refunding Bonds, Series 2010E (Non-AMT) (the "Series 2010E Bonds" and, together with the Series 2010D-1 Bonds and the Series 2010D-2 Bonds, the "Bonds"). The Series 2010D-1 Bonds and the Series 2010D-2 Bonds will be issued as current interest bonds. The Series 2010E Bonds will be issued in part as current interest bonds (together with the aforementioned current interest bonds, the "Current Interest Bonds") and in part as premium capital appreciation bonds (the "Capital Appreciation Bonds") as shown on page ii hereof. 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 Authority. **The Bonds are not issued by, nor are they in any way obligations of, Harris County or the City of Houston, Texas.** See "DESCRIPTION OF THE BONDS—Source of Payment of the Bonds" and "AD VALOREM TAXES" herein.

Interest on the Current Interest Bonds will accrue from the later of their date of delivery to the underwriters identified below (the "Underwriters") or the most recent interest payment date to which interest has been paid or duly provided for, calculated on the basis of a 360-day year of twelve 30-day months, payable on April 1, 2011, and on each October 1 and April 1 thereafter until maturity or earlier redemption by check mailed to the registered owner of record as of the 15<sup>th</sup> day of the month next preceding each interest payment date. Interest on the Capital Appreciation Bonds will accrete from their date of delivery, calculated on the basis of a 360-day year of twelve 30-day months, and will compound on October 1, 2010, and on each October 1 and April 1 thereafter and is payable only at maturity. See "DESCRIPTION OF THE BONDS."

The Current Interest Bonds will be issued only in fully-registered form in the denomination of \$5,000 of principal amount, or integral multiples thereof. The Capital Appreciation Bonds will be issued as fully registered bonds in denominations of \$5,000 representing the sum of principal, plus the initial premium, if any, therefor and accreted interest payable at maturity (the "Maturity Value"), or any integral multiple thereof. See "DESCRIPTION OF THE BONDS." The Bonds will be registered initially 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, principal of and interest on the Bonds will 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.

Proceeds of the Series 2010D-1 Bonds will be used to refund all of the outstanding commercial paper notes of the Authority previously issued for such purposes (the "Refunded Notes"). Proceeds of the Series 2010D-2 Bonds will be used to pay costs of projects to acquire, purchase, construct, enlarge, extend, repair or develop facilities or aids incident to or useful or necessary in the operation or development of the Authority's ports and waterways or in aid of navigation and commerce thereon. Proceeds of the Series 2010E Bonds will be used to pay the tender price of and cancel the outstanding bonds identified on Schedule I hereto (the "Tendered Bonds"). Proceeds of the Bonds will also be used to pay costs of issuance of the Bonds and costs of refunding the Refunded Notes and purchasing the Tendered Bonds, as applicable. See "PLAN OF FINANCING."

Certain of the Current Interest Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE BONDS—Redemption." The Capital Appreciation Bonds are not subject to redemption prior to maturity.

**SEE INSIDE COVER PAGES FOR MATURITY AND PRICING SCHEDULES**

The Bonds are offered for delivery, when, as, and if issued by the Authority, subject to the approving opinion of the Attorney General of Texas, and the opinion of Andrews Kurth LLP, Houston, Texas, Bond Counsel for the Authority, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. Certain additional matters will be passed upon for the Authority by Fulbright & Jaworski L.L.P., Houston, Texas, Special Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Greenberg Traurig, LLP, Houston, Texas, counsel to the Underwriters. The Bonds are expected to be available for delivery through the facilities of the DTC in New York, New York on or about August 19, 2010.

## BofA MERRILL LYNCH

JEFFERIES & COMPANY  
RBC CAPITAL MARKETS  
SIEBERT BRANDFORD SHANK & CO., LLCRAMIREZ & CO., INC.  
RICE FINANCIAL PRODUCTS  
WELLS FARGO SECURITIES

## MATURITY AND PRICING SCHEDULES

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

CUSIP PREFIX: 734260<sup>(a)</sup>

#### **\$147,940,000** **UNLIMITED TAX REFUNDING BONDS,** **SERIES 2010D-1 (NON-AMT)<sup>(b)</sup>**

##### Serial Bonds

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial Offering</u> <u>Yield<sup>(c)</sup></u>	<u>CUSIP</u> <u>Suffix</u>
2023	\$ 3,590,000	5.000%	3.240%	Z62
2024	9,200,000	5.000	3.360	Z70
2025	9,660,000	5.000	3.470	Z88
2026	10,140,000	5.000	3.570	Z96
2027	10,555,000	5.000	3.670	2A9
2028	11,090,000	5.000	3.770	2B7
2029	11,645,000	5.000	3.850	2C5
2030	12,225,000	5.000	3.930	2D3
2031	12,835,000	5.000	4.010	2F8

##### Term Bonds

\$57,000,000 5.000% Term Bond, Due October 1, 2035, Yield 4.250%<sup>(c)</sup>, CUSIP Suffix: 2E1

#### **\$85,665,000** **UNLIMITED TAX PORT IMPROVEMENT BONDS,** **SERIES 2010D-2 (NON-AMT)<sup>(b)</sup>**

##### Term Bonds

\$85,665,000 5.000% Term Bond, Due October 1, 2039, Yield 4.270%<sup>(c)</sup>, CUSIP Suffix: 2G6

---

<sup>(a)</sup> CUSIP numbers have been assigned to the Bonds by Standard and Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. and are included solely for the convenience of the owners of the Bonds. None of the Authority, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(b)</sup> Certain of the Bonds are subject to redemption prior to stated maturity as described herein. See "DESCRIPTION OF THE BONDS – Redemption."

<sup>(c)</sup> Reflects lesser of yield to earliest optional call date or yield to maturity. See "DESCRIPTION OF THE BONDS – Redemption."

## MATURITY AND PRICING SCHEDULES

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

CUSIP PREFIX: 734260<sup>(a)</sup>

#### \$22,330,000 UNLIMITED TAX REFUNDING BONDS, SERIES 2010E (NON-AMT)<sup>(b)</sup>

##### Serial Bonds

Maturity Date (October 1)	Principal Amount	Interest Rate	Initial Offering Yield <sup>(c)</sup>	CUSIP Suffix
2014	\$280,000	2.000%	1.040%	2H4
2015	285,000	2.000	1.490	2J0
2016	290,000	2.250	1.880	2K7
2017	300,000	2.500	2.170	2L5
2018	305,000	2.500	2.390	2M3
2019	315,000	3.000	2.580	2N1
2020	320,000	3.250	2.770	2P6
2021	330,000	3.000	2.970	2Q4
2022	340,000	3.000	3.210	2R2
2023	355,000	3.250	3.430	2S0
2024	365,000	3.500	3.550	2T8
2025	375,000	4.000	3.660	2U5
2026	390,000	4.000	3.760	2V3
2027	500,000	4.000	3.860	2W1
2028	535,000	4.000	3.960	2X9
2029	555,000	4.000	4.040	2Y7
2030	755,000	4.000	4.120	2Z4

##### Term Bonds

\$2,715,000 4.250% Term Bond, Due October 1, 2033, Yield 4.330%<sup>(c)</sup>, CUSIP Suffix: 3C4  
 \$8,005,000 4.250% Term Bond, Due October 1, 2038, Yield 4.390%<sup>(c)</sup>, CUSIP Suffix: 3A8  
 \$5,000,000 5.000% Term Bond, Due October 1, 2038, Yield 4.280%<sup>(c)</sup>, CUSIP Suffix: 3E0

##### Capital Appreciation Bonds

Maturity Date (October 1)	Original Principal Amount	Offering Price per \$5,000 Due at Maturity	Yield to Maturity	Maturity Value	CUSIP Suffix
2034	\$ 5,000	\$1,519.55	5.000%	\$4,140,000	3D2
2035	10,000	1,446.35	5.000	4,140,000	3B6

<sup>(a)</sup> CUSIP numbers have been assigned to the Bonds by Standard and Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. and are included solely for the convenience of the owners of the Bonds. None of the Authority, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(b)</sup> Certain of the Bonds are subject to redemption prior to stated maturity as described herein. See "DESCRIPTION OF THE BONDS – Redemption."

<sup>(c)</sup> Reflects lesser of yield to earliest optional call date or yield to maturity. See "DESCRIPTION OF THE BONDS – Redemption."

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 Purchasers.

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

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT 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.

*[Remainder of this page intentionally left blank.]*

## TABLE OF CONTENTS

<p>OFFICIAL STATEMENT SUMMARY ..... v</p> <p>SELECTED AUTHORITY AD VALOREM TAX DATA ..... vi</p> <p>INTRODUCTORY STATEMENT ..... 1</p> <p>PLAN OF FINANCING ..... 1</p> <p style="padding-left: 20px;">New Money and Refunding of Commercial Paper ..... 1</p> <p style="padding-left: 20px;">Tender ..... 2</p> <p>DESCRIPTION OF THE BONDS ..... 2</p> <p style="padding-left: 20px;">General ..... 2</p> <p style="padding-left: 20px;">Yield on Premium Capital Appreciation Bonds ..... 3</p> <p style="padding-left: 20px;">Redemption ..... 3</p> <p style="padding-left: 20px;">Authority for the Bonds ..... 5</p> <p style="padding-left: 20px;">Source of Payment of the Bonds ..... 5</p> <p style="padding-left: 20px;">Book-Entry Only System ..... 5</p> <p style="padding-left: 20px;">Paying Agent/Registrar ..... 6</p> <p style="padding-left: 20px;">Ownership ..... 6</p> <p style="padding-left: 20px;">Transfers and Exchanges ..... 6</p> <p style="padding-left: 20px;">Amendments ..... 7</p> <p style="padding-left: 20px;">Defeasance ..... 7</p> <p>AD VALOREM TAXES ..... 8</p> <p style="padding-left: 20px;">Property Subject to Taxation ..... 8</p> <p style="padding-left: 20px;">Valuation of Property for Taxation ..... 8</p> <p style="padding-left: 20px;">Limitations on Tax Rate Increases ..... 8</p> <p style="padding-left: 20px;">Collections, Penalty and Interest ..... 9</p> <p style="padding-left: 20px;">Tax Liens ..... 9</p> <p style="padding-left: 20px;">Authority Tax Rates ..... 10</p> <p style="padding-left: 20px;">Authority Taxable Values and Tax Rates ..... 10</p> <p style="padding-left: 20px;">Authority Tax Levies, Collections, and Delinquencies ..... 11</p> <p style="padding-left: 20px;">Principal Taxpayers ..... 12</p> <p style="padding-left: 20px;">County-Wide Ad Valorem Tax Rates ..... 12</p> <p>AUTHORITY AD VALOREM TAX DEBT ..... 13</p> <p style="padding-left: 20px;">Payment Record ..... 13</p> <p style="padding-left: 20px;">Ad Valorem Tax Debt Comparisons ..... 13</p> <p style="padding-left: 20px;">Debt Service Schedule ..... 14</p> <p style="padding-left: 20px;">County-Wide Ad Valorem Tax Debt Service Requirements ..... 15</p> <p style="padding-left: 20px;">Authorized Debt of the Authority ..... 16</p> <p style="padding-left: 20px;">Estimated Authority and Overlapping Ad Valorem Tax Debt ..... 17</p> <p style="padding-left: 20px;">Revenue Debt of the Authority ..... 17</p> <p>THE AUTHORITY ..... 18</p> <p style="padding-left: 20px;">General ..... 18</p> <p style="padding-left: 20px;">Security ..... 18</p> <p style="padding-left: 20px;">Business of the Authority ..... 19</p> <p style="padding-left: 20px;">Port Facilities of the Authority ..... 19</p> <p style="padding-left: 20px;">Other Facilities of the Authority ..... 20</p> <p style="padding-left: 20px;">Authority’s Capital Improvement Program ..... 20</p> <p style="padding-left: 20px;">Hurricane Ike ..... 21</p> <p style="padding-left: 20px;">Gulf of Mexico Oil Spill ..... 21</p> <p style="padding-left: 20px;">Physical Characteristics of the Port Facilities of the Authority ..... 22</p> <p style="padding-left: 20px;">Annual Cargo Amounts ..... 23</p> <p>INVESTMENTS ..... 23</p> <p style="padding-left: 20px;">Investment Strategy and Policy ..... 23</p> <p style="padding-left: 20px;">Current Investment Distribution ..... 24</p> <p>REGULATION AND LITIGATION ..... 24</p> <p style="padding-left: 20px;">Environmental Regulation ..... 24</p> <p style="padding-left: 20px;">Community Relations ..... 25</p> <p style="padding-left: 20px;">Area Topography and Land Subsidence ..... 25</p> <p style="padding-left: 20px;">Pending Litigation and Claims ..... 25</p> <p>BONDHOLDERS REMEDIES ..... 26</p> <p>TAX EXEMPTION ..... 27</p> <p style="padding-left: 20px;">Tax Treatment of Original Issue Discount and Premium Bonds ..... 28</p> <p style="padding-left: 20px;">Allocation of Interest Expense of Financial Institutions to Tax-Exempt Interest ..... 29</p>	<p>LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS ..... 29</p> <p>LEGAL MATTERS ..... 29</p> <p>CONTINUING DISCLOSURE OF INFORMATION ..... 30</p> <p style="padding-left: 20px;">Annual Reports ..... 30</p> <p style="padding-left: 20px;">Material Event Notices ..... 30</p> <p style="padding-left: 20px;">Availability of Information ..... 30</p> <p style="padding-left: 20px;">Limitations and Amendments ..... 31</p> <p style="padding-left: 20px;">Compliance with Prior Undertakings ..... 31</p> <p>FINANCIAL STATEMENTS ..... 31</p> <p>REGISTRATION, SALE, AND DISTRIBUTION ..... 31</p> <p>UNDERWRITING ..... 31</p> <p>RATINGS ..... 32</p> <p>FINANCIAL ADVISOR ..... 32</p> <p>FORWARD-LOOKING STATEMENTS ..... 32</p> <p>MISCELLANEOUS ..... 33</p> <p>SCHEDULE I DESCRIPTION OF TENDERED BONDS ..... I-1</p> <p>SCHEDULE II TABLE OF ACCRETED VALUES OF CAPITAL APPRECIATION BONDS ..... II-1</p> <p>APPENDIX A FINANCIAL STATEMENTS OF THE AUTHORITY ..... A-1</p> <p>APPENDIX B BOOK-ENTRY ONLY SYSTEM ..... B-1</p> <p>APPENDIX C FORMS OF BOND COUNSEL OPINIONS ..... C-1</p> <p>APPENDIX D SUMMARY OF TABLES AND SCHEDULES RELATED TO CONTINUING DISCLOSURE OF INFORMATION ..... D-1</p>
---	---

## 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 this Official Statement or otherwise to use same without the entire Official Statement.*

<b>Issuer .....</b>	Port of Houston Authority of Harris County, Texas (the "Authority"), a political subdivision of the State of Texas having boundaries generally coterminous with Harris County.
<b>Issue .....</b>	\$147,940,000 Port of Houston Authority of Harris County, Texas, Unlimited Tax Refunding Bonds, Series 2010D-1 (Non-AMT) (the "Series 2010D-1 Bonds"), the \$85,665,000 Port of Houston Authority of Harris County, Texas, Unlimited Tax Port Improvement Bonds, Series 2010D-2 (Non-AMT) (the "Series 2010D-2 Bonds") and the \$22,330,000 Port of Houston Authority of Harris County, Texas, Unlimited Tax Refunding Bonds, Series 2010E (Non-AMT) (the "Series 2010E Bonds" and, together with the Series 2010D-1 Bonds and the Series 2010D-2 Bonds, the "Bonds") are issued pursuant to the provisions of two orders (the "County Orders"), adopted on July 13, 2010, by the Commissioners Court of Harris County, Texas (the "Commissioners Court"), on behalf of the Authority.
<b>Use of Proceeds .....</b>	Proceeds of the Series 2010D-1 Bonds will be used to refund all of the outstanding commercial paper notes of the Authority previously issued for such purposes (the "Refunded Notes"). Proceeds of the Series 2010D-2 Bonds will be used to pay costs of projects to acquire, purchase, construct, enlarge, extend, repair or develop facilities or aids incident to or useful or necessary in the operation or development of the Authority's ports and waterways or in aid of navigation and commerce thereon. Proceeds of the Series 2010E Bonds will be used to pay the tender price of and cancel the outstanding bonds identified on <u>Schedule I</u> hereto (the "Tendered Bonds"). Proceeds of the Bonds will also be used to pay costs of issuance of the Bonds and costs of refunding the Refunded Notes and purchasing the Tendered Bonds, as applicable. See "PLAN OF FINANCING."
<b>Payment Record.....</b>	The Authority has never defaulted in paying the principal of or interest on any of its bonds.
<b>Ratings.....</b>	Fitch, Moody's, and S&P have assigned their municipal bond ratings of "AAA," "Aaa," and "AAA," respectively, to the Bonds as the Authority's underlying long-term ratings. See "RATINGS."
<b>Amounts, Maturities, Redemption and Tender.....</b>	The Bonds mature on October 1 in each of the years and in the amounts shown on the inside cover page hereof. The Bonds bear interest from the later of their date of delivery to the Underwriters or the most recent applicable interest payment date to which interest has been paid or duly provided for. Certain of the Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE BONDS—Redemption."
<b>Book-Entry Only System .....</b>	The Bonds are initially registered in the name of Cede & Co., as nominee for DTC, pursuant to a book-entry-only system. The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, National Association. See "DESCRIPTION OF THE BONDS—Book-Entry Only System" herein.
<b>Interest Payment Dates .....</b>	Interest on the Current Interest Bonds is payable on April 1, 2011, and each October 1 and April 1 thereafter until maturity or earlier redemption, by check mailed to the registered owner of record as of the 15th day of the month next preceding each interest payment date. Interest on the Capital Appreciation Bonds accretes from the date of delivery, compounds on October 1, 2010, and each October 1 and April 1 thereafter and is payable only at maturity. See "DESCRIPTION OF THE BONDS—General."
<b>Source of Payment.....</b>	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 Authority. See "DESCRIPTION OF THE BONDS—Source of Payment of the Bonds" and "AD VALOREM TAXES."

**SELECTED AUTHORITY AD VALOREM TAX DATA**  
(dollar amounts in thousands)

	<u>Tax (Calendar) Year</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total Assessed Value, Net of Exemptions	\$203,944,537	\$217,539,081	\$248,557,487	\$268,597,998	\$274,003,302
Ad Valorem Tax Rate (Per \$100 of Assessed Value)	0.01474	0.01302	0.01437	0.01773	0.01636
Current Collections of Ad Valorem Taxes Levied <sup>(a)</sup>	\$26,805	\$26,131	\$33,410	\$43,622	\$41,875
Current Collections as a Percentage of Ad Valorem Taxes Levied	90.3%	91.1%	93.6%	90.3%	92.9%
Total Ad Valorem Collections <sup>(b)</sup>	\$27,924	\$27,086	\$33,880	\$44,310	\$42,486
Total Collections as a Percentage of Ad Valorem Taxes Levied	94.1%	94.5%	94.9%	91.8%	94.2%
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Ad Valorem Tax Bonds Outstanding <sup>(c)</sup>	\$335,732	\$378,842	\$457,443	\$563,015	\$617,660
Ad Valorem Tax Bonds Outstanding as a Percentage of Assessed Value	0.16%	0.17%	0.18%	0.21%	0.23%

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

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

<sup>(c)</sup> Includes outstanding general obligation bonds and commercial paper.

Source: Harris County Tax Assessor-Collector

*[This page intentionally left blank.]*



**OFFICIAL STATEMENT**

relating to

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

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

<b>\$147,940,000</b> <b>Unlimited Tax Refunding Bonds,</b> <b>Series 2010D-1 (Non-AMT)</b>	<b>\$85,665,000</b> <b>Unlimited Tax Port Improvement Bonds,</b> <b>Series 2010D-2 (Non-AMT)</b>	<b>\$22,330,000</b> <b>Unlimited Tax Refunding Bonds,</b> <b>Series 2010E (Non-AMT)</b>
--	--	---

**INTRODUCTORY STATEMENT**

This Official Statement is furnished in connection with the offering by the Port of Houston Authority of Harris County, Texas (the “Authority”), a political subdivision of the State of Texas (the “State”), having boundaries generally coterminous with Harris County, Texas (the “County”), of the above-captioned bonds (the “Bonds”). The Bonds are issued pursuant to the provisions of two orders (the “County Orders”) adopted on July 13, 2010, by the Commissioners Court of Harris County, Texas (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 adjoining the Houston Ship Channel (the “Houston Ship Channel” or the “Channel”). The Channel is the center 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 terminal facility, channel and turning basin at the Bayport Industrial Complex near Houston. Certain officials of the Authority are also County officials. See “THE AUTHORITY” herein. **Although the Bonds are issued pursuant to the provisions of the County Orders adopted by the Commissioners Court, the Bonds are not obligations of the County. The Bonds are also 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 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 will be used to pay the principal of or interest on the Bonds. The Authority also adopted two orders (the “Authority Orders” and together with the County Orders, the “Orders”) authorizing the sale of the Bonds, containing Continuing Disclosure Agreements and authorizing and approving certain other matters in connection with the issuance and delivery of the Bonds.

**PLAN OF FINANCING**

**New Money and Refunding of Commercial Paper**

The proceeds of the Series 2010D-1 Bonds will be used to (i) refund all of the outstanding commercial paper notes of the Authority previously issued for such purposes (the “Refunded Notes”), and (iii) pay the costs of issuing the Series 2010D-1 Bonds and refunding the Refunded Notes. See “AUTHORITY AD VALOREM TAX DEBT – Authorized Debt of the Authority - *Commercial Paper Program*.” A portion of such proceeds, along with other legally available funds, if any, will be deposited with Deutsche Bank Trust Company Americas, the issuing and paying agent for the Refunded Notes, in a sufficient amount to pay the principal amount of the Refunded Notes at maturity. The Authority will pay interest due on the Refunded Notes from other legally available funds.

The proceeds of the Series 2010D-2 Bonds will be used to (i) pay costs of projects to acquire, purchase, construct, enlarge, extend, repair or develop facilities or aids incident to or useful or necessary in the operation or development of the Authority’s ports and waterways or in aid of navigation and commerce thereon, and (ii) pay the costs of issuing the Series 2010D-2 Bonds.

## Tender

Proceeds of the Series 2010E Bonds will be used to (i) pay the tender price of and cancel all of the Authority's outstanding bonds identified on Schedule I hereto (the "Tendered Bonds") at closing, and (ii) pay the costs of issuing the Series 2010E Bonds and purchasing the Tendered Bonds.

## SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds, together with other available funds of the Authority, will be applied approximately as follows:

<b>Source of Funds:</b>	<u>Series 2010D-1</u>	<u>Series 2010D-2</u>	<u>Series 2010E</u>	<u>Total</u>
Principal Amount of the Bonds	\$147,940,000.00	\$85,665,000.00	\$22,330,000.00	\$255,935,000.00
Net Original Issue Premium	13,339,885.45	5,089,357.65	2,574,507.80	21,003,750.90
<b>Bond Proceeds</b>	<u>\$161,279,885.45</u>	<u>\$90,754,357.65</u>	<u>\$24,904,507.80</u>	<u>\$276,938,750.90</u>
Transfer from Debt Service Fund			\$ 485,347.92	\$ 485,347.92
<b>Total Sources of Funds</b>	<u>\$161,279,885.45</u>	<u>\$90,754,357.65</u>	<u>\$25,389,855.72</u>	<u>\$277,424,098.82</u>
<b>Uses:</b>				
Deposit to Construction Fund		\$90,000,000.00		\$ 90,000,000.00
Deposit with Issuing and Paying Agent for the Refunded Notes	\$160,000,000.00			160,000,000.00
Payment of Tender Price of Tendered Bonds			\$25,023,797.93	25,023,797.93
Costs of Issuance <sup>(a)</sup>	1,274,897.07	752,256.12	363,770.37	2,390,923.56
Deposit to Debt Service Fund	4,988.38	2,101.53	2,287.42	9,377.33
<b>Total Uses of Funds</b>	<u>\$161,279,885.45</u>	<u>\$90,754,357.65</u>	<u>\$25,389,855.72</u>	<u>\$277,424,098.82</u>

<sup>(a)</sup> Includes Cost of Issuance and Underwriters' Discount. In the case of the Series 2010E Bonds, also includes costs related to the tender of the Tendered Bonds.

## DESCRIPTION OF THE BONDS

### General

The Series 2010D-1 Bonds and the Series 2010D-2 Bonds are being issued as current interest bonds. The Series 2010E Bonds are being issued in part as current interest bonds (together with the aforementioned current interest bonds, the "Current Interest Bonds") and in part as premium capital appreciation bonds (the "Capital Appreciation Bonds") as set forth on page ii hereof.

The Current Interest Bonds will be dated as set forth in the Orders, but will bear interest from the later of their date of delivery to the Underwriters or the most recent interest payment date to which interest has been paid or duly provided for, calculated on the basis of a 360-day year of twelve 30-day months, at the per annum rates shown on the inside cover page hereof. Interest on the Current Interest Bonds will be payable April 1, 2011, and each October 1 and April 1 thereafter until maturity or earlier redemption, and will be payable by check sent by United States mail, first class, postage prepaid, to the registered owners as of the 15<sup>th</sup> day of the month next preceding each interest payment date. The Current Interest Bonds are issued only as fully-registered bonds in the denomination of \$5,000 principal amount or any integral multiple thereof.

The Capital Appreciation Bonds will accrete interest from the date of delivery, calculated on the basis of a 360-day year of twelve 30-day months, at the approximate per annum yields shown on page ii hereof based on the initial public offering prices to the public. Interest on the Capital Appreciation Bonds will compound on October 1, 2010, and each October 1 and April 1 thereafter and will be payable only at maturity. The Capital Appreciation Bonds are issued only as fully-registered bonds in the denomination of \$5,000 Maturity Value (defined below) or any integral multiple thereof.

The sum of the principal of, interest accrued on and the initial premium, if any, on the Capital Appreciation Bonds per \$5,000 Maturity Value (the “Maturity Value”) as of each April 1 and October 1 is computed on the basis of the initial offering prices to the public as adjusted by semi-annual compounding at the initial offering yield set forth on page ii of this Official Statement. A table of accreted values based on such initial offering price is set forth herein under Schedule II. Such accreted value table is provided for informational purposes only and may not reflect prices for the Capital Appreciation Bonds in the secondary market.

**Yield on Premium Capital Appreciation Bonds**

The approximate yields of the Capital Appreciation Bonds as set forth on page ii are the approximate yields based upon the initial offering prices therefor set forth on page ii. Such offering prices include the principal amount of such Capital Appreciation Bonds plus premium, if any, equal to the amount by which such offering price exceeds the principal amount of such Capital Appreciation Bonds. The yields on the Capital Appreciation Bonds to a particular purchaser may differ depending upon the price paid by that purchaser. For various reasons, securities that do not pay interest periodically, such as the Capital Appreciation Bonds, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis.

**Redemption**

**Optional Redemption.** The Current Interest Bonds maturing on or after October 1, 2021, are subject to redemption prior to stated maturity at the option of the Authority, as a whole or from time to time in part, in integral multiples of \$5,000 of principal amount on any date on or after October 1, 2020, upon payment of a redemption price equal to 100% of the principal amount thereof, plus accrued interest on the Current Interest Bonds called for redemption from the most recent interest payment date to the redemption date.

The Capital Appreciation Bonds are not subject to redemption prior to maturity.

**Scheduled Mandatory Redemption.** The Series 2010D-1 Bonds maturing in the year 2035, all of the Series 2010D-2 Bonds and the Series 2010E Bonds maturing in the years 2033 and 2038 (collectively, the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity, in the following amounts (subject to reduction as hereinafter provided) on October 1 of each of the following years, at a price equal to the principal amount to be redeemed, without premium.

\$57,000,000 SERIES 2010D-1 BONDS MATURING OCTOBER 1, 2035

Mandatory Redemption Date (October 1)	Principal Amount	Redemption Price
2032	\$13,470,000	100%
2033	14,150,000	100
2034	14,850,000	100
2035	14,530,000	100

\$85,665,000 SERIES 2010D-2 BONDS MATURING OCTOBER 1, 2039

Mandatory Redemption Date (October 1)	Principal Amount	Redemption Price
2035	\$ 1,070,000	100%
2036	16,380,000	100
2037	17,195,000	100
2038	18,060,000	100
2039	32,960,000	100

\$2,715,000 SERIES 2010E BONDS MATURING OCTOBER 1, 2033

<u>Mandatory Redemption Date (October 1)</u>	<u>Principal Amount</u>	<u>Redemption Price</u>
2031	\$ 785,000	100%
2032	945,000	100
2033	985,000	100

\$8,005,000 SERIES 2010E BONDS MATURING OCTOBER 1, 2038

<u>Mandatory Redemption Date (October 1)</u>	<u>Principal Amount</u>	<u>Redemption Price</u>
2036	\$2,545,000	100%
2037	2,730,000	100
2038	2,730,000	100

\$5,000,000 SERIES 2010E BONDS MATURING OCTOBER 1, 2038

<u>Mandatory Redemption Date (October 1)</u>	<u>Principal Amount</u>	<u>Redemption Price</u>
2036	\$1,600,000	100%
2037	1,600,000	100
2038	1,800,000	100

In lieu of mandatory redemption of the Term Bonds, the Authority has reserved the right to purchase for cancellation Term Bonds of the same series and maturity at a price (excluding accrued interest but including any brokerage or other charges) no greater than the applicable redemption price of such Term Bonds.

To the extent that such Term Bonds have been previously called for redemption or purchased and retired in part and otherwise than from scheduled mandatory redemption payments, the Authority may reduce future mandatory redemption payments by the principal amount of such Term Bonds so redeemed or purchased. The principal amount shall be reduced, at the option of the Authority, by the principal amount of any Term Bonds having the same maturity which have been purchased or redeemed by the Authority as follows, at least 45 days prior to the mandatory redemption date:

- (i) if the Authority directs the Paying Agent/Registrar to purchase such Term Bonds with money in the debt service fund for such Term Bonds (at a price not greater than par plus accrued interest to the date of purchase), then a credit of 100% of the principal amount of such Term Bonds purchased will be made against the next mandatory redemption installment due, or
- (ii) if the Authority purchases or redeems such Term Bonds with other available moneys, then the principal amount of such Term Bonds will be credited against future mandatory redemption installments in any order, and in any annual amount, that the Authority may direct.

**Method of Selecting Bonds to be Redeemed.** If less than all of the Bonds of a series are to be redeemed, the Authority may select the maturity or maturities to be redeemed. If less than all of the Bonds of any maturity of a series are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by lot or other random method in Authorized Denominations. In selecting for redemption portions of Bonds in excess of an Authorized Denomination, each such Bond will be treated as representing that number of Bonds of an Authorized Denomination that is obtained by dividing the principal amount of such Bond by the Authorized Denomination of such Bond.

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

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

### **Authority for the Bonds**

The Bonds are issued pursuant to the provisions of the constitution and laws of the State of Texas, including particularly (i) Article XVI, Section 59 of the Texas Constitution, (ii) Chapter 117, Acts of the 55<sup>th</sup> Legislature, Regular Session, 1957, as amended, (iii) Chapter 1201, Texas Government Code, as amended, (iv) Chapter 1207, Texas Government Code, as amended, (v) Chapter 1371, Texas Government Code, as amended, and (vi) the Orders.

### **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 Authority. See "AD VALOREM TAXES." Pursuant to the provisions of the County Order adopted at a regular meeting of the Commissioners Court, 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. **None of the revenues (other than the ad valorem tax receipts described above) of the Authority are pledged as security for the Bonds.**

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

Appendix B describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in Appendix B concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Authority believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

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

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

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, National Association, in Houston, Texas (the “Paying Agent/Registrar”). The Paying Agent/Registrar has entered into the Paying Agent/Registrar Agreement with the Authority, which provides the terms and provisions for the Paying Agent/Registrar’s obligations regarding the Bonds and the Authority’s obligation to pay the Paying Agent/Registrar as consideration for the fulfillment of such obligations.

### **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 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 will 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 Orders and the issuance of such Bonds will be valid and effective and will discharge the liabilities of the Authority and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

### **Transfers and Exchanges**

A bond register relating to the registration, payment, and transfer or exchange of the Bonds of each series (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 Orders authorizing the issuance of such series of the Bonds and in accordance with the provisions of an agreement with the Paying Agent/Registrar and such rules and regulations as the Paying Agent/Registrar and the Authority may prescribe.

Whenever the Paying Agent/Registrar is a banking or trust corporation or association not domiciled in the State, the Authority will cause the Paying Agent/Registrar to keep a copy of the Bond Register with the Authority in the Authority’s offices in Houston, Texas. Any Bond may be transferred or exchanged for Bonds of other authorized denominations (within the maturity) and of like aggregate principal amount or Maturity Value, as the case may be, and series 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 will execute and the Paying Agent/Registrar will register and deliver, in the name of the designated transferee or transferees, one or more new Bonds of authorized denominations (within the same maturity) and of like series, aggregate principal amount or Maturity Value, and maturity as the Bond or Bonds surrendered for transfer.

At the option of the registered owner, Bonds may be exchanged for other Bonds of authorized denominations (within the same maturity and series) and of like aggregate principal amount or Maturity Value as the Bonds surrendered for exchange, upon surrender of the Bonds to be exchanged at the corporate trust office of the Paying Agent/Registrar.

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

All transfers or exchanges of Bonds pursuant to the Orders authorizing the issuance of such Bonds will be made without expense or service charge to the registered owner, except that the Paying Agent/Registrar will 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 or the Authority, as the case may be, may, without the consent of or notice to any bondholder, from time to time and at any time, amend the Orders 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 may, with the written consent of bondholders holding a majority in aggregate principal amount and Maturity Value, as applicable, of the Bonds then outstanding and affected thereby, if any, amend, add to or rescind any of the provisions of the Orders, provided that, without the consent of all bondholders of outstanding Bonds affected thereby, no such amendment, addition or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on, or Maturity Value of, the Bonds, reduce the principal amount or Maturity Value thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on, or Maturity Value of, the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount or Maturity Value of Bonds required to consent to any such amendment, addition or rescission.

### **Defeasance**

The provisions of the Orders and the obligations to the Registered Owners of any or all of the Bonds to pay the principal of and interest thereon, or Maturity Value thereof, may be defeased in any manner now or hereafter 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 Maturity Value of or 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 Maturity Value of or 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 to be Outstanding or unpaid. Any surplus amounts not required to accomplish such defeasance shall be returned to the Authority. Upon such deposit, such Bonds will 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, including certain exemptions that the Authority has elected to allow, 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. See "AUTHORITY AD VALOREM TAXES – Authority Tax Rates – Table 2 Footnote (b)." 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. See "AUTHORITY AD VALOREM TAX DEBT – Ad Valorem Tax Debt Comparisons – Table 5 Footnote (a)."

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

The Texas Property Tax Code (the "Property Tax Code") generally requires all taxable property (except property utilized for a qualified "agricultural use," as that definition has been expanded by recent legislation, 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. Residential homestead property may be valued solely based on its use as residential property, without regard to other potential uses. The cost of the correction, mitigation, or prevention of environmental change may be considered in establishing the market value for certain properties. The appraisal of taxable property for the County (including certain railroad rolling stock and certain intangible property of railroads and certain common carriers, the taxable value of which is recommended by the state tax board and accepted or modified by the County) 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 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 the Authority's tax rate before the later of September 30 or the 60<sup>th</sup> 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 Property 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 October, 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 of the following calendar year, 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.

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents enforcement of liens for post-petition taxes from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

*[The remainder of this page intentionally left blank.]*

## AUTHORITY AD VALOREM TAXES

### Authority Tax Rates

The following table shows the ad valorem tax rates per \$100 of assessed value levied by the Commissioners Court on behalf of the Authority, for each of the tax years 2005 through 2009. The table does not show the ad valorem tax rates levied by other County-wide taxing entities. See "AUTHORITY AD VALOREM TAXES—County-Wide Ad Valorem Tax Rates." The tax year of the Authority is the calendar year. The ad valorem tax rate that the Commissioners Court may levy on behalf of the Authority to pay the Authority's tax bonds is unlimited.

**TABLE 1 – AUTHORITY TAX RATES<sup>(a)</sup>**

<u>Purpose</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Debt Service	\$0.01474	\$0.01302	\$0.01437	\$0.01773	\$0.01636

<sup>(a)</sup> Operations and maintenance expenses of the Authority are paid from other available revenues of the Authority.

### Authority Taxable Values and Tax Rates

The following table shows the Authority's taxable values and tax rates for each of the tax years 2005 through 2009. Taxable property is assessed at 100% of the appraised value as established by the Appraisal District.

**TABLE 2 – AUTHORITY TAXABLE VALUES AND TAX RATES**  
(dollar amounts in thousands)

Taxable Value as of January 1					Authority Tax Rate per \$100 of Taxable Value
<u>Tax Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Less Exemptions<sup>(b)</sup></u>	<u>Total<sup>(a)(b)(c)</sup></u>	
2005	\$225,099,703	\$37,135,876	\$58,291,042	\$203,944,537	\$0.01474
2006	245,978,734	34,366,780	62,806,433	217,539,081	0.01302
2007	276,832,919	40,024,020	69,264,770	248,557,487	0.01437
2008	303,289,718	41,639,012	76,330,731	268,597,998	0.01773
2009	311,188,647	45,005,241	80,505,070	275,688,818	0.01636

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

<sup>(b)</sup> The County and the Authority, either by action of the Commissioners Court or Port Commission, as applicable, or through a process of petition and referendum initiated by residents, may grant partial exemptions for residential homesteads of persons 65 years or older and of certain disabled persons. Such an exemption for residential homesteads for persons 65 years of age or older and disabled persons has been granted for up to \$160,000 of assessed value. If requested, exemptions must be granted to disabled veterans or certain surviving dependents of disabled veterans or of persons who died while on active military duty in an amount, not to exceed \$3,000 of assessed value. Exemptions of up to 20% of the value of residential homesteads from ad valorem taxation may also be granted. Such 20% exemption has been granted. If ad valorem taxes have been pledged for the payment of debt prior to the adoption of any such partial exemptions, taxes may be assessed and collected against the exempt value of such homesteads if the cessation of the levy against such exempt value would impair the obligation of the contract by which the debt was created.

<sup>(c)</sup> The County and certain taxing units located within the County, including the Authority, 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 November 19, 2009, was approximately \$376 million and such value at the end of the abatement period is currently estimated to be approximately \$800 million. Assessed taxable value figures herein are net of abatements.

Source: Harris County Tax Assessor-Collector.

### Authority Tax Levies, Collections, and Delinquencies

The table below sets forth a comparison of the ad valorem taxes levied and collected by the Commissioners Court on behalf of the Authority for the tax years 2005 through 2009.

**TABLE 3 – AUTHORITY TAX LEVIES, COLLECTIONS, AND DELINQUENCIES**  
(dollar amounts in thousands)

<u>Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections<sup>(a)</sup></u>	<u>Percent of Current Levy</u>	<u>Delinquent Collections<sup>(b)</sup></u>	<u>Total Tax Collections</u>	<u>Percent of Total Collections to Levy</u>	<u>Delinquent Taxes Receivable<sup>(b)</sup></u>
2005	\$29,689	\$26,805	90.3%	\$1,119	\$27,924	94.1%	\$ 288
2006	28,671	26,131	91.1	955	27,086	94.5	427
2007	35,690	33,410	93.6	470	33,880	94.9	1,810
2008	48,288	43,622	90.3	688	44,310	91.8	907
2009	45,086	41,875	92.9	611	42,486	94.2	—

<sup>(a)</sup> 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.

<sup>(b)</sup> Collections of prior years' levies of taxes during the period beginning July 1 of the year shown and ending on June 30 of the following year are shown as delinquent collections. 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 writes off uncollectible 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.

Source: Harris County Tax Assessor-Collector

*[Remainder of this page intentionally left blank.]*

## Principal Taxpayers

The following table lists the 15 taxpayers with the largest taxable values in the Authority.

**TABLE 4 – PRINCIPAL TAXPAYERS**  
(dollar amounts in thousands)

<u>Taxpayers</u>	<u>Type of Business</u>	<u>2009 Taxable Valuations<sup>(a)</sup></u>	<u>Percentage of Total 2009 Taxable Valuation<sup>(b)</sup></u>
Exxon Mobil Corporation	Oil, Chemical Plant	\$3,173,961	1.11%
Centerpoint Energy, Inc.	Electric Utility	2,515,491	0.88
Shell Oil Company	Oil Refinery	2,098,922	0.74
Houston Refining	Oil, Gas	1,506,923	0.53
Chevron Chemical Company	Oil, Gas	1,504,773	0.53
AT&T Corporation	Telephone	922,964	0.32
Hewlett Packard Company	Computers	902,828	0.32
Hines Interests Ltd Partnership	Real Estate	846,907	0.30
Crescent Real Estate	Real Estate	824,060	0.29
Equistar Chemicals LP	Chemical	777,240	0.27
Walmart	Retail	768,751	0.27
National Oilwell Inc	Oil	708,729	0.25
Amoco Chemical Company	Chemical	689,661	0.24
Cullen Allen Holdings LP	Real Estate	679,739	0.24
Lyondell Chemical	Oil, Chemical Plant	585,844	0.21
<b>Total</b>		<u>\$18,506,793</u>	<u>6.50%</u>

<sup>(a)</sup> Amounts shown for these taxpayers do not include taxable valuations, which may be substantial, attributable to certain subsidiaries and affiliates which are not grouped on the tax rolls with the taxpayers shown.

<sup>(b)</sup> Based on the County's total taxable value as of February 28, 2010.

## 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 certain freeport goods, the State of Texas rolling stock of railroads and intangible properties of railroads and certain common carriers are taxable only by the County.

The following table shows the ad valorem tax rates per \$100 of assessed value levied by the County for each of the tax years 2005 through 2009. 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).

**TABLE OF COUNTY-WIDE AD VALOREM TAX RATES**

<b>Purpose</b>	<b>Tax Years</b>				
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>County:</b>					
Operating Fund .....	\$0.34728	\$0.34221	\$0.33221	\$0.33221	\$0.33221
Public Improvement Contingency Fund	0.00000	0.00000	0.00697	0.00594	0.00180
Debt Service .....	<u>0.03047</u>	<u>0.03885</u>	<u>0.03200</u>	<u>0.03192</u>	<u>0.03642</u>
Total (\$0.80 Limited Tax Rate) .....	0.37775	0.38106	0.37118	0.37007	0.37043
<b>Road Bond Debt Service:</b>					
(Unlimited Tax Rate) .....	0.02211	0.02133	0.02121	0.01916	0.02181
<b>Toll Road Authority Tax Bond:</b>					
Debt Service (Unlimited Tax Rate) <sup>(a)</sup>	--	--	--	--	--
Total County Tax Rate .....	<u>\$0.39986</u>	<u>\$0.40239</u>	<u>\$0.39239</u>	<u>\$0.38923</u>	<u>0.39224</u>
Harris County Flood Control District <sup>(b)</sup> .....	\$0.03322	\$0.03241	\$0.03106	0.03086	0.02922
Port of Houston Authority Debt Service <sup>(c)</sup> .....	0.01474	0.01302	0.01437	0.01773	0.01636
Harris County Hospital District <sup>(d)</sup> .....	<u>0.19216</u>	<u>0.19216</u>	<u>0.19216</u>	<u>\$0.19216</u>	<u>0.19216</u>
Total County-Wide Ad Valorem Tax Rate.....	<u>\$0.63998</u>	<u>\$0.63998</u>	<u>\$0.62998</u>	<u>\$0.62998</u>	<u>\$0.62998</u>

- (a) 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.
- (b) 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.
- (c) 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.
- (d) 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 debt.

**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, 2005, through December 31, 2009, as a percentage of taxable value and per capita.

**TABLE 5 – AD VALOREM TAX DEBT COMPARISONS**

<b>Fiscal Year</b>	<b>Authority's Debt Outstanding<sup>(a)</sup></b>	<b>Authority's Taxable Value<sup>(b)</sup></b>	<b>Authority's Debt Outstanding as a Percentage of Taxable Value</b>	<b>Estimated Population<sup>(c)</sup></b>	<b>Authority's Tax Debt Outstanding Per Capita</b>
<u>End</u> 2005	<u>(in thousands)</u> \$340,095 <sup>(b)</sup>	<u>(in thousands)</u> \$203,944,537	0.16%	3,644,285	93
2006	378,842 <sup>(b)</sup>	217,539,081	0.17	3,693,050	103
2007	457,443 <sup>(b)</sup>	248,557,487	0.18	3,886,207	118
2008	563,015	268,597,998	0.21	3,935,855	143
2009	617,660	274,003,302	0.22	3,984,349	155

- <sup>(a)</sup> Includes bonds and commercial paper notes. Net of exemptions and abatements. Property is assessed at 100% of appraised value.
- <sup>(b)</sup> Net of exemptions and abatements. Property is assessed at 100% of appraised value.
- <sup>(c)</sup> Source: U.S. Census Bureau.

Source: Harris County Appraisal District

## Debt Service Schedule

The following table sets forth the annual debt service schedule on the Authority's outstanding ad valorem tax debt, excluding commercial paper notes.

**TABLE 6 –DEBT SERVICE SCHEDULE**

Fiscal Year Ending <u>12/31</u>	Outstanding Debt Service <u>Requirements</u>	Less Debt Service on <u>Tendered Bonds</u>	<u>Series 2010D-1</u>	Plus <u>Series 2010D-2</u>	<u>Series 2010E</u>	Total Outstanding Debt Service <u>Requirements<sup>(a)</sup></u>
2010	\$ 41,501,336	\$ 147,715				\$ 41,353,621
2011	40,743,741	1,266,125	\$ 8,259,983	\$ 4,782,963	\$ 1,035,387	53,555,949
2012	41,118,191	1,266,125	7,397,000	4,283,250	927,213	52,459,529
2013	41,121,224	1,266,125	7,397,000	4,283,250	927,213	52,462,562
2014	41,125,824	1,266,125	7,397,000	4,283,250	1,207,213	52,747,162
2015	41,133,524	1,266,125	7,397,000	4,283,250	1,206,613	52,754,262
2016	41,139,924	1,266,125	7,397,000	4,283,250	1,205,913	52,759,962
2017	43,321,624	1,266,125	7,397,000	4,283,250	1,209,388	54,945,137
2018	43,398,099	1,266,125	7,397,000	4,283,250	1,206,888	55,019,112
2019	44,108,774	1,266,125	7,397,000	4,283,250	1,209,263	55,732,162
2020	44,478,074	1,266,125	7,397,000	4,283,250	1,204,813	56,097,012
2021	44,458,636	1,266,125	7,397,000	4,283,250	1,204,413	56,077,174
2022	43,744,211	1,266,125	7,397,000	4,283,250	1,204,513	55,362,849
2023	34,699,536	1,266,125	10,987,000	4,283,250	1,209,313	49,912,974
2024	29,269,291	1,266,125	16,417,500	4,283,250	1,207,775	49,911,691
2025	29,270,829	1,266,125	16,417,500	4,283,250	1,205,000	49,910,454
2026	29,270,389	1,266,125	16,414,500	4,283,250	1,205,000	49,907,014
2027	29,366,019	1,361,125	16,322,500	4,283,250	1,299,400	49,910,044
2028	29,358,581	1,375,188	16,329,750	4,283,250	1,314,400	49,910,794
2029	29,359,081	1,373,000	16,330,250	4,283,250	1,313,000	49,912,581
2030	29,360,081	1,550,500	16,328,000	4,283,250	1,490,800	49,911,631
2031	29,361,406	1,551,819	16,326,750	4,283,250	1,490,600	49,910,187
2032	29,364,313	1,676,913	16,320,000	4,283,250	1,617,238	49,907,888
2033	29,359,325	1,678,125	16,326,500	4,283,250	1,617,075	49,908,025
2034	29,365,844	4,792,500	16,319,000	4,283,250	4,730,213	49,905,807
2035	29,362,781	4,792,469	15,256,500	5,353,250	4,730,213	49,910,275
2036	29,360,219	4,795,906		20,609,750	4,735,213	49,909,275
2037	29,364,281	4,791,969		20,605,750	4,732,050	49,910,112
2038	29,360,531	4,795,375		20,611,000	4,736,025	49,912,181
2039				34,608,000		34,608,000
Total	<u>\$1,026,245,689</u>	<u>\$54,940,602</u>	<u>\$295,722,733</u>	<u>\$205,085,463</u>	<u>\$52,382,137</u>	<u>\$1,524,495,426</u>

<sup>(a)</sup> Discrepancies in totals due to rounding.

Source: First Southwest Company

## County-Wide Ad Valorem Tax Debt Service Requirements

The following table sets forth the debt service requirements on County-wide outstanding ad valorem tax debt as of July 8, 2010, excluding commercial paper. See “—Commercial Paper.”

Year Ending Feb. 29/29	County					Port of Houston Authority	Total <sup>(e)</sup>
	County Limited Tax Bonds <sup>(a)</sup>	Unlimited Tax Bonds	Toll Road Unlimited Tax Bonds <sup>(b)</sup>	Flood Control District Limited Tax Bonds <sup>(c)</sup>	Unlimited Tax Bonds <sup>(d)</sup>	Unlimited Tax Bonds <sup>(d)</sup>	
2011	\$ 82,187,053	\$ 66,850,710	\$ 86,406,769	\$ 38,961,013	\$ 41,353,621	\$ 315,759,165	
2012	81,979,678	51,608,880	85,248,675	36,627,138	53,555,949	309,020,319	
2013	74,404,962	58,590,380	84,983,369	36,391,038	52,459,529	306,829,278	
2014	103,284,222	61,474,630	84,780,631	36,203,663	52,462,562	338,205,708	
2015	107,261,765	60,053,999	82,931,581	34,598,175	52,747,162	337,592,681	
2016	107,906,007	59,640,211	58,590,600	33,110,806	52,754,262	312,001,886	
2017	115,366,632	58,860,799	42,799,013	31,911,369	52,759,962	301,697,774	
2018	110,996,155	63,243,361	41,737,731	31,886,119	54,945,137	302,808,503	
2019	105,455,345	64,387,586	41,187,050	46,208,619	55,019,112	312,257,711	
2020	97,132,909	57,890,643	40,622,563	60,796,581	55,732,162	312,174,856	
2021	93,984,515	60,896,418	40,049,775	59,264,781	56,097,012	310,292,500	
2022	112,157,933	41,694,605	28,930,613	61,739,931	56,077,174	300,600,255	
2023	73,033,460	80,846,290	28,689,022	59,493,319	55,362,849	297,424,939	
2024	74,097,688	79,751,500	28,084,903	58,543,819	49,912,974	290,390,883	
2025	106,121,080	68,087,000	27,462,059	19,663,569	49,911,691	271,245,399	
2026	61,029,902	49,028,250	17,500,338	35,348,250	49,910,454	212,817,193	
2027	58,152,117	47,121,250	16,886,138	34,035,500	49,907,014	206,102,018	
2028	56,617,762	45,214,250	16,275,756	32,722,750	49,910,044	200,740,562	
2029	48,525,212	43,427,250	15,659,194	31,442,000	49,910,794	188,964,450	
2030	21,730,217	31,220,500	15,046,450	30,161,250	49,912,581	148,070,998	
2031	21,773,072	27,250,000	14,432,394	28,880,500	49,911,631	142,247,597	
2032	21,841,712	26,125,000	13,817,025	27,567,750	49,910,187	139,261,674	
2033	21,909,885	-	13,205,213	-	49,907,888	85,022,985	
2034	-	-	12,586,956	-	49,908,025	62,494,981	
2035	-	-	-	-	49,905,807	49,905,806	
2036	-	-	-	-	49,910,275	49,910,275	
2037	-	-	-	-	49,909,275	49,909,275	
2038	-	-	-	-	49,910,112	49,910,113	
2039	-	-	-	-	49,912,181	49,912,181	
2040	-	-	-	-	34,608,000	34,608,000	
	<b>\$1,756,949,284</b>	<b>\$1,203,263,511</b>	<b>\$937,913,816</b>	<b>\$865,557,938</b>	<b>\$1,524,495,426</b>	<b>\$6,288,179,968</b>	

- (a) Includes certain Hotel Occupancy Tax supported debt service. Debt service on the County’s Tax and Subordinate Lien Revenue Refunding Bonds, Series 2004B, is calculated at the fixed rate of 4.41% until August 15, 2012. Thereafter, the interest rate is variable and, therefore, an estimated rate of 3.34% is assumed.
- (b) 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.
- (c) Includes the outstanding \$29,530,000 Harris County Flood Control District Contract Tax Refunding Bonds, Series 2004A; the \$94,185,000 Flood Control District Contract Tax Refunding Bonds, Series 2006A; the \$134,190,000 Flood Control District Contract Tax Refunding Bonds, Series 2008A; and the \$155,195,000 Flood Control District Contract Tax Refunding Bonds, Series 2008B; all of which are payable from contractual payments made by the County to the District secured by the County’s limited tax pursuant to the Flood Control Projects Contract.
- (d) Adjusted to exclude the Tendered Bonds and include the Series 2010D-1 Bonds, Series 2010D-2 Bonds and Series 2010E Bonds.
- (e) Discrepancies in totals due to rounding.

### **Authorized Debt of the Authority**

At an election held on November 6, 2007 (the “Election”), voters of the Authority authorized the issuance of \$250,000,000 of debt. The Election authorized the debt, which may be issued as bonds or commercial paper notes, to be 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. See “AUTHORITY AD VALOREM TAX DEBT – Debt Service Schedule.”

**Authorized but Unissued.** Upon the issuance of the Bonds and the refunding of the Refunded Notes, there will be no authorized but unissued debt pursuant to the Election.

**Commercial Paper Program.** The liquidity provider for the commercial paper notes is Bank of America, N.A. (the “Bank”). The expiration date of the liquidity facility is October 2, 2010; however, the existing liquidity facility will expire concurrently with the delivery of the Series 2010D-1 Bonds when all outstanding commercial paper notes are redeemed and the Authority’s existing voter authorized debt is exhausted. The Authority may issue additional commercial paper notes in the future as additional debt is authorized. The commercial paper notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified terms of such commercial paper, but not to exceed 10%. The principal of and interest on any commercial paper notes is payable from ad valorem taxes and other funds that may be provided under any liquidity facility.

*[Remainder of this page intentionally left blank.]*



## Estimated Authority and Overlapping Ad Valorem Tax Debt

In addition to the taxing entities mentioned above, approximately 31 cities, towns and villages, 25 independent school districts, four community college districts and approximately 344 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 the 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 Authority believes such sources to be reliable, but the Authority takes no responsibility for the accuracy or completeness thereof. The table reflects debt outstanding as of various dates. Certain entities listed below may have issued substantial amounts of tax debt since the latest available data and may have capital improvement programs requiring the issuance of a substantial amount of additional tax debt.

	<b><u>Long Term Debt Outstanding</u></b>	
	(dollar amounts in thousands)	
County-Wide Taxing Entities <sup>(a)</sup> :		
Harris County Flood Control District	\$ 518,583	
Harris County <sup>(b)</sup>	1,827,862	
Port of Houston Authority <sup>(c)</sup>	<u>778,269</u>	\$3,124,714
Cities:		
Houston <sup>(d)</sup>	\$3,128,575	
Other cities <sup>(e)</sup>	<u>527,610</u>	\$3,656,185
Independent School Districts, Junior College Districts and the Harris County Department of Education. <sup>(e)</sup>	\$10,839,093	
	<u>3,612,702</u>	<u>\$14,451,795</u>
Utility Districts <sup>(e)</sup> :		<u>\$21,232,694</u>
Total		

(a) As of July 7, 2010. Exclusive of commercial paper transactions. See "-Commercial Paper Program."

(b) Excludes all outstanding Toll Road Tax Bonds which are secured by a pledge of ad valorem taxes and a subordinate lien on toll road net revenues. No tax has ever been required to pay such bonds. See "-County-Wide Ad Valorem Tax Debt Service Requirements-Footer (a)."

(c) Adjusted to include the Bonds and exclude the Refunded Bonds. Excludes commercial paper notes, none of which will be outstanding after the issuance of the Bonds and refunding of the Refunded Notes.

(d) Includes certain contract tax bonds substantially equivalent to ad valorem tax bonds. Excludes commercial paper balances.

(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, 25 independent school districts and four community college districts and approximately 344 utility districts located within the County.

Source: Harris County Office of Financial Services and Municipal Advisory Council of Texas

## Revenue Debt of the Authority

In addition to the unlimited tax bonds of the Authority, the Authority may issue, from time to time, debt secured by certain revenues of the Authority other than taxes. Currently, the Authority has no outstanding revenue debt.

*[Remainder of this page intentionally left blank.]*

## 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 55<sup>th</sup> Legislature, Regular Session, 1957, as amended, and Chapters 60, 61 and 62 of the Texas Water Code, as amended. The Authority by statute operates independently of other governmental entities, except that the Commissioners Court, upon request of the Authority, sets the Authority's tax rate, levies the Authority's tax and issues and authorizes the Authority's general obligation bonds 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; and one by the Harris County Mayors & 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 Channel, the center 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. As of December 31, 2009, the Authority had 592 regular employees and had contracted for 492 employees from longshoremen union halls.

### Security

The Authority has enhanced its security infrastructure since September 11, 2001. Among its actions, it has increased the number of personnel with security duties, and entered certain information-sharing and security agreements with other governmental agencies. It has conducted a security assessment of its facilities, and prepared facility security plans subsequently approved by the United States Coast Guard, the agency primarily responsible for security on the Channel. The Authority built and presently operates a Port Communication Center, a Mobile Communications Center, and has otherwise increased and upgraded its communications equipment. Finally, the Authority has installed radiation portal monitors, currently operated by United States Customs and Border Patrol, for container screening.

Additionally, the Authority has implemented identification credential procedures and installed gates and other access controls, security cameras, lighting, fencing, and other security equipment, and is currently preparing for the implementation and enforcement of the federal Transportation Worker Identification Credential (TWIC) program.

The Authority has been awarded nearly \$40 million in federal security grants since 2003, including \$1,275,677 million in 2009, to accomplish a number of the foregoing projects.

In March 2008, the Authority received certification from the International Organization for Standardization ("ISO") of its Security Management System ("SMS") under ISO 28000:2007, for the Barbours Cut Terminal ("BCT") and the Bayport Container Terminal ("Bayport"). The ISO 28000:2007 certification indicates the recipient has met certain security management system requirements. The ISO is a network of the national standards institutes of 157 countries, and is the largest developer and publisher of international standards.

The Authority, other local governmental entities, and private businesses within the Channel area have joined together to organize the Houston Ship Channel Security District ("HSCSD") and in 2009 the Commissioners Court approved its formation. The HSCSD will provide oversight of comprehensive and cost-effective security solutions for the channel area, leveraging more than \$30 million in federal port security grants awarded to Harris County to install technology and security infrastructure, with operations, maintenance and matching dollars to fund specific projects, maintenance and operational services.

## **Business of the Authority**

The Authority owns a diverse group of facilities 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 to others, provides railroad rights-of-way for the Port Terminal Railway Association (“PTRA”), licenses pipeline crossings of its property, and owns and maintains areas for depositing dredged materials.

The Authority’s operating revenues for fiscal year 2009 were nearly \$171 million, a decrease of 13% from operating revenues for 2008. Revenue tonnage totaled 28.8 million tons in 2009, down approximately 18% from 2008. This included a 21% decrease in general cargo from 2008 to 2009.

Facilities owned by the Authority are either operated for hire on a first-come, first-served basis, leased to private operators or in some cases subject to preferential, but not exclusive, berthing arrangements. Other 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 in the Bayport Industrial District and served by the Bayport Channel and Bayport Turning Basin. See “– Physical Characteristics of the Port Facilities of the Authority – Table 7.”

## **Port Facilities of the Authority**

**Turning Basin Terminal.** 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 open and enclosed short-term storage space, and a wharf specifically designed for handling heavy-lift cargoes. Cargo storage areas adjoining the wharves are subject to a lease.

**Woodhouse Terminal.** Woodhouse Terminal is located on a 100-acre tract a short distance downstream from the Turning Basin Terminal. The terminal includes over 230,000 square feet of shed space, three general cargo wharves with rail access, a roll-on/roll-off (“RO/RO”) ramp, and a modern six million bushel capacity grain elevator and ancillary property, which is under a lease through May 2018 that provides the lessee certain preferential berthing rights.

**Bulk Materials Handling Plant.** The Authority owns the Bulk Materials Handling Plant, a two-berth dry bulk terminal in the mid-channel area. Each berth has the capacity for one ship. Berth 1 has a high-capacity loading crane supplied by a conveyor belt system. Portions of the terminal are leased through June 2017 under a lease that affords the lessee certain preferential berthing rights.

**Jacintoport Terminal.** The Authority owns the Jacintoport Terminal which is located in the mid-channel area. This approximately 125 acre site consists of three wharves, various warehouse facilities and buildings, rail access, and four high-capacity automated loader cranes. Also available are refrigerated, frozen, and dry cargo facilities used for both cargo handling and storage. Portions of the terminal are currently under leases scheduled to expire in December 2008 and February 2020, including one that provides for certain preferential berthing rights.

**Care Terminal.** The Care Terminal adjoins the Jacintoport Terminal, and consists of two wharves, a shed, a paved marshaling area and rail access. Portions of the terminal are currently under lease through 2012, including one lease providing certain preferential berthing rights.

**Barbours Cut Terminal.** BCT provides special-purpose facilities for container 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 marshalling areas behind container berths to transfer containers to and from land carriers. This facility also includes paved marshalling areas and warehouse space. 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. Container Terminal 6 and a portion of Container Terminal 5 at BCT are currently under a lease scheduled to expire April 2027 that affords the lessee certain preferential berthing

rights. The Authority has also entered into a Marine Terminal Service Agreement with one shipping line, scheduled to expire December 2018, that provides certain preferential berthing rights.

**Bayport Container Terminal.** Bayport provides special-purpose facilities for container ships. This terminal opened in February 2007 and is located approximately 5 miles south of BCT. Bayport's two existing berths provide 2,000 feet of continuous quay. Wharf cranes ensure efficient and reliable handling of containers and can traverse the wharves to serve ships simultaneously or singly, as required, and container yard cranes are in use in the Authority's marshalling areas behind container berths. This facility also includes paved marshalling areas. Work continues on additional expansion of the facility, which when completed is expected to have seven container berths, three cruise ship berths and a cruise ship terminal facility. See "-Authority's Capital Improvement Program - Bayport."

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

### **Other Facilities of the Authority**

In addition to its wharves, the Authority owns numerous miles of railroad track and rights-of-way and has ample storage yard capacity for railroad cars near all its facilities. These yards are located on property made available to the PTRRA, an association of line railroads serving Houston and the Authority. The Authority also owns the East Industrial Part ("EIP"), a 315-acre industrial park adjacent to the Turing Basin Terminal. EIP 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.

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

**General.** The Authority anticipates that its capital expenditures will continue to be primarily applied to Bayport construction. See "—Bayport." Funds projected to be used for these expenditures include the proceeds from the sale of port improvement general obligation bonds, and current available funds.

**Houston Ship Channel.** In addition to the expenses associated with modernization and expansion at the Authority's terminals, nearly \$11.3 million of the Authority's capital expenditures incurred in fiscal year 2009 were attributable to its role as local sponsor of the Channel, bearing a portion of the expenses associated with bringing the continued benefits of deep-draft navigation to Harris County. As non-federal sponsor, the Authority is obligated to the United States Army Corp of Engineers ("USACE") for twenty-five percent of the construction costs of features associated with the widening and deepening of the Channel plus an additional ten percent contribution over the life of the project. The additional ten percent contribution is currently being credited to the Authority for its work-in-kind.

The continuing cost of the project over its 50-year life is expected to total \$705.2 million, exclusive of operations and maintenance, to be shared by the federal government and the Authority. Federal funding for the project must be approved through individual appropriation acts each fiscal year. Congress has appropriated approximately \$147 million for these capital costs from fiscal year 2006 through fiscal year 2010. As of December 31, 2009, the Authority has spent \$111.4 million towards its twenty five percent share of the overall project construction costs.

The initial construction phase of the Channel deepening and widening project was completed in August 2005. The Channel was deepened from 40 to 45 feet and widened from 400 feet to 530 feet. The Houston Ship Channel project also requires annual maintenance dredging using federal funds, which funding must also be approved through individual appropriation acts each fiscal year. To provide for the dredged material disposal needs (capacity) for such dredging, and other additional capacity needs in the Channel, the USACE and the Authority have designed deferred construction elements to be included in future fiscal year construction programs.. The Authority is obligated to bear a portion of these costs.

**Bayport.** Bayport is a new container and cruise complex to accommodate the expanding needs of existing and new customers. The facility is located on an industrial complex in southeast Harris County. Bayport is linked by channel to the Houston Ship Channel. Bayport's proximity to BCT benefits the customers at Bayport due to competitive rail and trucking charges and affordable ancillary services.

At completion, Bayport container facility will include 7,000 feet of berth, 378 acres of container yard, additional acres for buildings, equipment, cranes and an intermodal rail yard. At capacity, the facility is expected to be able to move 2.3 million Twenty foot Equivalent Units ("TEUs"). While the primary purpose of Bayport is to provide a container terminal to keep pace with the expanding growth in container traffic, the plan also includes provisions for a cruise terminal, with up to three cruise berths and an east-end turning basin. The Authority is in the process of negotiating with cruise lines to call on the facility once constructed.

Currently, there are two phases at Bayport, Phase 1A and Phase 1. Construction of Phase 1A at Bayport is substantially complete. The remaining construction of the initial cruise terminal improvements is also expected to be completed shortly. Planning of Phase 1 at Bayport is now nearing completion. Taken together with Phase 1A, the construction will provide 3,330 feet of wharf, a container freight station, gate(s), administration and maintenance buildings, over 165 acres of container yard, 9 wharf cranes and 27 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. Taken together, Phases IA and Phase I would allow for the annual handling of 700,000 TEUs.

The entire project, to be completed over an estimated 15 to 20 year period according to market demand and is estimated to cost approximately \$1.8 billion. See "REGULATION AND LITIGATION – Environmental Regulation" and "– Community Relations."

### **Hurricane Ike**

Following Hurricane Ike in September 2008, the Authority and the USACE prepared damage assessments to sites for inclusion into the USACE application for Supplemental Appropriations funding. Approximately \$44 million in damages occurred to various disposal and marsh areas. The contracts to repair erosion protection on many of the placement areas and remove shoaled dredge material was awarded in 2009 and will continue into 2010.

There was minimal adverse impact to the Port of Houston Authority's operations as a result of Hurricane Ike. The Authority incurred some property damage for which it received payments totaling \$7.4 million from its insurance carrier. In addition, the Authority expects to receive at least \$9 million in FEMA grant funding.

### **Gulf of Mexico Oil Spill**

The Authority has not experienced any impact to date from the Deepwater Horizon oil spill that began in April 2010. Additionally, the Port has not experienced any cargo delays, nor has it received any reports of contaminated vessels entering into Port facilities. The Authority can make no representations or predictions concerning the future effect of the spill on its financial condition, revenues or operations.

*[Remainder of this page intentionally left blank.]*

## Physical Characteristics of the Port Facilities of the Authority

Below in Table 7 are the physical characteristics of the Port Facilities of the Authority along with information regarding equipment at certain sites, such information is updated as of the Authority's most recent audited financial statements through December 31, 2009.

**TABLE 7 - PHYSICAL CHARACTERISTICS OF THE PORT FACILITIES OF THE AUTHORITY**

	Berth Lengths (Feet)	Water Depth Below Mean Tide (Feet)	Paving Marshalling Area (Acres)	Covered Storage (Sq. Ft.)
<b>Turning Basin Terminal<sup>(b)</sup></b>				
36 general cargo wharves	376-600	27-37 <sup>(a)</sup>	27.3	1,400,000
5 liquid bulk wharves	226-570	28-36 <sup>(a)</sup>	N/A	N/A
heavy duty cargo	800	37 <sup>(a)</sup>	20.2	N/A
<b>Woodhouse Terminal<sup>(c)</sup></b>				
Wharf 1	660	39 <sup>(a)</sup>	2.2	N/A
Wharves 2 and 3	1,250	35	N/A	231,750
Grain Dock	600	42	N/A	N/A
<b>Dry Bulk Cargo Facility</b>				
Wharf	800	42	N/A	N/A
Lay Berth	400	42	N/A	N/A
<b>Jacintoport Terminal</b>				
Wharves 1— 3	1830	40	7.5	82,500
<b>Care Terminal</b>				
Wharf 1	500	36	9.6	45,000
Wharf 2	618	38	4.0	N/A
<b>Sims Bayou Liquid Bulk Facility</b>				
Barge Berth	320	40	N/A	N/A
<b>San Jacinto Barge Terminal</b>				
Berths	200-700	16	N/A	N/A
<b>Barbours Cut Terminal<sup>(d)</sup></b>				
LASH Berth	810	36	N/A	N/A
Container Berths 1 — 6	6,000	40	230	255,000
<b>Passenger Berth</b>				
	900	36		
<b>Bayport Container Terminal<sup>(e)</sup></b>				
Container Berths 4 and 5	2,000	40	60	0

<sup>(a)</sup> The maximum depth of the Channel in this area.

<sup>(b)</sup> Onsite equipment consists of two 40 long ton capacity container cranes which serve nine berths on a rental basis. In addition, privately-owned mobile cranes and additional cargo handling equipment are available for hire on an hourly basis.

<sup>(c)</sup> 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.

<sup>(d)</sup> Onsite equipment consists of six 40-ton and five 50-ton container cranes, forty-one 40-ton container yard cranes, four 30,000 pound lifters for handling empty containers, three 40 long ton container handling machines, 33 heavy-duty tractors, and 125 heavy-duty yard chassis are available for rent from the Authority.

<sup>(e)</sup> On site equipment consists of six 50-ton container cranes, eighteen 40-ton yard cranes, six heavy duty terminal tractors and 22 yard chassis.

Source: Port of Houston Authority

## Annual Cargo Amounts

The following table shows the amount of cargo handled by the entire Port of Houston for each of the years 1999-2008. The entire Port of Houston (which includes facilities not owned by the Authority) ranks first in foreign tonnage and second in total tonnage as compared to other United States ports.

**TABLE 8 – ANNUAL CARGO AMOUNTS**  
(in thousands)

<u>Year</u>	<u>Short Tons</u>
2008	212,208
2007	216,064
2006	222,147
2005	211,666
2004	202,047
2003	190,923
2002	177,561
2001	185,050
2000	186,567
1999	158,828

*Source: U.S. Corps of Engineers*

## INVESTMENTS

The Authority invests its funds, subject to investment, in such investments as are authorized by State law, and 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 Department of Financial Services of the County acts as an investment agent on behalf of the Authority. The Authority and the 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."

Under Texas law, the Authority is authorized to invest in (1) obligations of the United States or its agencies or instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage bonds directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by

obligations described in the preceding clauses or in any other manner and amount provided by law for Authority deposits, (7) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or a branch office in the State of Texas, that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (6) above or in any other manner and amount provided by law for County deposits, and (b) certificates of deposit or share certificates issued by a depository institution that has its main office or a branch office in the State of Texas that participate in the Certificate of Account Registry Service, (8) fully collateralized repurchase agreements that have a defined securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptance with a remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that has a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invests exclusively in bonds described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent, (13) obligations issued, assumed, or guaranteed by the State of Israel, and (14) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1) above in an amount at least equal to the amount of the bond proceeds invested under such contract.

**Current Investment Distribution**

The following percentages of the Authority's funds subject to investment were invested in the following categories of investments. The average remaining maturity of such investments was 83 days based on par value.

**TABLE 9 – CURRENT INVESTMENT DISTRIBUTION<sup>(a)</sup>**

U.S. Government Agencies Securities	46%
Money Market Deposits	34
Municipal Securities	11
Commercial Paper	9
TOTAL	<u>100%</u>

<sup>(a)</sup> Unaudited information as reported by the Authority as of June 30, 2010.

**REGULATION AND LITIGATION**

**Environmental Regulation**

The construction of Bayport is subject to a USACE permit issued in January 2004, following community input sought by the Authority over the proceeding six years. The permit includes a number of requirements resulting from the Authority's dredge and fill and other activities associated with Bayport construction. The Authority has also taken various measures beyond these requirements. In particular, the Authority created wetlands near Armand Bayou equal to three times the area of those affected in conjunction with construction. Additionally, the Authority bought 950 acres of wetlands, prairie, and wooded habitat, and subjected the areas to conservation easements. The Authority agreed to create "beneficial use" sites in Galveston Bay, using dredged materials. As construction progresses at Bayport, the Authority carries out detailed archeological investigations. The Authority also agreed to stringent air emission and dust control requirements, turbidity controls, and sound reduction measures, in connection with certain construction activities. Finally, the Authority agreed to construct an earthen berm along portions of the southern perimeter of Bayport. In December, 2009, the USACE permit was renewed for a term extending through December 31, 2019.

Separately, Authority continues to work with the Texas Commission on Environmental Quality ("TCEQ") to address particulate emissions in the vicinity of EIP.



The Authority has undertaken a number of other environmental-related initiatives. The Authority was selected by the United States Environmental Protection Agency (“EPA”) to participate in a local government Environmental Management System (“EMS”) Initiative, implementing management processes and procedures to allow it to better analyze, control, and reduce the environmental impact of its activities, products and services and operate with greater efficiency and control. Expected benefits include improved overall environmental performance, expanded pollution prevention opportunities and improved compliance. The EPA and TCEQ have recognized the Authority as the first port in the United States to achieve compliance with the ISO 14001 standards for its EMS for the Turning Basin Terminal, BCT and Central Maintenance facility. The Authority has now expanded its EMS program to cover Bayport. Additionally, the Authority continues participation in the EPA’s National Environmental Performance Track program.

The Authority continues to work towards improving air quality in the Houston-Galveston Area with air emission reductions of NOx and VOC through its operations of off-road and on-road fleets.

### **Community Relations**

In November 2007, the Authority entered into a Memorandum of Settlement Agreement with the city of Seabrook, Texas (“Seabrook”), in conjunction with the Authority’s acquisition of certain Bayport property by eminent domain. The Authority and Seabrook agreed to investigate and mitigate sedimentation of Pine Gully in Seabrook. The parties also agreed on a rail sound barrier and a schedule for the Authority’s construction of the berm adjoining Seabrook, which will be incorporated into Seabrook’s network of hike and bike trails. The Authority agreed to measures with respect to lighting, sound container storage and rail operations. Certain Bayport property, comprising the southernmost portion of the future terminal development area, was disannexed from Seabrook and brought within a new industrial district. In April 2008, following the dismissal of the Seabrook lawsuits, the Authority transferred approximately 41 acres of property to Seabrook for public park purposes. In October, 2009, additional after-acquired property was brought within the industrial district.

In September 2009, the Authority entered into an Industrial District Agreement with the city of Pasadena, Texas (“Pasadena”). Certain Bayport property, comprising the majority of the Bayport Container Terminal, was disannexed from Pasadena and brought within a new industrial district. The Authority made a payment of \$5,500,000 to the city in connection therewith.

The Authority’s Bayport Mitigation Solution program was announced March 10, 2010 to provide mitigation measures to residents along the north shore of the Bayport channel. The program offers 411 residential property owners who live in an area defined by the results of an independent study the opportunity to apply for mitigation payments of \$40,000 for improved tax parcels, and \$5,000 for vacant tax parcels. As of the end of the 60-day acceptance period for the majority of landowners in the program boundary, approximately 240 eligible applications had been received from those interested in participating in the program, and mitigation payments totaling approximately \$1,500,000 had been made to almost 45 participants. The program will continue until the Authority has acted on all applications.

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

The land surface in certain areas of Harris 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 (HGCSA) to provide regulatory control over the withdrawal of groundwater in Harris and Galveston Counties in an effort to limit subsidence. Since HGCSA’s creation, the withdrawal of groundwater and the rate of subsidence have been reduced. The Authority completes annual water usage reporting to the HGCSA and annual permitting.

### **Pending Litigation and Claims**

The following matters are considered by the Authority to be material for purposes of this Official Statement. Uncertainties are inherent in the final outcome of these matters, and it is presently impossible to determine their resolutions and the costs that may ultimately be incurred in connection with such resolutions. In addition to the matters specifically listed, the Authority is involved in other litigation and claims. While

uncertainties are also inherent in the final outcome of such other matters and it is presently impossible to determine the costs in connection with them that may ultimately be incurred or their effect on the Authority, management believes that the resolution of such uncertainties and the incurrence of such costs, regarding such other matters, should not result in a material adverse effect on the Authority's financial position, results of operations or liquidity.

The Authority is the defendant in a breach of contract action brought by Zachry Construction Corporation ("Zachry") in November 2006. The lawsuit arises out of a contract which the Authority entered into with Zachry in June 2004, for the construction of the initial 1,660 feet of wharf at the Bayport Terminal. A change order later added an additional 332 feet of dock. Zachry originally intended to construct the dock "in the dry" behind an earthen cofferdam, which was to be made rigid and water impermeable through soil freezing technology.

In general, Zachry sought to fault the Authority for Zachry's decision to abandon the plan to freeze wall the cofferdam and complete the work "in the wet." Zachry also claimed that the Authority wrongfully withheld \$2,600,000 in liquidated damages. The Authority disputed all of Zachry's contentions.

The case proceeded to a jury trial on October 20, 2009 and ended with an adverse jury verdict returned on January 21, 2010 after 35 days of evidence. On April 28, 2010, judgment was entered by the trial court in favor of Zachry on its claims totaling \$19,993,000, with prejudgment interest totaling \$3,451,000. The trial court denied the Authority's motion for judgment *non obstante veredicto*, and a motion for new trial. The Authority expects to appeal the case.

Separately, the Authority has received information that it may be named as a defendant in one or more lawsuits by homeowners in the cities of Shoreacres and La Porte, communities located across the channel from Bayport, alleging that Bayport operations have caused them injuries and damages.

The Authority expects to vigorously contest any such matter if filed.

#### **BONDHOLDERS REMEDIES**

The Orders do not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the County or the Authority to perform in accordance with the terms of the Orders or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Orders. Furthermore, the Orders do not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the County or the Authority to observe any covenant under the Orders. A registered owner of Bonds could seek a judgment against the County and/or the Authority if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the County or the Authority and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the Commissioners Court to levy, assess and collect an annual ad valorem tax for the Authority sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Orders. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Authority is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the Authority avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to

the enforceability of the Orders and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

### **TAX EXEMPTION**

In the opinion of Andrews Kurth LLP, Houston, Texas, Bond Counsel, (a) interest on the Bonds is 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 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 Code), and (b) interest on the Bonds is not included in determining the alternative minimum taxable income of individuals or corporations.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the Authority with certain covenants of the Authority Order authorizing the issuance of the Bonds and has relied on representations by the Authority with respect to matters solely within the knowledge of the Authority, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of proceeds of the Bonds and any facilities financed therewith, the source of repayment of the Bonds, the investment of proceeds of the Bonds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of proceeds of the Bonds and certain other amounts be paid periodically to the United States and that the Authority file an information report with the Internal Revenue Service. If the Authority should fail to comply with the covenants in the Authority Order, or if its representations relating to the Bonds that are contained in the Authority Order 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.

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

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to 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 of the tax-exempt status of the interest on the Bonds, the Authority may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

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, life insurance companies, 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, 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 eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

## **Tax Treatment of Original Issue Discount and Premium Bonds**

**Discount Bonds.** Certain of the Bonds were offered at initial offering prices which are less than the stated redemption prices at maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or organizations acting in the capacity of wholesalers or initial purchasers) at such initial offering prices, the Bonds of that maturity (the “Discount Bonds”) will be considered to have “original issue discount” for federal income tax purposes. An initial owner who purchases a Discount Bond in the initial public offering of the Bonds at such an initial offering price will acquire such Discount Bond with original issue discount equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Bond and (b) the initial public offering price to the public of such Discount Bond. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on a Bond and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Bond continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Bond under the caption “Tax Exemption” generally applies to original issue discount deemed to be earned on a Discount Bond while held by an owner who has purchased such Bond at the initial offering price in the initial public offering of the Bonds and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Bond prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Bond in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Bond continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Bond will be treated for federal income tax purposes as interest on a Bond, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. See “TAX EXEMPTION” for a discussion regarding the alternative minimum taxable income consequences for individuals and corporations and for a reference to collateral federal tax consequences for certain other owners.

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Bond or of the Authority. The portion of the principal of a Discount Bond representing original issue discount is payable upon the maturity or earlier redemption of such Bond to the registered owner of the Discount Bond at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Bond is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Bonds by an owner that did not purchase such Bonds in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Bonds should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Bonds.

**Premium Bonds.** Certain of the Bonds were offered at initial offering prices which exceed the stated redemption prices payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or organizations acting in the capacity of wholesalers or initial purchasers) at such initial offering prices, each of the Bonds of such maturity (the “Premium Bonds”) will be considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in

basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond .

THE FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION BY AN OWNER OF BONDS THAT ARE NOT PURCHASED IN THE INITIAL OFFERING OR WHICH ARE PURCHASED AT AN AMOUNT REPRESENTING A PRICE OTHER THAN THE INITIAL OFFERING PRICES FOR THE BONDS OF THE SAME MATURITY MAY BE DETERMINED ACCORDING TO RULES WHICH DIFFER FROM THOSE DESCRIBED ABOVE. MOREOVER, ALL PROSPECTIVE PURCHASERS OF BONDS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF PREMIUM BONDS.

#### **Allocation of Interest Expense of Financial Institutions to Tax-Exempt Interest**

Section 265(b)(1) of the Code provides that a financial institution is not permitted a deduction for that portion of its interest expense allocable to tax-exempt interest. Section 265(b)(7) (as added to the Code by ARRA) provides a de minimis exception to this disallowance provision for an amount of tax-exempt obligations (other than a current or advance refunding) issued in 2009 and 2010 in an amount not exceeding two percent (2%) of the adjusted basis of all of the assets of the financial institution. The Series 2010D-2 Bonds are treated as tax-exempt obligations issued in 2009 and 2010 to which this de minimis exception applies.

PROSPECTIVE PURCHASERS OF THE BONDS TO WHICH SECTION 265(b) OF THE CODE APPLIES SHOULD CONSULT WITH THEIR TAX ADVISORS WITH RESPECT TO THE APPLICATION OF THIS DE MINIMIS EXCEPTION TO THEIR PARTICULAR CIRCUMSTANCES.

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

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments; are investment securities governed by Chapter 8, Texas Business and Commerce Code; and are legal and authorized investments for insurance companies, fiduciaries, and Paying Agent/Registrars, and for the sinking fund of municipalities or other political subdivisions or public agencies of the State 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 opinion 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 opinion 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. Certain additional matters will be passed upon for the Authority by Fulbright & Jaworski L.L.P., Houston, Texas, Special

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

Certain legal matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig, LLP, Houston, Texas.

## **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 the Municipal Securities Rulemaking Board (the “MSRB”). 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 D. The Authority will update and provide this information within six months after the end of each fiscal year.

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 and any additional financial information required within this Official Statement 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 the MSRB 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 nor Orders 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 the MSRB.

### **Availability of Information**

The Authority has agreed to provide the foregoing information only to the MSRB. Such information will be available from the MSRB via the EMMA system at [www.emma.msrb.org](http://www.emma.msrb.org).

## **Limitations and Amendments**

The Authority has agreed to update information and to provide notices of material events only as described above. The Authority has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that has been provided except as described above. The Authority makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Authority disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Authority to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the Authority's duties under federal or state securities laws.

The Authority may amend a continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Authority, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds of a series consent or any qualified person unaffiliated with the Authority (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds of such series. The Authority may also amend or repeal an agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, and the Authority may amend an agreement in its discretion in any other circumstance or manner, but in either case only to the extent that its right to do so would not prevent the representative of the Initial Purchasers of the Bonds of such series from the Authority from purchasing such Bonds in the offering described herein in compliance with the Rule. If the Authority amends an agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided. See "APPENDIX D—Summary of Tables and Schedules Related to Continuing Disclosure of Information."

## **Compliance with Prior Undertakings**

In the past five years, the Authority has complied in all material respects with all continuing disclosure obligations made by it in accordance with the Rule, except as described in this paragraph. The annual financial information and operating data of the Authority which was due by June 30, 2010, was not provided by such date. Such information was filed on July 8, 2010. The delayed filing was an oversight due to staff turnover at the Authority. The Authority has consulted with its Financial Advisor, Bond Counsel and Disclosure Counsel for advice relating to continuing disclosure compliance matters in an effort to develop and institute recommended practices and procedures to help ensure that required filings are made in a timely manner in the future.

## **FINANCIAL STATEMENTS**

APPENDIX A to this Official Statement contains the financial statements of the Authority for the fiscal year ended December 31, 2009. The financial statements of the Authority as of and for the year ended December 31, 2009, included in this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

## **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 Orders have not been qualified under the federal Trust Indenture Act of 1939, as amended (in reliance upon an exemption therefrom).

## **UNDERWRITING**

The Bonds are being purchased pursuant to a purchase contract (the "Purchase Contract") between the Authority and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative (the "Representative") of the several underwriters named on the cover page (collectively, the "Underwriters").

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds at a price of \$275,508,626.76, which is the principal amount of the Bonds plus a net premium of \$21,003,750.90 and less the Underwriters' discount of \$1,430,124.14.

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

The Underwriters and their affiliates may from time to time provide other services and products to the Authority for which they may be entitled to receive additional compensation. See "AUTHORITY AD VALOREM TAX DEBT - Authorized Debt of the Authority - *Commercial Paper Program*."

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

### **RATINGS**

The rating agencies of Fitch Ratings Services ("Fitch"), Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") have assigned their municipal bond ratings of "AAA," "Aaa" and "AAA," respectively, to the Bonds as the Authority's underlying long-term ratings.

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

### **FINANCIAL ADVISOR**

In connection with the issuance of the Bonds, First Southwest Company (the "Financial Advisor") has assisted the Authority in the preparation of Bond-related documents. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. An affiliate of the Financial Advisor, First Southwest Asset Management, Inc. ("FSAM"), has been engaged to provide investment advisory services to the Authority, which may include the investment of bond proceeds associated with these Bonds. All fees and other remuneration received by FSAM for the provision of investment advisory services to the Authority are separate and distinct from the fees associated with this Bond issue and are not contingent upon the sale and issuance of the Bonds.

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

### **FORWARD-LOOKING STATEMENTS**

The statements contained in this Official Statement, and in any other information provided by the Authority, that are not purely historical are forward-looking statements, including statements regarding expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking



statements. All forward-looking statements included in this Official Statement are based on information available to the Authority on the date thereof, and the Authority assumes no obligation to update any such forward-looking statements. It is important to note that the actual results of the Authority could differ materially from those in such forward-looking statements.

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

#### **MISCELLANEOUS**

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

This Official Statement was approved by the Port Commission.

\* \* \*

*[This page intentionally left blank.]*

**SCHEDULE I**

**DESCRIPTION OF TENDERED BONDS**

Issue	Maturity Date (October 1)	Outstanding Principal Amount	Interest Rate	Tender Price	Tender Date
Unlimited Tax Refunding Bonds, Series 2008A (AMT)	2029	\$ 330,000	6.250%	116.50%	08/19/2010
	2033	1,600,000	6.125	113.50	08/19/2010
	2038	20,400,000	5.625	109.50	08/19/2010

*[This page intentionally left blank.]*

**SCHEDULE II**

**TABLE OF ACCRETED VALUES OF CAPITAL APPRECIATION BONDS**

<u>Date</u>	<u>Premium CAB 10/01/2034</u>	<u>Premium CAB 10/01/2035</u>
08/19/2010	\$ 6.04	\$ 12.08
10/1/2010	6.20	12.40
04/1/2011	7.15	14.00
10/1/2011	8.25	15.80
04/1/2012	9.45	17.80
10/1/2012	10.90	20.10
04/1/2013	12.50	22.65
10/1/2013	14.40	25.55
04/1/2014	16.55	28.80
10/1/2014	19.00	32.45
04/1/2015	21.85	36.60
10/1/2015	25.15	41.25
04/1/2016	28.90	46.50
10/1/2016	33.20	52.45
04/1/2017	38.20	59.15
10/1/2017	43.90	66.65
04/1/2018	50.45	75.15
10/1/2018	58.00	84.75
04/1/2019	66.65	95.55
10/1/2019	76.65	107.70
04/1/2020	88.10	121.45
10/1/2020	101.25	136.90
04/1/2021	116.40	154.35
10/1/2021	133.80	174.05
04/1/2022	153.75	196.20
10/1/2022	176.75	221.20
04/1/2023	203.15	249.40
10/1/2023	233.55	281.20
04/1/2024	268.40	317.00
10/1/2024	308.55	357.40
04/1/2025	354.65	402.95
10/1/2025	407.65	454.30
04/1/2026	468.55	512.15
10/1/2026	538.60	577.45
04/1/2027	619.05	651.00
10/1/2027	711.55	733.95
04/1/2028	817.90	827.45
10/1/2028	940.10	932.90
04/1/2029	1,080.60	1,051.75
10/1/2029	1,242.10	1,185.75
04/1/2030	1,427.70	1,336.85
10/1/2030	1,641.00	1,507.15
04/1/2031	1,886.25	1,699.15
10/1/2031	2,168.10	1,915.65
04/1/2032	2,492.05	2,159.75
10/1/2032	2,864.45	2,434.90
04/1/2033	3,292.50	2,745.15
10/1/2033	3,784.45	3,094.90
04/1/2034	4,349.95	3,489.20
10/1/2034	5,000.00	3,933.75
04/1/2035		4,434.95
10/1/2035		5,000.00

*[This page intentionally left blank.]*

**APPENDIX A**

**FINANCIAL STATEMENTS OF THE AUTHORITY**

*[This page intentionally left blank.]*



PORT OF HOUSTON AUTHORITY  
OF HARRIS COUNTY, TEXAS



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2009

Prepared By:

THE OFFICE OF THE CONTROLLER  
PORT OF HOUSTON AUTHORITY

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

**Comprehensive Annual Financial Report  
For the Year Ended December 31, 2009**

**Prepared By:  
The Office of the Corporate Controller  
Port of Houston Authority**

Port of Houston Authority of Harris County, Texas  
**Comprehensive Annual Financial Report**  
For the Year Ended December 31, 2009

**Table of Contents**

**Introductory Section**

	<b>Page</b>
Letter of Transmittal	1
GFOA Certificate of Achievement	15
Organizational Chart - 2009	16
Directory of Officials	17

**Financial Section**

Independent Auditors' Report	18
Management's Discussion and Analysis (unaudited)	20
Basic Financial Statements:	
Statements of Net Assets	30
Statements of Revenues, Expenses, and Changes in Net Assets	32
Statements of Cash Flows	33
Notes to the Financial Statements	35
Required Supplementary Information- (unaudited)	
Schedule of Funding Progress - Port of Houston Authority	
Restated Retirement Plan and OPEB Obligation	61

**Statistical Section**  
(Unaudited)

	Schedule	Page
<b>Statistical Section</b>		62
<b>Financial Trends Information</b>		
Net Assets by Component	1	63
Changes in Net Assets	2	64
<b>Revenue Capacity Information</b>		
Assessed Value and Actual Value of Taxable Property	3	65
County-Wide Ad valorem Tax Rates	4	66
Direct and Overlapping Tax Rates	5	67
Principal Property Taxpayers	6	68
Property Tax Levies and Collections	7	69
Operating Revenues by Type	8	70
Revenue Tonnage	9	71
Top Ten Vessel and Cargo Customers	10	72

<b>Debt Capacity Information</b>		
Ratios of General Bonded Debt by Type	11	73
Net Revenues Available for Debt Service	12	74
Debt Service Requirements	13	76
<b>Demographic and Economic Information</b>		
Demographic and Economic Statistics	14	77
Principal Employers	15	78
Miscellaneous Statistical Data	16	79
<b>Operating Information</b>		
Table of Physical Characteristics of the Port Facilities of the Authority	17	81
Freight Traffic Statistics	18	82
Freight Traffic Statistics Graph	18a	83
Cargo Statistics	19	84
Vessel Arrivals	20	85
Bulk Commodity Statistics	21	87
Foreign Trade through the Port of Houston	22	88
Number of Authority Employees by Type	23	89

## **Introductory Section**

*[This page intentionally left blank.]*

# PORT OF HOUSTON AUTHORITY

EXECUTIVE OFFICES: 111 EAST LOOP NORTH • HOUSTON, TEXAS 77029-4327  
MAILING ADDRESS: P.O. BOX 2562 • HOUSTON, TEXAS 77252-4326  
TELEPHONE: (713) 670-2400 • FAX: (713) 670-2448



Alec G. Dreyer  
Chief Executive Officer

June 25, 2010

Port Commissioners  
Port of Houston Authority of Harris County, Texas  
Houston, Texas

Dear Commissioners:

Presented herewith is the Comprehensive Annual Financial Report ("CAFR") of the Port of Houston Authority of Harris County, Texas ("Authority") for the year ended December 31, 2009. Responsibility for both the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with management of the Authority. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

Certain demographic information and miscellaneous statistics included in the CAFR do not come from accounting records of the Authority but are presented for the reader's information.

## **Introduction**

The Authority is a navigation district and a political subdivision of the state of Texas, having boundaries generally coterminous with Harris County, Texas. It is an independent governmental entity and governance of the activities of the Authority is the responsibility of a Port Commission composed of seven commissioners. Two are appointed by the county judge and Commissioners Court of Harris County, Texas; 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; and one by the Harris County Mayors and Councils Association. The chairman of the Port Commission is jointly appointed by the governing bodies of Harris County and the City of Houston. The Authority had 592 regular employees as of December 31, 2009, and during 2009 employed 452 casual employees from various longshoremen union halls.

The Port of Houston ("Port") has been a deep draft port since 1914. The Houston Ship Channel (the "Channel"), the heart of the Port complex, extends 52 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. Some of the privately owned terminals within

the Port compete directly with the Authority's terminals. The Authority neither regulates the tariffs charged by, nor derives any revenues from, any of the privately owned terminals, except for certain revenues from private terminals located at the Bayport Industrial complex.

### **Business of the Authority**

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

All of these facilities are operated for hire on a first-come, first-served basis, except for parts of the wharf at Fentress Bracewell Barbour's Cut Terminal ("BCT"), Bulk Materials Handling Plant, Care Terminal Wharf, Jacintoport Terminal Wharf, and Woodhouse Terminal Wharf which are subject to preferential, but not exclusive, berthing arrangements; Container Terminal 6 and a portion of Terminal 5 at BCT, which is leased to Maersk, Inc.; empty container storage yards at Bayport Container Terminal ("Bayport"), which are leased to Terminal Link LLC and Houston Terminal LLC; Care Terminal, which is leased to Coastal Cargo of Texas; the automated facility at Jacintoport, which is leased to Jacintoport International, LLC and Seaboard Corporation, the Bulk Materials Handling Plant, which is leased to Kinder Morgan Petcoke, L.P.; the grain elevator at Woodhouse Terminal, which is leased to Louis Dreyfus Corporation; and the grain elevator at the Turning Basin Terminal, which is leased to Hansen-Mueller Company.

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 open and enclosed short-term storage space. Wharf 32, located within this terminal, was specifically designed for handling project and heavy-lift cargoes and has eighteen and one-half acres of heavy-duty paved marshalling area.

Woodhouse Terminal is located on a 100-acre tract a short distance downstream from the Turning Basin Terminal. The terminal includes over 230,000 square feet of shed space, three general cargo wharves with rail access, a roll-on/roll-off ("RO/RO") ramp, and a modern six-million-bushel-capacity grain elevator and ancillary property, which is under lease to Louis Dreyfus Corporation through May, 2018.

The Authority owns the Bulk Materials Handling Plant, a two-berth dry bulk terminal in the mid-channel area. Each berth has the capacity for one ship. Berth 1 has a high-capacity loading crane supplied by a conveyor belt system. Portions of the terminal are leased to Kinder Morgan Petcoke L.P. through June 2017.

In the same mid-channel area the Authority owns Jacintoport Terminal. This approximately 125 acre site consists of three wharves, various warehouse facilities and buildings, rail access, and four high-capacity automated loader cranes. Also available are refrigerated, frozen, and dry cargo facilities used for both cargo handling and storage. Portions of the terminal are leased to Seaboard Corporation and Jacintoport International, LLC.



Care Terminal is near Jacintoport Terminal and consists of two wharves, sheds, rail access, and a paved marshalling area. Coastal Cargo of Texas is leasing portions of the terminal through 2012. The Authority owns wharves used for bulk liquid cargo, one of which is located in the San Jacinto Bay area. Other wharves may serve both ships and barges and are located in the Turning Basin Terminal area. Preferential, but not exclusive, berthing rights have been granted at the barge facility and two of the other facilities.

BCT provides special-purpose facilities for container 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 marshalling areas behind container berths to transfer containers to and from land carriers. This facility also includes paved marshalling areas and warehouse space. 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.

Bayport provides special-purpose facilities for container ships. This terminal is located approximately 5 miles south of BCT. Bayport's two existing berths provide 2,000 feet of continuous quay. As at BCT, wharf cranes ensure efficient and reliable handling of containers and can traverse the wharves to serve ships simultaneously or singly, as required, and container yard cranes are in use in the Authority's marshalling areas behind container berths. This facility also includes paved marshalling areas. Work continues on additional expansion of the facility, which when completed is expected to have seven container berths. Work is complete on a cruise ship berth and a cruise ship terminal facility.

In addition to its wharves, the Authority owns numerous miles of railroad track and rights-of-way and has ample storage yard capacity for railroad cars near all its facilities. These yards are located on property made available to the Port Terminal Railroad Association (PTRA), an association of line railroads serving Houston and the Authority. The Authority also owns a 315-acre industrial park adjacent to the Turning Basin Terminal. The park includes undeveloped channel frontage. Much of this property is leased or rented to various private parties 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.

The Authority's channel and turning basin at Bayport were developed in cooperation with the Exxon Company U.S.A. and its subsidiary, Exxon Land Development Inc. The channel and turning basin currently serve Bayport as well as the industries located within the Bayport Industrial Complex area.

See the Table of Physical Characteristics of the Port Facilities of the Authority (Schedule 17) in the Operating Information area Statistical Section of this CAFR.

## **Economic Condition and Outlook**

Notwithstanding the official December 2007 start of the U.S. recession, growth continued in the Texas economy during the first half of 2009, finally halting during the second half of the year. Even so, the Texas economy has been perhaps the least affected region in the nation, even after the impact of Hurricane Ike during the fall of 2008, which caused minor damage at the Authority.

High commodity, energy and construction prices, financial market turmoil, and weaknesses in the housing market as well as the auto industry continued to afflict the slow economic recovery during the first half of 2009. However, there were signs of recovery during the last half of the year as indicated by growth in the GDP. Yields on 10 year Treasury notes started January 2009 at 2.46% and finished the year below 3.85%.

Moderate economic growth is anticipated during 2010 as the U.S continues its recovery from the recession. The Authority anticipates a moderate increase in revenue during 2010 from the prior year.

## **Houston Ship Channel**

The initial construction phase of the Houston Ship Channel widening and deepening project was completed and a channel opening celebration was held in August 2005. The channel was deepened from -40 feet to -45 feet, and widened from 400 feet to 530 feet.

The continuing 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 must be approved through individual appropriation bills each fiscal year. Congress appropriated \$53.5 million for fiscal year 2001, \$33.8 million for fiscal year 2002, \$36 million for fiscal year 2003, \$35.5 million for fiscal year 2004, \$22 million for fiscal year 2005, \$26 million for fiscal year 2006, \$43 million for fiscal year 2007, \$15.7 million for fiscal year 2008, and \$124 million for fiscal year 2009. Stimulus (ARRA) funds in the amount of \$98.8 million were provided to continue the deferred construction portion of the project in fiscal year 2009. As of December 31, 2009 the Authority has spent \$161.4 million towards its share of the project. As part of the Houston Ship Channel project, the Authority will create 4,250 acres of marsh in Galveston Bay, a bird island and boater destinations. This marsh creation project using dredged material is the largest of its kind, and has been conducted with cooperation and support from local resource agencies (Beneficial Uses Group).

The Houston Ship Channel project is currently in its annual maintenance dredging cycle. The Authority has deferred construction elements that will be included in future fiscal year construction programs to provide for additional dredged material capacity needs for the channel. In an effort to address capacity needs, projects have been planned and programmed to raise the levees of the upland sites along the channel. The Authority also continues working closely with

the Beneficial Use Group of eight local resource agencies to plan more marsh/habitat sites in Galveston Bay.

The Authority's future cost sharing obligations for the deferred construction elements are expected to be derived from annual operating revenues and approved by the Port Commission on a year-to-year basis.

## **Bayport**

The Authority determined over a decade ago that a new container complex was 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 Container Terminal Complex. The facility is being built on a site adjoining the Bayport Industrial District, an industrial complex in southeast Harris County. The Bayport Terminal Complex is linked by that channel to the Houston Ship Channel. Because the site is only five miles from the BCT site, customers at Bayport are expected to benefit from the competitive rail and trucking charges and affordable ancillary services that are currently available at BCT.

At completion, Bayport will include 7,000 feet of berth, 378 acres of container yard, additional acres for buildings, equipment, cranes, and an intermodal rail yard. At capacity, the facility is expected to move 2.3 million Twenty-foot Equivalent Units (TEUs) annually.

Construction of Phase 1A and Phase 1 Stage 1 and 2 container yards at Bayport is complete. At the completion of Phase 1, the terminal will provide truck entry and exit gates, administration, maintenance and marine buildings, over 160 acres of container yard, 9 wharf cranes and 27 rubber-tired gantry cranes. Construction of the Phase 1 wharf is complete, expanding the capacity to a total of 3,300 feet of wharf. To facilitate access to the container terminal facility, dedicated entrances are planned during later phases to directly connect Port Road 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. Taken together, Phases 1A and 1 container yards allow for the annual handling of approximately 960,000 TEUs. The entire project, to be completed over an estimated 15 to 20 year period according to market demand, has been estimated to cost approximately \$1.8 billion.

The Authority is committed to being a good neighbor during the building of the Bayport Container Terminal Complex and in the long term. The Port Commission and staff will continue to work cooperatively with neighbors and environmental groups to accomplish its economic development goals and to provide resources and synergy for a beneficial and productive Galveston Bay. In this regard, most recently the Authority announced its Bayport Mitigation Solution program, to address concerns of the La Porte and Shoreacres communities north of Bayport.

## **Environmental Affairs**

The Environmental Affairs Department (“EAD”) maintained the Authority’s commitment of pollution prevention, environmental compliance and continual improvement throughout 2009. The EAD operates in specific program areas to improve environmental compliance and more effectively manage its work. Environmental Affairs Program Coordinators assist in managing and tracking the Authority’s Environmental Management System (“EMS”), Air and Sediment Quality Program, and Water and Waste Management Program.

Throughout the year, the EAD continued work started in 2006 to align the various goals in the programs for the Texas Commission on Environmental Quality (TCEQ)’s Clean Texas Program (Bronze Level), with the Authority’s EMS. These performance-based programs maintained the Authority’s vision of continual improvement and tracking of environmental performance.

## **Sustainability Strategy**

The sustainability reporting framework coined as the “triple bottom line” of economic benefit, environmental stewardship, and social responsibility is a management principle that the Authority is working to integrate into daily operations.

Throughout 2009, the EAD continued to lead the organization’s commitments to environmental stewardship, compliance, pollution prevention and continual improvement in the pursuit of environmental sustainability. Discussions on the development of a training program for sustainability were initiated in 2009.

## **Air Quality Program**

Among the Authority’s most significant accomplishments in 2009 were air quality compliance and stewardship. The diverse air quality projects in which the Authority participated ranged from grant applications to regulatory support comments and program implementation. As part of environmental stewardship, the Authority designed the Clean Air Strategy Plan (“CASP”) as a comprehensive air quality management plan to promote voluntary emissions reductions for the common good of the Houston-Galveston-Brazoria (“HGB”) area. This multi-source, multi-pollutant, multi-year program is intended to find economically feasible ways and means to prompt emissions reductions from intermodal interests throughout the port area.

With drayage trucks being the CASP’s primary focus in 2009, the Authority hosted a workshop for participants in the CASP truck stakeholder group, independent and corporate trucking entities, to showcase EPA’s grant and loan programs, Houston Galveston Area Council’s (“H-GAC”) Drayage Truck Loan program, and TCEQ’s Texas Emission Reduction Plan (“TERP”)

program. The Authority will continue to play a vital role in education and outreach targeting local trucking fleets and independent owner/operators to successfully utilize the SmartWay loan program.

Included in the Authority 2009 CASP were efforts to develop solutions to address particulate matter and dust control related to operations at the Industrial Park East facility. To advance its commitment to reduce its particulate matter impact on the Clinton Drive monitor, a dust control program was continued from previous years, involving the aggressive application of a suppression product known as emulsified asphalt, SS-1.

The Authority continually recognizes the importance of demonstrating emerging technologies for maritime operations. In 2009, the Authority conducted two demonstrations of viable strategies for future emission reduction measures.

The Authority's Operations and Environmental Affairs departments participated in a two-week long diesel-electric hybrid yard tractor demonstration with satisfactory results. Therefore, the Authority staff recommended utilizing a \$150,000 grant from the U.S. Environmental Protection Agency (EPA) to help the Authority procure one hybrid yard tractor for routine cargo-handling usage at the Barbours Cut Container Terminal. The vehicle was delivered in October 2009.

In order to demonstrate the feasibility of low sulfur diesel fuel switching for ocean-going vessels, in conjunction with EPA's Office of International Affairs, the Authority partnered with two shipping lines which call on ports in Mexico for the purpose of feasibility study. The Maersk and Hamburg Süd shipping lines agreed to participate in fuel switching at ports in Progreso, Vera Cruz and Altamira, Mexico, as well as Houston. The results of the study are expected to help Mexican government officials develop an Emission Control Area ("ECA") strategy for future implementation through the International Maritime Organization.

During 2009, the Authority initiated discussions with leading experts including FEV, Inc., General Electric-Transportation and the Houston Advanced Research Center regarding the feasibility of developing and deploying an advanced powertrain engine technology to significantly reduce emissions and improve fuel economy from marine vessels and adjunct markets. Through the CASP, the Authority proposed a project to support the early introduction and commercialization of Tier 3 (particulate matter) and Tier 4 (NOx) compliant engines. These projects will be further developed in 2010 and demonstrations of new emerging technologies and partnerships will be pursued.

Goals set and reached in 2009 for the CASP were all activity-based in nature. Efforts have been focused on writing, participating, and implementing recent grant opportunities and accomplishing the awards and program development for on-road trucks, locomotives, cargo-handling equipment, ocean-going and harbor vessels. The CASP was further evaluated for stakeholder participation and potential development into a Port of Houston Environmental District, in which air quality issues would serve as a foundation. Through the EAD's strategic

plan, quantifiable goals are expected to be established for the CASP during 2010 for further implementation over the course of several years. Strategic meetings with various stakeholders will continue in 2010 to maintain and establish vital relationships for future CASP programs.

### **Environmental Grant Funding**

The year began with the application and award of \$3.4 million in grants from the American Recovery and Reinvestment Act (“ARRA”) aimed at replacements, retrofits and repowers of diesel engines operated by the Authority, its tenants and users. ARRA also provided increased funding for the EPA to administer additional grants under the Diesel Emissions Reduction Act (“DERA”). The Authority prepared and submitted six applications requesting a total of \$15.4 million for engine replacements, retrofits, repowers, auxiliary power units and cleaner fuel for cargo handling equipment, on-road trucks, marine vessels, tugboats and ocean going vessels. With EPA’s award of \$3.4 million, the Authority signed contracts with six private sector partners to administer the DERA funds for 180 cleaner diesel engine replacements, retrofits and repowers. By the end of 2009, nine pieces of equipment had been replaced. The remaining DERA grant-funded projects are expected to be completed by September 2010.

The Authority partnered with H-GAC and the Environmental Defense Fund (“EDF”) to develop a Port Drayage Truck Bridge Loan Program with funding from the EPA’s DERA SmartWay Program. The program is aimed at drayage trucks that operate in the Houston-Galveston area and are associated with the port or similar goods movement facilities, such as rail yards. For this loan program application, the Authority provided funds in the amount of \$50,000 used as leverage for the SmartWay application. The H-GAC, the Authority, EDF and other partners were successful in receiving \$9 million in SmartWay funds, which is the nation’s largest award to date. While H-GAC provides all project oversight and has administrative responsibility for distributing the loans, the Authority actively participates in the education and outreach of this program as it is consistent with the goals of the CASP.

The TCEQ administers the TERP program, from which the Authority has successfully applied for and received funding. During 2009, the Authority received TERP reimbursements totaling approximately \$830,000 for rubber tire gantry crane repowers and yard tractor replacements.

In 2009, Authority was awarded \$110,500 for the repower of the *M/V Sam Houston* public tour boat. The Authority’s application to the H-GAC requesting \$760,242 in TERP funding for the replacement of 15 yard tractors was also selected for funding.

### **Employee Commuter Program**

The Authority is currently leasing eleven (11) vans from VPSI, Inc. for the vanpool program. Approximately 68 employees have committed to participate in this program, resulting in better air quality as well as improved employee relationships and morale. The Authority vanpool program is part of the METROVan program, sponsored by the Houston Metropolitan Transportation Authority (“METRO”) and by the H-GAC. In 2009, H-GAC recognized the Authority as a “Best Workplace for Commuters” employer by having the options of carpooling, vanpooling, flextime workweeks, and the use of pool cars by carpool riders and named the

Authority a ‘Clean Air Champion’ based its commitment towards clean air measures. The specific benefits of the vanpool program in 2009 include:

- Reduction of approximately 900,000 miles driven per year
- Reduction of NO<sub>x</sub> by 0.51 tons per year, VOC by 0.44 tons per year and CO<sub>2</sub> by 447 tons per year
- Reduction of gasoline consumption by about 95,521 gallons per year

### **Water Quality**

The Authority complies with Federal, State and local government regulations for drinking water, storm water, waste water, vessel discharge and oil pollution prevention. Under the direction of the EAD, the staff continued to conduct inspections to monitor storm water management, and spill prevention, control, and countermeasures.

The renewal of Authority’s Municipal Separate Storm Sewer System Permit (MS4) storm water permit in early 2009 included a requirement to implement minimum control measures and establish a set of five-year goals. The new and revised goals were to be integrated into the Authority’s Storm Water Management Plan (“SWMP”) and the revised document submitted to the TCEQ. Working with environmental consultants, the Authority developed the five-year MS4 goals, revised the SWMP, submitted all required documentation to the TCEQ and completed all regulatory required sampling.

As a requirement of its MS4, the Authority continued to implement its illicit discharge investigation program during 2009. The program focused on two major areas: outfall screening and geospatial mapping of all storm water drainage features. The outfall screening program entails a survey of each outfall to determine if a potential illicit discharge point is present. If a point is found, the source of the discharge is traced and a corrective action is implemented. The geospatial mapping builds upon previous efforts to update current maps and correct deficiencies in order to assure the representation of the Authority’s drainage system is accurate. In addition to achieving one of the MS4 permit goals, the mapping effort also is expected to serve as a valuable tool in emergency spill response, illicit discharge tracking and ultimately the goal of improving water quality.

Teaming up with CLF Ventures, the non-profit affiliate of the Conservation Law Foundation, the Authority conducted research to identify and evaluate opportunities for the use of Low Impact Design (“LID”) measures to improve water quality and conservation. LID promotes the use of ecological and landscape-based systems to manage storm water by increasing retention, detention, infiltration and treatment of storm water runoff at its source.

The survey provided effectiveness rankings for storm water best management practices showing the largest potential for improvement to be at the Turning Basin Terminal. Bayport showed the

greatest use of LID, with the BCT falling between the other Terminals. The project resulted in a report that included guidance for future implementation of LID techniques at the Authority's properties.

The Authority continued to operate two waste water treatment plants at Jacintoport Terminal and Care Terminal within permit limits throughout 2009. Additionally, the Authority conducted monitoring of its Public Water System at BCT and maintained compliance with all drinking water regulations.

### **Waste Minimization - Pollution Prevention**

The Authority's recycling effort continued to gain momentum during 2009 with the collection of more than 6.4 tons of waste paper. Plastic and aluminum recycling services were added at the Executive Office Building with plans to expand similar services at the Central Maintenance Facility, Barbours Cut and Bayport terminals in 2010.

In 2009, the Authority collected approximately 1200 tons of dunnage material at Turning Basin Terminal; as a service provided to the Authority's client shipping lines. In 2009, the Authority recycled 252 tons or 21% of dunnage.

Of more than 138,000 pounds of industrial solid waste generated by the Authority's maintenance departments and marine department fireboats, 90 percent was recycled. The Authority also recycled more than 900 tires, more than a third of which were from 18-wheel trucks or larger vehicles.

The Authority owns and operates petroleum storage tanks (PST) at three of its terminals. The EAD ensured compliance with PST and Stage II Vapor recovery requirements.

### **Bayport Memorial Mitigation Tract**

Following the completion of the Phase I monitoring period from 2006 through 2009, the Authority submitted its final report to the U.S. Army Corps of Engineers ("USACE") titled, "Bayport Wetland Mitigation – Memorial Tract." The report documented the status of mitigation success criteria for the site and requests the USACE concurrence that Phase I is complete and Phase II may begin. The two-year Phase II monitoring period began in the fourth quarter of 2009 and is targeted for completion in the third quarter of 2011.

Levees and weirs remain structurally sound; thus, the size of the full pool remains at 70.8 acres. Some plants were stressed or killed because of flooding that occurred during Hurricane Ike in



2008. However, desirable emergent and transitional vegetation generally appear healthy and are exhibiting excellent survival rates. By the end of 2009, wetland species had recovered to nearly 65 percent in the south basin and exceeded 70 percent in the north basin. A full recovery from Hurricane Ike is expected during the next growing season. Undesirable species, primarily cattails, exceeded the performance criteria limit of 10 percent. As aggressive plans of attack are being prepared for 2010, the Authority will continue conducting monitoring, chemical control and mechanical manipulation of the invasive plant species during the next growing season.

Pockets of open water attract many different waterfowl species, and wetland vegetation provides superior habitat for native and migratory birds. The number of bird species increased from 50 in 2008 to 54 in 2009. Mammal, amphibian and reptile activity is also high.

### **Bayport Permit Compliance**

In 2009, the Authority continued to comply with the conditions of the USACE permit for the Bayport Container and Cruise Terminal construction project. For Bayport air quality requirements, the Authority continued to collect particulate matter (PM<sup>2.5</sup>) data over a 24-hour period every six days. Upon comparison to the National Ambient Air Quality Standards, the PM<sup>2.5</sup> data was found to be significantly lower than the 98<sup>th</sup> percentile daily maximum of 35 ug/m<sup>3</sup> and the annual average of 15 ug/m<sup>3</sup> concentrations. The Emissions Calculator indicates that the rolling four-quarter project emission estimates for 2009 were below the threshold of the 25 tons per year of NOx. For Bayport storm water requirements, the Authority conducted weekly storm water inspections at the construction site throughout 2009. Collaborations with construction managers provided effective resolution of identified issues.

### **Bayport Permit Renewal**

In late 2009, the USACE approved a 10-year extension and amendment of the Bayport Permit. The permit amendments included adding Dredge Material Placement Areas and Beneficial Use Sites for new work and maintenance dredged material from the Bayport Ship Channel, consolidation of the entry and pre-check gates to improve efficiency and reduce the amount of truck emissions, limiting the use of turbidity curtains to mechanical dredging, and continuing successful dust control.

### **Bayport Sound Mitigation**

As a solution to mitigate sound related to Bayport operations, a pilot program was initiated in 2008 to evaluate potential attenuation options for the residences on the north shore of the Bayport Ship Channel. Working with a nationally-known firm with expertise in airport sound mitigation, the Authority installed acoustically-rated treatments, including windows, doors and insulation, in two test homes and developed a formal Sound Mitigation Solution Program based on the results.

Testing was completed in the third quarter of 2009. The results were considered highly favorable proof that the sound mitigation program works by reducing interior noise levels below 45 dBA, during current operations and at full build out of the terminal.

The consultant prepared a draft plan for a residential sound insulation program based on its initial feasibility study, the test phase of the pilot program, and real-time data from the Authority's monitors. The Authority has now implemented the Bayport Mitigation Solution program based on the consultant's recommendations and community input.

### **Energy Efficiency**

The Authority Energy Management Program established an Energy Management Policy in 2006. In 2009, lighting assessments were performed at the Authority's Executive Office Building to evaluate the potential benefits of upgrading existing lighting. All data was compiled into a report to show the cost savings and return on investment of a lighting upgrade. Meanwhile, the Authority continued to research various possibilities to prepare a financial analysis, including identification of buildings and land areas suitable for generating solar energy to provide electricity and hot water. Additional investigations into alternative lighting sources such as LED are being completed, and pilot projects are scheduled for 2010. The Authority continues to actively seek opportunities for new and innovative energy conservation and alternative energy projects.

### **EMS and Compliance Assurance Program Area**

Following an extensive review by the independent third-party auditor Det Norske Veritas (DNV), the Bayport was certified for compliance with ISO 14001, the global standard in environmental excellence, and the Turning Basin Terminal Central Maintenance Facility and BCT were recertified for a second time. Within its audit report, DNV remarked that the Authority's top management commitment to EMS implementation was well focused and very positive. EMS awareness was high and consistent at all the Authority facility levels and personnel were well aware of the impact of their duties, operational control and communication channels. The auditor also noted that housekeeping was well maintained in all facilities visited and that representatives were fully committed into EMS implementation and innovation.

### **Auditing Program Area**

The Authority conducted two internal audits of the Environmental Management System to ensure compliance with the ISO 14001:2004 standard.

The EAD conducts environmental compliance audits at its operational facilities, maintenance shops and marine department locations. These audits are conducted on a quarterly basis, divided between formalized announced and un-announced visits. The objectives of the audits are to review pertinent documentation and records, to monitor environmental compliance, and to

ensure that best management practices (preferred actions taken to prevent pollution) are incorporated to minimize environmental liability and impacts.

The Authority has an active tenant audit program that prioritizes tenants to quarterly, semi-annual or annual audit schedules. The audit schedule is dependent on the operations, identified impacts, potential impacts and compliance with federal, state and local environmental laws, regulations, permits and the Authority tariffs. A total of 116 audits were conducted at tenant facilities in 2009, with topics covering a variety of regulatory compliance elements.

### **Financial Information**

The accounting policies of the Authority and this report conform to accounting principles generally accepted in the United States of America for local governmental units as prescribed by the Governmental Accounting Standards Board. A summary of significant accounting policies can be found in Note 1 to the financial statements.

The integrity and objectivity of data in these financial statements and supplemental schedules, including estimates and judgments relating to matters not concluded at year-end, are the responsibility of the management of the Authority. By state statute, the county auditor of Harris County, Texas is the auditor of the Authority. The Harris County auditor maintains staff at the Authority to carry out the statutory duties required of the auditor. Also by state statute, the county treasurer serves as the treasurer of the Authority.

We direct the reader's attention to the Management's Discussion and Analysis (MD&A) immediately following the Audit Opinion letter which provides an analytical overview of the Authority's financial activities and serves as an introduction to the basic financial statements.

### **Internal Control**

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. In developing and evaluating the Authority's accounting system, consideration is given to the adequacy of internal accounting controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

All internal control evaluations occur within the above framework. Management believes the Authority's financial accounting controls, with ongoing independent internal audit functions performed by the Harris County auditor, adequately safeguard assets and provide reasonable assurance of properly recording financial transactions.

### **Independent Audit**

The financial statements for the years ended December 31, 2009 and 2008 listed in the foregoing Table of Contents were audited by independent auditors selected by the Port Commission. The audit opinion, rendered by Deloitte & Touche LLP, is included in the financial section of this report.

### **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Port of Houston Authority of Harris County, Texas for its comprehensive annual financial report for the fiscal year ended December 31, 2008. This was the 35th consecutive year that the Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

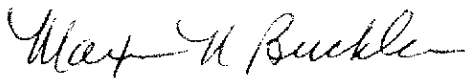
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

The preparation of this report could not have been accomplished without the dedicated services of the Authority's accounting staff and Harris County auditors. We express our appreciation to them, particularly to those who contributed directly to the preparation of this report.

In closing, we would like to thank the members of the Port Commission and all the officials of the Authority for their support in planning and conducting the financial affairs of the Authority in a responsible and progressive manner.

Sincerely,



Maxine N. Buckles  
Corporate Controller



Alec G. Dreyer  
Chief Executive Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Port of Houston Authority  
of Harris County, Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



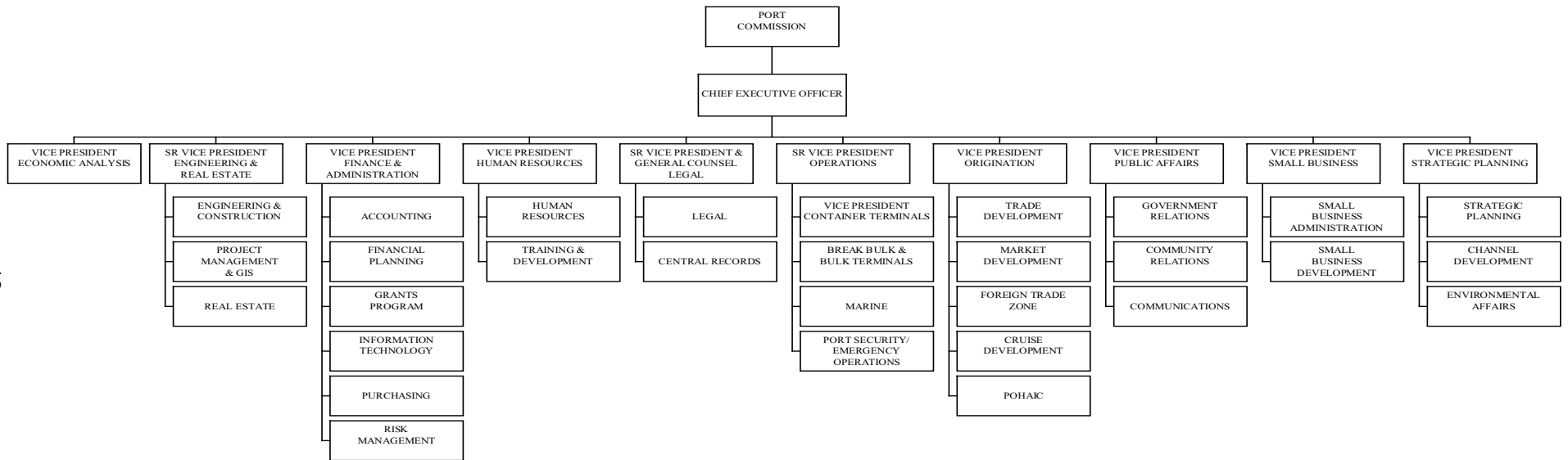
A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

President

A handwritten signature in black ink that reads "Jeffrey R. Emmer".

Executive Director

**PORT OF HOUSTON AUTHORITY  
ORGANIZATIONAL CHART  
2010**



Port of Houston Authority of Harris County, Texas  
**Directory of Officials**

**Port Commission**

James T. Edmonds, Chairman  
Stephen L. Phelps, Commissioner  
James W. Fonteno Jr., Commissioner  
Kase L. Lawal, Commissioner  
Jimmy A. Burke, Commissioner  
Janiece Longoria, Commissioner  
Elyse Lanier, Commissioner

**Other Officials**

Alec G. Dreyer, Chief Executive Officer  
Erik A. Eriksson, Senior Vice President & General Counsel  
James B. Jackson, Senior Vice President of Engineering & Real Estate  
Jimmy M. Jamison, Senior Vice President of Operations  
Roger Guenther, Vice President of Container Terminals  
Thomas J. Heidt, Vice President of Finance & Administration  
Argentina M. James, Vice President of Public Affairs  
Charles D. Jenkins, Vice President of Strategic Planning  
Ricky W. Kunz, Vice President of Origination  
Gilda Ramirez, Vice President of Small Business  
Olga Rodriguez, Vice President of Economic Analysis  
Melanie Sherman, Vice President of Human Resources  
Maxine N. Buckles, Corporate Controller  
Orlando Sanchez, County Treasurer  
Barbara Schott, CPA, County Auditor

*[This page intentionally left blank.]*



## **Financial Section**

*[This page intentionally left blank.]*

## 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, 2009 and 2008, 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. 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2009 and 2008, and the respective changes in net assets and 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 and schedule of funding progress — Port of Houston Authority Group Health Plan are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the 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 required supplementary information. However, we did not audit the information and we express no 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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Deloitte & Touche LLP

June 25, 2010

**Port of Houston Authority  
Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(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, 2009 and 2008. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**Financial Highlights**

- The net assets of the Authority at December 31, 2009 were \$909,133. Of this amount, \$191,830 is considered unrestricted net assets.
- The Authority's net assets increased by \$6,729 for the fiscal year ended December 31, 2009.
- The Authority's total assets increased by \$82,794 during the fiscal year ended December 31, 2009. The major component in this increase was the increase in capital assets of \$108,238 offset by a decrease in current assets of \$163,561, an increase in non-current assets of \$138,117 and a decrease in restricted assets of \$22,436.
- The Authority's total liabilities increased by \$76,066 during the fiscal year ended December 31, 2009. The major component in this increase was the addition of \$175,461 in current liabilities, a decrease of \$109,151 in long term debt, net of current maturities, and an increase of \$9,756 in non-current liabilities.
- 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. This report also contains required supplementary information in addition to the basic financial statements themselves.

The statements of net assets present information on 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 which can be found immediately after the notes to the financial statements. Also on this page is the schedule of funding progress for the Authority’s Other Post Employment Benefits (“OPEB”) obligation.

### **Financial Analysis**

By far, the largest portion of the Authority’s net assets (74%) 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 (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (21%) may be used to meet the Authority’s ongoing obligations to employees and creditors.

**Port of Houston Authority Condensed Statements of Net Assets**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current and other assets	<b>\$ 340,812</b>	\$ 366,256	\$ 290,331
Capital assets	<b><u>1,295,272</u></b>	<u>1,187,033</u>	<u>1,132,705</u>
 Total assets	 <b><u>1,636,084</u></b>	 <u>1,553,289</u>	 <u>1,423,036</u>
 Long-term liabilities (including current portion)	 <b>665,781</b>	601,951	487,477
Other liabilities	<b><u>61,170</u></b>	<u>48,934</u>	<u>81,566</u>
 Total liabilities	 <b><u>726,951</u></b>	 <u>650,885</u>	 <u>569,043</u>
 Invested in capital assets, net of related debt	 <b>669,843</b>	646,777	676,785
Restricted net assets	<b>47,460</b>	41,288	32,620
Unrestricted net assets	<b><u>191,830</u></b>	<u>214,339</u>	<u>144,588</u>
 Total net assets	 <b><u><u>\$ 909,133</u></u></b>	 <u><u>\$ 902,404</u></u>	 <u><u>\$ 853,993</u></u>

The Authority's net assets increased by \$6,729 during the fiscal year ended December 31, 2009. During fiscal year 2009, net assets invested in capital assets net of related debt increased \$23,066 with an increase in capital assets of \$108,238 plus an increase in outstanding debt of \$76,066. During fiscal year 2009, restricted net assets increased \$6,172 as a result of increased tax receipts offset by the use of restricted proceeds for construction. Unrestricted net assets decreased \$22,509.

The Authority's net assets increased by \$48,411 during the fiscal year ended December 31, 2008. During fiscal year 2008, net assets invested in capital assets net of related debt decreased \$30,008 with an increase in capital assets of \$54,328 plus an increase in outstanding debt of \$81,842. During fiscal year 2008, restricted net assets increased \$8,668 as a result of increased tax receipts offset by the use of restricted proceeds for construction. Unrestricted net assets increased \$69,751.

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

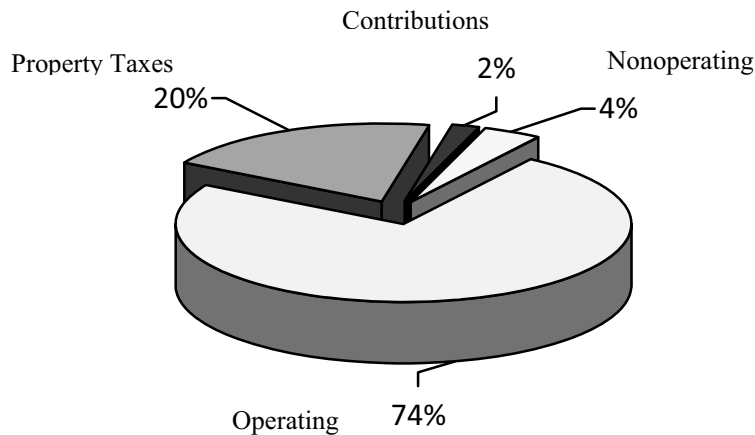
**Port of Houston Authority  
Changes in Net Assets**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Operating revenues:</b>			
Vessel and cargo services	\$ 145,781	\$ 172,381	\$ 164,595
Rental of equipment & facilities	20,524	19,984	18,872
Grain elevator	1,155	787	809
Bulk materials	2,243	2,319	2,903
Other	2,040	2,522	3,679
<b>Nonoperating revenues:</b>			
Investment income	4,136	7,154	10,019
Other	4,588	982	6,734
<b>Nonoperating revenues related to property taxes:</b>			
Property taxes	46,911	48,675	35,819
Interest income on unlimited tax bonds	165	1,113	2,045
<b>Total Revenues</b>	<u>227,543</u>	<u>255,917</u>	<u>245,475</u>
<b>Operating expenses:</b>			
Maintenance and operation of facilities	83,758	99,034	98,343
General and administrative	48,183	43,443	40,063
Depreciation and amortization	48,892	44,016	34,161
<b>Nonoperating expenses:</b>			
Contribution to federal and state agency	17,468	4,224	29,017
<b>Nonoperating expenses related to property taxes:</b>			
Interest expense on unlimited tax bonds	26,072	21,344	10,124
Property tax expense	506	1,083	480
Other, net	901	423	357
<b>Total Expenses</b>	<u>225,780</u>	<u>213,567</u>	<u>212,545</u>
<b>Income before contributions</b>	1,763	42,350	32,930
Contributions from federal and state agencies	4,966	6,061	7,886
<b>Net Income</b>	6,729	48,411	40,816
<b>Net assets, January 1</b>	<u>902,404</u>	<u>853,993</u>	<u>813,177</u>
<b>Net assets, December 31</b>	<u>\$ 909,133</u>	<u>\$ 902,404</u>	<u>\$ 853,993</u>



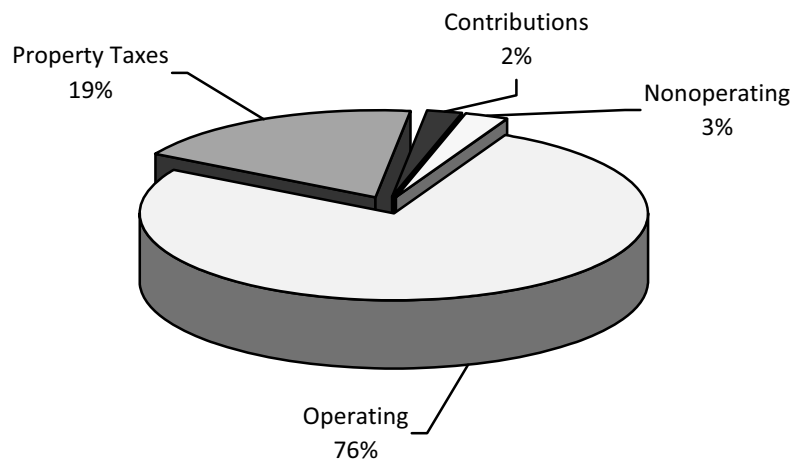
Vessel and cargo services revenues decreased 15.4% in 2009 to \$145,781. Tariff rates were increased in 2009 over 2008 an average of 5%. Tariffs for steel increased to \$1.98 per short ton, which was a \$.13 per short ton increase from 2008. Volumes decreased in general cargo (21%) and bulk grain (26%). Total Authority tonnage of 36.8 million tons decreased 14% from 2008. Nonoperating revenues related to investment income in 2009 decreased \$3 million due to smaller investment balances and falling interest rates. Nonoperating revenues related to property taxes in 2009 decreased approximately \$1.8 million. This was due primarily to a decrease in the property tax rate in 2009 partially offset by an increase in property valuations.

### 2009 Revenues

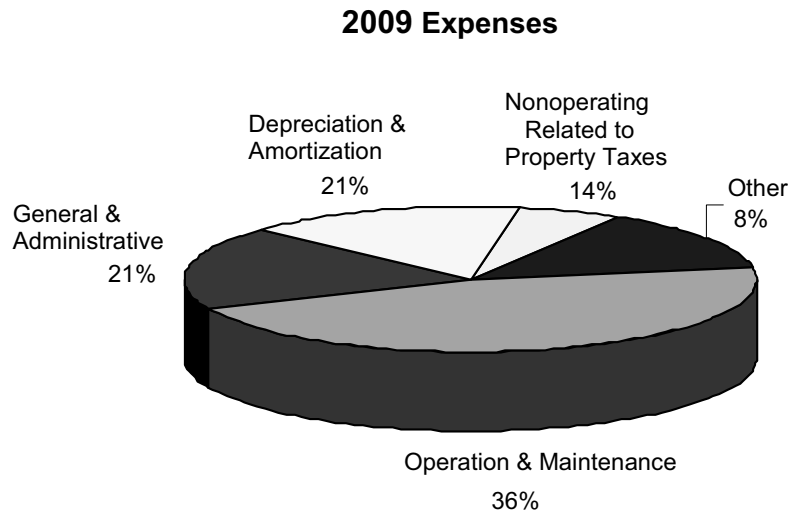


Vessel and cargo services revenues increased 4.7% in 2008 to \$172,381. Tariff rates were increased in 2008 over 2007 an average of 3%. Tariffs for steel increased to \$1.85 per short ton, which was a \$.05 per short ton increase from 2007. Volumes increased in general cargo (8%), bulk grain (20%), and container TEU's (1%). Total Authority tonnage of 42.7 million tons increased 6% from 2007. Nonoperating revenues related to investment income in 2008 decreased \$2.9 million due to smaller investment balances and falling interest rates. Nonoperating revenues related to property taxes in 2008 increased approximately \$12.9 million. This was due primarily to an increase in the property tax rate in 2008 and increased property valuations.

### 2008 Revenues

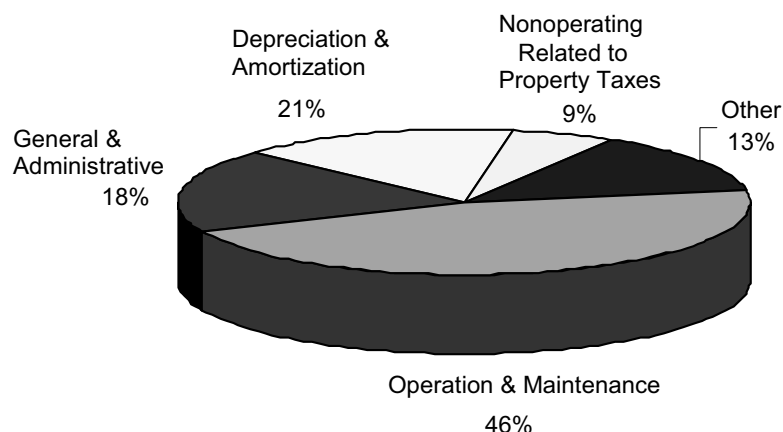


In 2009, operation and maintenance of facilities expenses decreased by \$15.3 million (15.4%) from 2008. The majority of the decreases were made up of the following: a) decreases in salaries and benefits of \$3.9 million; b) a decrease of \$4.6 million in legal and professional fees; c) a decrease of \$1.4 million in other expenses, and d) a decrease in contract labor of \$1.2 million. General and administrative expenses increased by \$4.7 million (10.9%) from 2008. The majority of the increases were made up of the following: a) an increase in salaries and benefits of \$5.6 million; b) an increase in legal and professional fees of \$4.2 million. Depreciation and amortization increased \$4.9 million.



In 2008, operation and maintenance of facilities expenses increased by \$0.7 million (0.7%) from 2007. General and administrative expenses increased by \$3.4 million (8.4%) from 2007. The majority of the increase was made up of the following: a) an increase in salaries and benefits of \$1.5 million; b) an increase in legal and professional fees of \$3.5 million. Depreciation and amortization increased \$9.9 million.

## 2008 Expenses



### Capital Asset and Debt Administration

**Capital assets:** The Authority's investment in capital assets as of December 31, 2009, amounts to \$1,295.3 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 9.1%.

Major capital asset events during 2009 included the following:

- Land and Channel Improvements increased by \$30.0 million due primarily to Bayport Terminal expansion and Houston Ship Channel projects.
- Buildings increased \$16.8 million due primarily to construction of Bayport.
- Machinery and equipment net additions totaled approximately \$14.0 million in 2009. The additions primarily consisted of security and telecommunications equipment for \$8.3 million, gate facility equipment for \$2.4 million, and other machinery and equipment totaling \$3.3 million.
- Improvements other than buildings increased \$7.4 million primarily due to various Security enhancements of \$3.4 million, Turning Basin wharf improvements of \$2.8 million, and additional improvements other than buildings of \$1.8 million.
- Railroads increased \$1.8 million.
- Capitalized interest (net of capitalized income) totaling \$3.9 million was added to the cost of assets for 2009.
- Construction-in-progress increased \$84.6 million in 2009 due primarily to the construction of various projects at Bayport.
- Accumulated depreciation had an increase of \$46.4 million net of retirements in 2009.

The Authority's investment in capital assets as of December 31, 2008, amounts to \$1,187.0 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 4.8%.

Major capital asset events during 2008 included the following:

- Land and Channel Improvements increased by \$33.9 million due primarily to the creation of additional dredge disposal site capacity along the Houston Ship Channel and Land improvements due to Bayport.
- Buildings increased \$28.9 million due primarily to construction of Bayport.
- Machinery and equipment net additions totaled approximately \$36.3 million in 2008 of which there were \$38.1 million in additions offset by the retirement of \$1.8 million. The additions primarily consisted of the purchase of two (2) wharf cranes for Bayport Terminal for \$17.9 million, security equipment for \$10.7 million and other machinery and equipment totaling \$9.6 million.
- Improvements other than buildings increased \$161.7 million primarily due to Bayport Container Yards of \$96.7 million, Bayport Cruise Terminal of \$15.1 million, Jacintoport fender system for \$4.9 million, entry/exit gates at BCT of \$26.7 million, various Security enhancements of \$4.9 million, and additional improvements other than buildings of \$13.4 million.
- Capitalized interest (net of capitalized income) totaling \$2.7 million was added to the cost of assets for 2008.
- Construction-in-progress decreased \$154.0 million in 2008. This included additions of \$90.6 million and offset by transfers to other capital asset classes of \$244.6 million and due primarily to the construction of various projects at the Bayport.
- Accumulated depreciation had an increase of \$40.1 million net of retirements in 2008.

**PORT OF HOUSTON AUTHORITY Capital Assets**  
(net of depreciation)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land and Channel Improvements	\$ 362,774	\$ 332,805	\$ 298,900
Buildings	64,357	50,736	23,799
Improvements other than buildings	504,686	520,549	380,712
Railroads	30,204	29,747	30,885
Machinery and equipment	139,629	144,207	123,098
Construction-in-progress	193,622	108,989	275,311
	<u>\$ 1,295,272</u>	<u>\$ 1,187,033</u>	<u>\$ 1,132,705</u>

Additional information on the Authority's capital assets can be found in Note 4.

**Long-term debt:**

At the end of 2009, the Authority had total long-term debt outstanding of \$625.4 million (net of deferred amounts). Of this amount, \$555.2 million was Unlimited Tax Port Obligation Bonds and for which debt service is paid from ad valorem taxes levied and collected by Harris County Tax Assessor and Collector. The remainder consisted of \$70.2 million of Commercial Paper from which debt service is paid for ad valorem taxes.

At the end of 2008, the Authority had total long-term debt outstanding of \$571.3 million (net of deferred amounts). Of this amount, \$571.3 million was Unlimited Tax Port Improvement Bonds and Unlimited Tax Refunding Bonds (referred to as General Obligation Bonds) and for which debt service is paid from ad valorem taxes levied and collected by Harris County Tax Assessor and Collector.

**Outstanding Debt**  
**General Obligation, Revenue Bonds and Commercial Paper**  
(net of deferred amounts)  
(in millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
General Obligation Bonds			
Unlimited Tax Port Improvement Bonds	\$124.9	\$132.1	\$139.3
Unlimited Tax Refunding Bonds	430.3	439.2	211.6
Total General Obligation Bonds	<u>555.2</u>	<u>571.3</u>	<u>350.9</u>
Commercial Paper	<u>70.2</u>	-	<u>113.5</u>
Total Long-Term Debt	<b>625.4</b>	571.3	464.4
Less Current Maturities	<u>(178.8)</u>	<u>(15.6)</u>	<u>(129.1)</u>
Long-Term Debt (net of deferred amounts)	<u>\$446.6</u>	<u>\$555.7</u>	<u>\$335.3</u>

During 2009, the Authority issued \$70.2 million of Series A (NON-AMT) Commercial Paper Notes.

During 2008, the Authority issued \$234.6 million of unlimited tax refunding bonds and used the proceeds, net of issuance cost, to repay \$236.0 million of Series A (AMT) Commercial Paper Notes.

The Authority's total long-term debt increased \$54.1 million during the current fiscal year. The key factors in this increase were the sale of \$70.2 million in commercial paper offset by \$15.6 million in debt service payments.

There were no bonds issued in 2009 by the Authority.

Additional information on the Authority's long-term debt can be found in Note 6.

### **Economic Factors and Next Year's Budget and Rates**

- Inflation remained at less than 1% for 2009 with an upward trend expected to continue in 2010.
- Due to the overall market conditions, the total number of ships calling on Authority docks decreased in 2009 (3,194) versus 2008 (3,569).
- The container ships that did call at the Authority's docks carried less tons in 2009 (15,905) versus 2008 (16,866).

All of the above factors were considered in preparing the Authority's budget for the 2010 fiscal year. The Authority increased tariff rates 2-3% effective January 2010 and this is estimated to increase operating revenues for 2010.

### **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  
**Statements of Net Assets**  
December 31, 2009 and 2008  
(in thousands)

<b>Assets</b>	<b>2009</b>	<b>2008</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 36,001	\$ 141,726
Investments	10,000	46,305
Receivables (net of allowance for uncollectibles)	18,217	17,698
Restricted assets:		
Cash and cash equivalents	27,399	49,182
Property tax receivables	40,064	40,717
Inventories	288	271
Prepays	3,002	2,633
	<b>134,971</b>	<b>298,532</b>
<b>Non-current Assets</b>		
Investments Long-Term	199,077	64,665
Deferred charges	6,764	3,059
<b>Capital Assets (net of accumulated depreciation):</b>		
Land and Channel Improvements	362,774	332,805
Buildings	64,357	50,736
Improvements other than buildings	504,686	520,549
Railroads	30,204	29,747
Machinery and equipment	139,629	144,207
Construction-in-progress	193,622	108,989
	<b>1,295,272</b>	<b>1,187,033</b>
Total Capital Assets	<b>1,295,272</b>	<b>1,187,033</b>
Total Non-current assets	<b>1,501,113</b>	<b>1,254,757</b>
Total Assets	<b>\$ 1,636,084</b>	<b>\$ 1,553,289</b>

See notes to the financial statements

Port of Houston Authority  
**Statements of Net Assets**  
December 31, 2009 and 2008  
(in thousands)

**Liabilities**

**Current Liabilities**

Accounts payable and other current liabilities	\$ 35,424	\$ 27,626
Deferred revenue	9,301	3,796
Liabilities payable from restricted assets:		
Current maturities of long-term debt		
Commercial Paper	70,245	-
Unlimited tax bonds	108,580	15,600
Accrued interest payable		
Unlimited tax bonds	7,298	10,047
Contracts payable and accrued liabilities	<u>9,147</u>	<u>7,465</u>
Total current liabilities payable from restricted assets	<u>195,270</u>	<u>33,112</u>
Total Current Liabilities	239,995	64,534

**Non-current Liabilities**

Long-term debt, net of current maturities	446,604	555,755
Other non-current liabilities		
Due in more than one year	<u>40,352</u>	<u>30,596</u>
Total Non-current Liabilities	<u>486,956</u>	<u>586,351</u>
Total liabilities	<u>726,951</u>	<u>650,885</u>

**Commitments and Contingencies (Note 11)**

**Net Assets**

Invested in capital assets, net of related debt	669,843	646,777
Restricted for:		
Capital	8,388	3,978
Debt Service	39,072	37,310
Unrestricted	<u>191,830</u>	<u>214,339</u>
Total net assets	<u>\$ 909,133</u>	<u>\$ 902,404</u>

See notes to the financial statements



Port of Houston Authority  
**Statements of Revenues, Expenses and Changes in Net Assets**  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

	2009	2008
<b>Operating revenues:</b>		
Vessel and cargo services	\$ 145,781	\$ 172,381
Rental of equipment and facilities	20,524	19,984
Grain elevator	1,155	787
Bulk materials	2,243	2,319
Other	2,040	2,522
Total	171,743	197,993
<b>Operating expenses:</b>		
Operations and maintenance of facilities	83,758	99,034
General and administrative	48,183	43,443
Depreciation and amortization	48,892	44,016
Total	180,833	186,493
<b>Operating income (loss)</b>	<b>(9,090)</b>	11,500
<b>Nonoperating revenues (expenses):</b>		
Investment income	4,136	7,154
Contribution to federal and state agencies	(17,468)	(4,224)
Other, net	4,588	982
Total	<b>(8,744)</b>	3,912
<b>Income (loss) before nonoperating revenues (expenses) related to property taxes</b>	<b>(17,834)</b>	15,412
<b>Nonoperating revenues (expenses) related to property taxes:</b>		
Property taxes	46,911	48,675
Investment income on unlimited tax bonds proceeds	165	1,113
Interest expense on unlimited tax bonds	(26,072)	(21,344)
Property tax expense	(506)	(1,083)
Other, net	(901)	(423)
Total	19,597	26,938
<b>Income (loss) before contributions</b>	<b>1,763</b>	42,350
<b>Contribution from federal and state agencies</b>	<b>4,966</b>	6,061
<b>Net income</b>	<b>6,729</b>	48,411
<b>Net assets, January 1</b>	<b>902,404</b>	853,993
<b>Net assets, December 31</b>	<b>\$ 909,133</b>	<b>\$ 902,404</b>

See notes to the financial statements

Port of Houston Authority of Harris County, Texas  
**Statements of Cash Flows**  
For the years ended December 31, 2009 and 2008  
(in thousands)

	<u>2009</u>	<u>2008</u>
<b>Cash Flows from operating activities</b>		
Cash received from customers	\$ 171,197	\$ 205,377
Cash paid to suppliers for goods and services	(54,278)	(68,635)
Cash paid to employees for services	(32,036)	(37,038)
Cash paid for employee benefits	(26,882)	(28,652)
Cash paid for other services	(4,535)	-
Cash from other services	1,258	472
Cash received for other purposes	<u>6,336</u>	<u>786</u>
Net cash provided by operating activities	<u>61,060</u>	<u>72,310</u>
<b>Cash flows from noncapital financing activities</b>		
Repayment of advances from developer	(1,969)	(2,661)
Property taxes received	47,080	36,394
Contributions paid to others	(8,547)	(4,224)
Property tax collection expenses paid	<u>(923)</u>	<u>(1,035)</u>
Net cash provided by noncapital financing activities	<u>35,641</u>	<u>28,474</u>
<b>Cash flows from capital and related financing activities</b>		
Contributions received from state and federal agencies	4,966	9,606
Proceeds from issuance of long-term debt	70,257	123,086
Issuance costs of long-term debt	(136)	(428)
Repayment of long-term debt and funding of escrow	(16,183)	(15,580)
Interest on long-term debt	(25,936)	(19,532)
Acquisition and construction of capital assets	(162,620)	(130,541)
Proceeds from retirement of assets	<u>13</u>	<u>(160)</u>
Net cash used in capital financing activities	<u>(129,639)</u>	<u>(33,549)</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(307,041)	(228,878)
Proceeds from maturities of investments	208,855	192,080
Interest on investments	<u>3,616</u>	<u>5,421</u>
Net cash used in investing activities	<u>(94,570)</u>	<u>(31,377)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(127,508)</b>	<b>35,858</b>
<b>Cash and cash equivalents, January 1</b>	<u>190,908</u>	<u>155,050</u>
<b>Cash and cash equivalents, December 31</b>	<u>\$ 63,400</u>	<u>\$ 190,908</u>
<b>Current cash and cash equivalents</b>	<b>\$ 36,001</b>	<b>\$ 141,726</b>
<b>Restricted cash and cash equivalents</b>	<b>\$ 27,399</b>	<b>\$ 49,182</b>

See notes to the financial statements

Port of Houston Authority of Harris County, Texas  
**Statements of Cash Flows - continued**  
For the years ended December 31, 2009 and 2008  
(in thousands)

	<b>2009</b>	<b>2008</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>		
Operating income (loss)	<b>\$ (9,090)</b>	\$ 11,500
Adjustments to reconcile operating income (loss) to Net cash provided by operating activities		
Depreciation and amortization	<b>48,893</b>	44,015
Provision for doubtful accounts	<b>79</b>	120
Miscellaneous nonoperating income (expense), net	<b>4,716</b>	1,655
Change in assets and liabilities		
Increase/(Decrease) in trade and other receivables	<b>(2,778)</b>	6,805
Decrease (Increase) in Deferred Dredging	<b>(900)</b>	-
Increase in prepaids	<b>(2,124)</b>	(1,036)
Increase/(Decrease) in inventories	<b>(17)</b>	8
Increase in accounts payable and accrued liabilities	<b>16,909</b>	8,637
Increase/(Decrease) in accrued vacation and sick leave	<b>(133)</b>	326
Increase in deferred revenue	<b>5,505</b>	280
Net cash provided by operating activities	<b><u>\$ 61,060</u></b>	<b><u>\$ 72,310</u></b>
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	<b>\$ 416</b>	\$ 409
Contributions to others	<b>8,921</b>	7

See notes to the financial statements

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

### Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

#### **1. Summary of Significant Accounting Policies**

##### **Reporting Entity**

The Port of Houston Authority of Harris County, Texas (“Authority”) is an independent political subdivision 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 exercises financial control 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 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 members of the Port Commission acting as 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 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,

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

### Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

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 Statement 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 the same.

### **Basis of Accounting**

The Authority follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of 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 operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes operating revenue in the form of rents and consulting fees. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **Cash and Cash Equivalents**

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**

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

### **Accounts Receivables**

Trade receivables are shown net of an allowance for uncollectible accounts. Allowances are estimated at approximately 5% of total accounts receivable, based on historical experience. Bad debts are written off against the accounts receivable allowance when

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

Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

**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**

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. Amortization for 2009 amounted to \$1.6 million and is included in depreciation and amortization in the Statement of Revenues, Expenses and Changes in Net Assets.

**Property Taxes**

Property taxes (net of collection expenses) are used to pay debt service of the unlimited tax bonds and commercial paper. Property is appraised, and a lien on such property becomes enforceable, as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Property taxes are levied September 1 for the year in which assessed. Taxes become delinquent February 1 of the following year and are subject to interest and penalty charges. Harris 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, 2009 and 2008 were \$720 and \$600 respectively.

The tax rates levied for the years ended December 31, 2009 and 2008 were \$.01636 and \$.01773, respectively, per \$100 assessed valuation.

**Restricted Assets**

Unspent net proceeds for unlimited tax improvement bonds and proceeds available from taxes receivable are classified as restricted assets because their use is limited by applicable bond covenants.

**Capital Assets**

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5 and an estimated useful life of one year or greater. Property constructed or

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

Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

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 expensed. 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. Capitalized interest increased the cost of assets constructed by the Authority by approximately \$3,943 and \$2,691 in 2009 and 2008, 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**

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, at their current pay rate.

**New Accounting Pronouncements**

In May 2007, GASB issued Statement No. 50, "Pension Disclosures." This statement requires disclosure in the notes to the financial statements of a) the current funded status of the plan, b) governments that use the aggregate actuarial cost method to disclose the funded status and present a multi-year schedule of funding progress using the entry age actuarial cost method as a surrogate and c) disclosure by governments participating in multi-employer cost-sharing pension plans of how the contractually required contribution is determined. The provisions of Statement No. 50 generally are effective for periods beginning after June 15, 2007. Management of the Authority has adopted GASB Statement No. 50 in 2008 and has disclosed the relevant information in Note 9.

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

Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

In June 2007, the GASB issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which provides comprehensive guidance on identifying, accounting for, and reporting intangible assets. This statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. This statement establishes a specified-conditions approach for recognizing internally generated intangible assets. It also provides guidance on recognizing internally generated computer software and establishes specific guidance for the amortization of intangible assets. This statement is effective for periods beginning after June 15, 2009. The Authority has not determined the impact, if any, of the adoption of this standard on its financial position, results of operations or cash flows.

In June 2008, GASB issued Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments.” This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This Statement improves financial reporting by requiring governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts (SGIC’s) that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. Changes in fair value of hedging derivative instruments are reported in statement of net assets as deferrals while changes in fair value of investment derivative instruments are reported within the investment revenue classification. This Statement is effective for financial statements for periods beginning after June 15, 2009. The Authority has not determined the impact, if any, of the adoption of this standard on its financial position, results of operations or cash flows.

In March 2009, GASB issued Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definition. The definitions of the general fund, special revenue fund type, capital projects type, debt service fund type and permanent fund type are clarified by provisions in this Statement. The fund balance classification approach in this Statement will require governments to classify amounts consistently. This Statement is effective for periods beginning after June 15, 2010. Management of the Authority has determined that there is no impact upon its financial position, results of operations or cash flows upon adoption.

In March 2009, GASB issued Statement No. 55, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.” The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB’s authoritative literature. The Statement will improve financial reporting by contributing to the GASB’s efforts to codify all GAAP for state and local governments so that they derive from a single source. This Statement is effective immediately and does not result in a change in current practice.

In March 2009, GASB issued Statement No. 56, “Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing



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

Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

Standards.” The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ Statements on Auditing Standards. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. This Statement will improve financial reporting by contributing to the GASB’s efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This statement is effective immediately and does not have a significant impact on the Authority’s financial statements.

In December 2009, the GASB issued Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.” The Statement is intended to improve consistency in the measurement and financial reporting of other postemployment benefits (OPEB) such as retiree health insurance. Statement No. 57, which is intended to improve consistency in the measurement and financial reporting of other postemployment benefits (OPEB) such as retiree health insurance, addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. (In agent multiple-employer plans, separate liabilities are calculated and separate asset accounts are kept for each participating government, rather than being administered and accounted for as a single plan as is done in a cost-sharing plan.) Statement No. 57 amends Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement is effective immediately and does not have a significant impact on the Authority’s financial statements.

In December 2009, the GASB issued Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies.” Statement No. 58 is intended to improve consistency in the measurement and financial reporting of the effects of municipal bankruptcy and provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs. This Statement is effective for financial statements for periods beginning after June 15, 2009. The Authority does not expect the adoption of this standard to have an impact on its financial position, results of operations or cash flows.

**Reclassifications and Presentation**

A reclass between Operation and Maintenance and General and Administrative for OPEB expense was made to prior year balances to conform to the current year presentation. Such reclassification did not affect total operating revenues, operating income, increase in net assets, total current or long-term assets or liabilities or net cash provided by operating activities.

## Port of Houston Authority of Harris County, Texas

### Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

## 2. Cash and Investments

The Authority's cash and cash equivalents of \$63,400 and \$190,908 as of December 31, 2009 and 2008, respectively, are maintained in demand accounts and mutual funds managed by major fund managers. The demand account balance at December 31, 2009 and 2008 was \$65,727 and \$195,343, 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 New York in the Authority's name. The mutual funds are invested primarily in direct obligations of the U.S. government or its agencies and are not subject to categorization in accordance with GASB Statement No. 3, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

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 2009 or 2008.

In accordance with GASB Statement No. 40, "Deposit and Investment Risk Disclosures," the Authority's financial statements are required to address credit risk, concentration of credit risk, interest rate risk and foreign currency risk of investments.

*Credit Risk* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize this risk, the Authority's Statement of Investment Policy does not allow any fixed income securities below the investment grade of BAA. U. S. Agencies are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. Commercial Paper is rated A-1+ by Standard & Poor's and P-1 by Moody's Investors Service.

*Concentration of Credit Risk* – Concentration of credit risk exists when investments are concentrated in one issue. More than 5% of the Authority's investments at December 31, 2009 are invested in Federal Home Loan Banks Discount Notes (33.3%), Fannie Mae Discount Notes (24.2%), Federal Home Loan Mortgage Corporation Note (23.3%), and HARRIS COUNTY TEXAS Revenue Bond (12.0%)

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Authority's investments. The Authority's fixed

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

Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

income accounts are managed by the Harris County Financial Services Department and monitored monthly for compliance with the Authority's investment policy.

The following table details the U.S. Dollar holdings and their weighted average maturity as of December 31, 2009.

<u>Security Type</u>	<u>Ratings</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u> (years)
<b>Agency Securities:</b>			
FHLMC NOTE	AAA/Aaa	\$5,011	1.15
FHLMC NOTE	AAA/Aaa	20,084	2.53
FHLMC NOTE	AAA/Aaa	10,048	2.25
FAMCA NOTE	AAA/Aaa	10,559	1.56
FNMA NOTE	AAA/Aaa	20,056	1.18
FNMA STEP NOTE	AAA/Aaa	20,047	2.38
FHLMC STEP NOTE	AAA/Aaa	13,557	2.58
FHLB STEP NOTE	AAA/Aaa	15,049	2.69
FHLB STEP NOTE	AAA/Aaa	19,979	2.87
FHLB STEP NOTE	AAA/Aaa	9,902	2.95
FHLB NOTE	AAA/Aaa	<u>24,790</u>	2.97
<b>Total</b>		<u><b>169,082</b></u>	<b>2.28</b>
<b>Commercial Paper:</b>			
FCAR CP	A-1+/P-1	<u>10,000</u>	.01
<b>Total</b>		<u><b>10,000</b></u>	<b>.01</b>
<b>Municipal Bonds:</b>			
Harris County, TX Revenue Bond	AAA/Aaa	24,996	11.73
NY, NY General Obligation Bond	AA/Aa2	<u>4,999</u>	2.79
<b>Total</b>		<u><b>29,995</b></u>	<b>7.26</b>
<b>Total Fair Value</b>		<u><u><b>\$209,077</b></u></u>	
<b>Portfolio Weighted Average Maturity</b>			<b>3.19</b>

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

Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

The following table details the U.S. Dollar holdings and their weighted average maturity as of December 31, 2008.

<u>Security Type</u>	<u>Ratings</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u> (years)
<b>Agency Securities:</b>			
FHLB DISC	AAA/Aaa	\$7,097	0.12
FHLB NOTE	AAA/Aaa	10,893	0.25
FHLMC NOTE	AAA/Aaa	6,939	0.19
FHLMC NOTE	AAA/Aaa	20,025	0.85
FHLMC NOTE	AAA/Aaa	19,735	0.10
FNMA DISC	AAA/Aaa	5,067	0.07
FNMA DISC	AAA/Aaa	803	0.01
<b>Total</b>		<b>70,559</b>	<b>0.23</b>
<b>Commercial Paper:</b>			
AIG CP	A-1+/P-1	15,304	0.24
<b>Total</b>		<b>15,304</b>	<b>0.24</b>
<b>Municipal Bonds:</b>			
Harris County, TX	A-1,A	25,133	12.16
<b>Total</b>		<b>25,133</b>	<b>12.16</b>
<b>Total Fair Value</b>			
<b>Portfolio Weighted Average Maturity</b>		<b>\$110,996</b>	<b>4.21</b>

*Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of December 31, 2009 and 2008 there was no foreign currency risk.

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

Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

**3. Receivables**

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

<b>Trade receivables, net:</b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Trade accounts	\$ 16,763	\$ 16,613
Damage claims	595	650
Less allowance for doubtful accounts	<u>(975)</u>	<u>(899)</u>
Trade accounts, net	16,383	16,364
<b>Other receivables:</b>		
Accrued interest	1,277	653
Due from federal/state agency	448	68
Other	<u>109</u>	<u>613</u>
Total other receivables	<u>1,834</u>	<u>1,334</u>
<b>Total receivables, net</b>	<b><u><u>\$ 18,217</u></u></b>	<b><u><u>\$ 17,698</u></u></b>

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

**4. Capital Assets**

Capital asset activity for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 90,631	\$ 4,129	\$ -	\$ 94,760
Channel improvements	242,174	25,840	-	268,014
Construction-in-progress	<u>108,989</u>	<u>173,359</u>	<u>(88,726)</u>	<u>193,622</u>
Total capital assets, not being depreciated	<u>441,794</u>	<u>203,328</u>	<u>(88,726)</u>	<u>556,396</u>
Capital assets, being depreciated:				
Buildings	108,900	16,829	-	125,729
Improvements other than buildings	765,349	8,020	(613)	772,756
Railroads	57,234	1,831	-	59,065
Machinery and equipment	<u>269,066</u>	<u>14,093</u>	<u>(102)</u>	<u>283,057</u>
Total capital assets, being depreciated	<u>1,200,549</u>	<u>40,773</u>	<u>(715)</u>	<u>1,240,607</u>
Less accumulated depreciation for:				
Buildings	(58,164)	(3,208)	-	(61,372)
Improvements other than buildings	(244,800)	(23,883)	613	(268,070)
Railroads	(27,487)	(1,374)	-	(28,861)
Machinery and equipment	<u>(124,859)</u>	<u>(18,671)</u>	<u>102</u>	<u>(143,428)</u>
Total accumulated depreciation	<u>(455,310)</u>	<u>(47,136)</u>	<u>715</u>	<u>(501,731)</u>
Total capital assets, being depreciated, net	<u>745,239</u>	<u>(6,363)</u>	<u>-</u>	<u>738,876</u>
Total capital assets, net	<u>\$ 1,187,033</u>	<u>\$ 196,965</u>	<u>\$ (88,726)</u>	<u>\$ 1,295,272</u>

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

Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(in thousands)

Capital asset activity for the year ended December 31, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 85,852	\$ 4,781	\$ (2)	\$ 90,631
Channel improvements	213,048	29,126	-	242,174
Construction-in-progress	<u>275,311</u>	<u>93,765</u>	<u>(260,087)</u>	<u>108,989</u>
Total capital assets, not being depreciated	<u>574,211</u>	<u>127,672</u>	<u>(260,089)</u>	<u>441,794</u>
Capital assets, being depreciated:				
Buildings	79,970	28,975	(45)	108,900
Improvements other than buildings	603,601	161,748	-	765,349
Railroads	57,336	100	(202)	57,234
Machinery and equipment	<u>232,753</u>	<u>38,091</u>	<u>(1,778)</u>	<u>269,066</u>
Total capital assets, being depreciated	<u>973,660</u>	<u>228,914</u>	<u>(2,025)</u>	<u>1,200,549</u>
Less accumulated depreciation for:				
Buildings	(56,171)	(2,038)	45	(58,164)
Improvements other than buildings	(222,889)	(21,911)	-	(244,800)
Railroads	(26,451)	(1,238)	202	(27,487)
Machinery and equipment	<u>(109,655)</u>	<u>(16,982)</u>	<u>1,778</u>	<u>(124,859)</u>
Total accumulated depreciation	<u>(415,166)</u>	<u>(42,169)</u>	<u>2,025</u>	<u>(455,310)</u>
Total capital assets, being depreciated, net	<u>558,494</u>	<u>186,745</u>	<u>-</u>	<u>745,239</u>
Total capital assets, net	<u>\$ 1,132,705</u>	<u>\$ 314,417</u>	<u>\$ (260,089)</u>	<u>\$ 1,187,033</u>

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

**5. 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 \$55,902 consisting of \$6,698 in buildings, \$12,731 in improvements, \$3,478 of machinery and equipment and \$32,995 of railroads with a total carrying value of \$29,382 and current year depreciation of \$1,986. As of December 31, 2009 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:

2010	\$ 17,594
2011	16,965
2012	15,846
2013	15,332
2014	15,272
Thereafter	<u>63,931</u>
Total	<u>\$144,940</u>

A new lease agreement began for the Houston Public Grain Elevator #2 on June 1, 2008. The agreement is for ten (10) years. The agreement provides for a yearly adjustment in rent on June 1, based on the Forecasted Texas Gulf All Wheat Exports. In the event that the Forecasted Texas Gulf All Wheat Exports for any Lease Year is revised by the reporting agency for the second half of the Lease Year, the Estimated Monthly Wheat Base Rent for the second half of the Lease Year (from December 1 through May31) shall be revised based on the Estimated Monthly Wheat Base Rent Schedule.



**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

**6. Long-Term Debt and Non Current Liabilities**

**Changes in Long-Term Liabilities – 2009**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable					
Commercial Paper	\$ -	\$ 70,245	\$ -	\$ 70,245	\$ 70,245
Unlimited Tax Bonds	563,015	-	15,600	547,415	108,580
Less Deferred Amounts	<u>8,346</u>	<u>-</u>	<u>577</u>	<u>7,769</u>	<u>-</u>
Total Bonds Payable	<u>571,361</u>	<u>70,245</u>	<u>16,177</u>	<u>625,429</u>	<u>178,825</u>
Other noncurrent liabilities:					
Compensated Absences	5,500	4,558	4,690	5,368	425 (1)
Advances from Developer	5,762	-	1,969	3,793	-
OPEB Obligation	19,521	11,939	-	31,460	-
Other	<u>156</u>	<u>-</u>	<u>-</u>	<u>156</u>	<u>-</u>
Total other noncurrent liabilities	<u>\$ 30,939</u>	<u>\$ 16,497</u>	<u>\$ 6,659</u>	<u>\$ 40,777</u>	<u>\$ 425</u>

(1) Included in accounts payable and current liabilities

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

**Changes in Long-Term Liabilities – 2008**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable					
Commercial Paper	\$ 113,478	\$ 122,522	\$ 236,000	\$ -	\$ -
Unlimited Tax Bonds	343,965	234,630	15,586	563,009	15,600
Less Deferred Amounts	<u>6,945</u>	<u>1,940</u>	<u>539</u>	<u>8,346</u>	<u>-</u>
Total Bonds Payable	<u><u>464,388</u></u>	<u><u>359,092</u></u>	<u><u>252,125</u></u>	<u><u>571,355</u></u>	<u><u>15,600</u></u>
Other noncurrent liabilities:					
Compensated Absences	5,173	4,132	3,805	5,500	343 (1)
Advances from Developer	8,423	-	2,661	5,762	-
OPEB Obligation	9,584	9,937	-	19,521	-
Other	<u>224</u>	<u>-</u>	<u>68</u>	<u>156</u>	<u>-</u>
Total other noncurrent liabilities	<u><u>\$ 23,404</u></u>	<u><u>\$ 14,069</u></u>	<u><u>\$ 6,534</u></u>	<u><u>\$ 30,939</u></u>	<u><u>\$ 343</u></u>

(1) Included in accounts payable and current liabilities

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

**Outstanding Long Term Debt**

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

	<u>Original Issue</u>	<u>Interest Rate %</u>	<u>Issue Date</u>	<u>Maturity</u>	<u>December 31</u>	
					<u>2009</u>	<u>2008</u>
<b>Commercial Paper:</b>	\$ 70,245	*	*	*	\$ 70,245	\$ -
<b>General Obligation Bonds:</b>						
<b>Unlimited Tax Refunding Bonds:</b>						
Series 1997	28,000	4.75 - 5.00	10/23/97	2013	3,445	6,595
Series 1999B	6,435	5.00 - 5.25	09/28/99	2009	-	585
Series 2000B	8,700	4.55 - 5.50	10/15/00	2011	1,430	2,160
Series 2002B	7,060	5.50 - 4.25	12/12/02	2013	2,025	2,560
Series 2004	9,000	3.00 - 5.00	12/08/04	2016	5,010	5,775
Series 2005A	36,665	4.25 - 5.00	09/08/05	2023	36,665	36,665
Series 2005B	62,485	4.125 - 5.00	06/08/05	2023	62,485	62,485
Series 2006A	28,380	5.00	07/19/06	2017	20,730	23,365
Series 2006B	47,085	4.75 - 5.00	10/18/06	2031	47,085	47,085
Series 2006C	9,160	4.00 - 5.00	10/18/06	2031	9,160	9,160
Series 2008A	234,600	5.625-6.25	07/24/08	2038	234,630	234,630
					<u>422,665</u>	<u>431,065</u>
Unamortized Premiums/(Discounts) and Deferred Loss					7,639	8,142
Unlimited Tax Refunding Bonds, Net					<u>430,304</u>	<u>439,207</u>
<b>Unlimited Tax Port Improvement Bonds:</b>						
Series 1998A	81,000	3.80 - 5.00	11/17/98	2019	40,500	44,550
Series 2001A	17,000	5.00	11/01/01	2026	13,920	14,455
Series 2001B	70,000	4.00 - 5.00	11/01/01	2026	56,695	58,810
Series 2002A	16,000	3.00 - 5.00	12/12/02	2027	13,635	14,135
Total Unlimited Tax Port Improvement Bonds					<u>124,750</u>	<u>131,950</u>
Unamortized Premiums/(Discounts)					130	198
Unlimited Tax Port Improvement Bonds, Net					<u>124,880</u>	<u>132,148</u>
Total Long Term Debt					<u>555,184</u>	<u>571,355</u>
Less Current Maturities					<u>(108,580)</u>	<u>(15,600)</u>
<b>Long - Term Debt (net of unamortized premium/(discount) and deferred loss</b>					<u><u>\$446,604</u></u>	<u><u>\$555,755</u></u>

\*Commercial paper is issued at various dates, and has various interest rates and maturities.

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

The Authority periodically issues long term debt for the purpose of improving the assets of the Authority, including security facilities and environmental enhancements. There is no legal debt margin as to the issuance of such debt. \$387,000 in unlimited tax bonds for these purposes was approved by Harris County voters in November 1999, and \$250,000 was approved by voters in November 2007. The Authority has separately authorized the issuance of up to \$236,000 of such voter-approved but unissued debt in the form of commercial paper notes (“Notes”). The Notes are currently collateralized by a Letter of Credit which expires on October 3, 2010.

As of December 31, 2008, the then outstanding Notes were extinguished with long term debt. As of December 31, 2009, \$70,245 in Notes has been newly issued and remains outstanding.

**Debt Service Requirements**

Total debt service requirements for outstanding bonds as of December 31, 2009 are as follows:

<u>Year Ending December 31</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total</u>
	<u>General Obligation</u>	<u>General Obligation</u>	
2010	\$ 108,580	\$ 29,191	\$ 137,771
2011	6,880	28,544	35,424
2012	8,060	27,934	35,994
2013	8,675	27,272	35,947
2014	9,845	26,569	36,414
2015-2019	68,140	120,460	188,600
2020-2024	94,055	93,682	187,737
2025-2029	63,517	71,956	135,473
2030-2034	86,959	47,294	134,253
2035-2038	92,704	14,869	107,573
	<u>\$ 547,415</u>	<u>\$ 487,771</u>	<u>\$ 1,035,186</u>

Bonds generally mature serially based on stated maturity dates. However, bonds may be redeemed prior to their maturities if provided for under the applicable bond indenture.

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

**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. The outstanding defeased unlimited tax bonds as of December 31, 2009 and 2008 were \$9,373 and \$20,795 respectively. The Authority issued refunding bonds in 2008 which refunded \$236,000 in commercial paper. The Authority had no refunding during 2009.

Subsequent to year end the Authority issued Refunding Bonds 2010A, 2010B and 2010C to refund approximately \$94,030 in bonds outstanding as of December 31, 2009.

**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, if applicable, for each issue every five years. There is no arbitrage liability for tax-exempt debt subject to the Tax Reform Act issued through December 31, 2009. The estimated liability is updated annually for any tax-exempt issuance or changes in yields until payment of the calculated liability is due.

**7. Bayport Facilities**

Certain 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 \$3,793 and \$5,762 at December 31, 2009 and 2008, respectively. All such advances are to be repaid only from net revenues, if any, of the Bayport division earned through the year 2013.

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

Effective October 27, 1997, the Authority, the developer, and the Bayport operators entered into an Agreement of Compromise and Settlement (the “Agreement”) that resolved 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 are 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, none through December 31, 2009) and also provides that all repayment obligations of the Authority to the developer shall 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 recorded an additional \$1,600 in possible repayments during 2003 since at that time it was determined that future net revenues would be sufficient to pay all of the existing advances. The repayments during the years ended December 31, 2009 and 2008 were approximately \$2,032 and \$2,656, respectively.

## **8. 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 and the plan administrator, control and manages 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, and Attention: Controller. The Authority’s payroll for employees covered by the Plan for the plan years ended July 31, 2009 and 2008 was \$32,695 (77% of the total payroll of \$42,509) and \$32,270 (77% of total payroll of \$41,641), respectively.

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

Employees become participants in the plan after completion of one year of employment and become vested after five (5) years. Vested employees are eligible to receive a normal pension benefit if they retire on the Normal Retirement date at age 65. This Normal Retirement Benefit is payable monthly for a minimum of five years certain (other options are available) and for life thereafter. It is an amount equal to 2.3% of the Average Monthly Compensation multiplied by the years of benefit service not to exceed 30.435 years. The plan provides for Early Retirement upon completion of 30 years or more of vesting service, attainment of age 62, or when the sum of the employee's age and years of service equals 85 or more and the employee has attained the age of 55 or more. Late Retirement commences when an employee works beyond the Normal Retirement Date. Benefits are adjusted accordingly for both Early Retirement and Late Retirement. The plan also provides for disability and death benefits. Terminated employees, other than for retirement, disability or death, receive a pension benefit when that former employee reaches the Normal Retirement date.

**Funding Policy**

The Authority's funding policy is to make cash contributions to the Plan in amounts computed by the Plan's independent actuary using the entry age normal cost method and includes amortization of the unfunded accrued liability over a 30-year period. This method and the actuarial assumptions have been designed to provide sufficient funds to pay benefits as they become payable under the Plan.

**Port of Houston Authority Restated Retirement Plan  
Schedule of Funding Progress**

	August 1, 2009	August 1, 2008	August 1, 2007
a) Actuarial Valuation Date			
b) Actuarial Value of Assets	\$ 93,179	\$ 96,724	\$101,148
c) Actuarial Accrued Liability (AAL)	\$122,093	\$117,731	\$109,919
d) Unfunded Actuarial Accrued Liability (UALL) (c-b)	\$ 28,914	\$ 21,007	\$ 8,771
e) Funded Ratio (b/c)	76.3%	82.2%	92.0%
f) Annual Covered Payroll (Actuarial)	\$ 32,695	\$ 32,270	\$ 28,621
g) UAAL as a % of Covered Payroll (d/f)	88.4%	65.1%	30.6%

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(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 unfunded actuarial accrued liability.

**Actuarial Valuation Method**

Actuarial Valuation Date	<u>August 1, 2009</u>	<u>August 1, 2008</u>	<u>August 1, 2007</u>
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Dollar, (closed)	Level Dollar, (closed)	Level Dollar, (closed)
Amortization Period in Years	Various	Various	Various
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

Components of the unfunded actuarial liability are amortized as level dollar amounts using closed basis amortization. The closed basis amortization method amortizes actuarial bases over a fixed number of years with a defined beginning and end. Components consisting of actuarial gains and losses are amortized over five years. Components consisting of amendments are amortized over 30 years. Components consisting of revised assumptions are amortized over ten years. The resulting equivalent single amortization base is amortized over a maximum of 30 years.



**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

**Plan Statistics**  
**For Plan Years July 31, 2009, 2008, and 2007**

	<u>2009</u>	% <u>Covered</u> <u>Payroll</u>	<u>2008</u>	% <u>Covered</u> <u>Payroll</u>	<u>2007</u>	% <u>Covered</u> <u>Payroll</u>
Actuarial Determined						
Employer Contribution						
Normal Cost	\$3,347	10.2%	\$3,278	10.2%	\$2,843	9.9%
Annual Pension Cost	\$7,357		\$3,929		\$6,510	
% of APC Contributed	100%		100%		100%	
Net Pension Obligation	None		None		None	

Note: Actuarial Valuation Report as of August 1, 2009, 2008, and 2007

**9. Postretirement Benefits**

The Authority provides certain postretirement health care and life insurance benefits to eligible retired employees and their spouses. At December 31, 2009, 259 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, \$10 or \$15 based on the salary at retirement date.

Employees who have reached age 62, or employees who have reached age 55 with 85 points or employees who have 30 years of service at the time service terminates with the Authority, may continue coverage in the Port of Houston Authority Group Health Plan as a retiree. An eligible employee may elect coverage for his or her dependents.

Disabled participants are covered in the Port of Houston Group Health Plan from the date of disability.

The widow/widower of a retiree who has coverage as a retiree of the Port of Houston Authority group Health Plan may continue coverage upon the death of the retiree.

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

**Funding Policy**

The required contribution is based on projected pay-as-you-go basis which is expected to continue. For the years ended December 31, 2009 and 2008, the cost of retiree health benefits, recorded on a pay-as-you-go basis was \$1,466 and \$2,961, respectively. Retiree life benefit costs for 2009 and 2008 were \$91 and \$90, respectively.

**Annual OPEB Cost and Net OPEB Obligation.**

The annual other postemployment benefit (“OPEB”) cost (expense) is calculated based on the annual required contribution of the employer (“ARC”), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority’s annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Authority’s net OPEB obligation.

Determination of Annual Required Contribution

	<u>2009</u>	<u>2008</u>
Normal Cost at year end	<b>\$7,073</b>	\$5,704
Amortization of UAAL	<b>7,507</b>	6,587
Annual Required Contribution (ARC)	<b>14,580</b>	12,291

Determination of Net OPEB Obligation

Annual Required Contribution	<b>14,580</b>	12,291
Interest on prior year Net OPEB Obligation	<b>877</b>	431
Adjustment to ARC	<b>(1,146)</b>	(563)
Annual OPEB Cost	<b>14,311</b>	12,159
Contributions made	<b>2,372</b>	2,222
Increase in Net OPEB Obligation	<b>11,939</b>	9,937
Net OPEB Obligation - beginning of year	<b>19,521</b>	9,584
Net OPEB Obligation - end of year	<b>\$31,460</b>	\$19,521

The end of year net OPEB Obligation is shown as a non-current liability on the Statement of Net Assets.

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

The table below reflects the schedule of OPEB Funding Progress.

	<u>January 1, 2009</u>	<u>January 1, 2008</u>	<u>January 1, 2007</u>
a) Actuarial Valuation Date			
b) Actuarial Value of Assets	\$ -	\$ -	\$ -
c) Actuarial Accrued Liability (AAL)	\$ 118,692	\$ 107,292	\$ 107,292
d) Unfunded Actuarial Accrued Liability (UALL) (c-b)	\$ 118,692	\$ 107,292	\$ 107,292
e) Funded Ratio (b/c)	0.0%	0.0%	0.0%
f) Annual Covered Payroll (Actuarial)	\$ 32,310	\$ 26,286	\$ 26,286
g) UAAL as a % of Covered Payroll (d/f)	367.4%	408.2%	408.2%

The following table shows the annual OPEB cost and net OPEB obligation assuming the plan is not prefunded.

Plan Year Ended	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual OPEB cost	\$14,580	\$12,159	\$12,290
Percentage of OPEB Cost Contributed	16.6%	18.0%	22.0%
Net OPEB Obligation	\$31,460	\$19,521	\$ 9,584

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Actuarial Methods and Assumptions

The actuarial cost method used to determine the OPEB obligation is computed using the Unit Credit Actuarial Cost Method which consists of the following cost components:

- 1) The Normal Cost is the Actuarial Present Value of benefits allocated to the valuation year.

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

- 2) The Actuarial Liability is the Actuarial Present Value of benefits accrued as of the valuation date.
- 3) Valuation Assets are equal to the market value of assets as of the valuation date, if any.
- 4) Unfunded Actuarial Liability is the difference between the Actuarial Liability and the Valuation Assets. The UAAL is being amortized as a level dollar amount over the maximum of 30 years, as permissible under GASB 45.

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. Actuarial assumptions used included a discount rate of 4.5% compounded annually, mortality table, withdrawal rates, disability rates, retirement rates, participation, health care cost trend rates, marriage assumptions, annual retiree claim costs, age slope and retiree premiums. The health care cost trend rates assume claim costs in future years equal the starting claim costs adjusted for the assumed ongoing cost trends. Such trends are based on the health care cost trend rate adjusted for the impact of plan design, cost containment features and Medicare coordination.

**10. 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, 2009, the Authority was insured for the following loss limitations:

	<b>Workers' Compensation</b>	<b>General Liability</b>	<b>Automobile Liability</b>
Per Accident	\$200		
Bodily Injury Each Accident		\$200	\$200
Property Damage		\$100	\$100

The Authority's insurance policy also includes a maximum loss liability provision of \$3,500 for the period from March 1, 2009 through March 1, 2010. Settled claims did not exceed the insurance coverage during the last three fiscal years.

**Port of Houston Authority of Harris County, Texas**  
Notes to the Financial Statements  
For the Years Ended December 31, 2009 and 2008  
(in thousands)

There were no claims liabilities at December 31, 2009 and 2008. Claims liability, if any, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

## **11. Commitments and Contingencies**

### **Commitments**

At December 31, 2009 the Authority had committed approximately \$65,746 for supplies, services, and the purchase of equipment and the expansion of facilities.

### **Litigation and Claims**

The Authority is a defendant in various legal actions arising in the normal course of business; it cannot predict the results of such litigation. However, based on consultation with outside counsel, the Authority generally believes the outcome of such matters will not materially affect its financial position, except that it cannot reach such conclusion at this time regarding the lawsuits described below.

The Authority is a defendant in a breach of contract action brought by Zachry Construction Corporation (“Zachry”) in November 2006. The lawsuit arises out of a contract which the Authority entered with Zachry in June 2004 for the construction of the initial 1,660 feet of dock at Bayport. A change order later added an additional 332 feet of dock. Zachry originally intended to construct the dock “in the dry” behind an earthen cofferdam, which was to be made rigid and water impermeable through soil freezing technology.

In general, Zachry sought to fault the Authority for Zachry’s decision to abandon the plan to freeze the cofferdam and complete the work “in the wet.” Zachry also claimed that the Authority wrongfully withheld \$2,600 in liquidated damages. The Authority disputed all of Zachry’s contentions.

The case proceeded to a jury trial on October 20, 2009 and ended with an adverse jury verdict returned on January 21, 2010 after 35 days of evidence. On April 28, 2010, judgment was entered by the trial court in favor of Zachry on its claims totaling \$19,993, with prejudgment interest totaling \$3,451. The trial court denied the Authority’s motion for judgment *non obstante veredicto*.

The Authority intends to file a motion for new trial, and if necessary will appeal the case.

**Required Supplementary Information**

**Port of Houston Authority Restated Retirement Plan  
Schedule of Funding Progress  
(in thousands)  
(unaudited)**

	<u>August 1,</u> <u>2009</u>	<u>August 1,</u> <u>2008</u>	<u>August 1,</u> <u>2007</u>
a) Actuarial Valuation Date			
b) Actuarial Value of Assets	\$ 93,179	\$ 96,724	\$ 101,148
c) Actuarial Accrued Liability (AAL)	\$ 122,093	\$ 117,731	\$ 109,919
d) Unfunded (Overfunded) Actuarial Accrued Liability (UALL) (c-b)	\$ 28,914	\$ 21,007	\$ 8,771
e) Funded Ratio (b/c)	76.3%	82.2%	92.0%
f) Annual Covered Payroll (Actuarial)	\$ 32,695	\$ 32,270	\$ 28,621
g) UAAL as a % of Covered Payroll (d/f)	88.4%	65.1%	30.6%

**Port of Houston Authority OPEB Obligation  
Schedule of Funding Progress  
(in thousands)  
(unaudited)**

	<u>January 1,</u> <u>2009</u>	<u>January 1,</u> <u>2008</u>	<u>January 1,</u> <u>2007</u>
a) Actuarial Valuation Date			
b) Actuarial Value of Assets	\$ -	\$ -	\$ -
c) Actuarial Accrued Liability (AAL)	\$ 118,692	\$ 107,292	\$ 107,292
d) Unfunded (Overfunded) Actuarial Accrued Liability (UALL) (c-b)	\$ 118,692	\$ 107,292	\$ 107,292
e) Funded Ratio (b/c)	0.0%	0.0%	0.0%
f) Annual Covered Payroll (Actuarial)	\$ 32,310	\$ 26,286	\$ 26,286
g) UAAL as a % of Covered Payroll (d/f)	367.4%	408.2%	408.2%

## **Statistical Section**

*[This page intentionally left blank.]*



## **Statistical Section**

This part of the Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

### **Contents**

#### **Financial Trends**

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

#### **Revenue Capacity**

These schedules contain information to help the reader assess the Authority's two most significant revenue sources, operating revenues and property taxes.

#### **Debt Capacity**

These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.

#### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

#### **Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs.

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Authority implemented GASB Statement 34 in 2002; schedules presenting financial information begin in that year.

*[This page intentionally left blank.]*

## **Financial Trends Information**

*[This page intentionally left blank.]*

Port of Houston Authority  
**Net Assets by Component**  
 Last Seven Fiscal Years  
 (accrual basis of accounting)  
 (unaudited)

	<u>2009</u>	2008	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Invested in capital, net of related debt</b>	<b>\$ 669,843</b>	\$ 646,777	\$ 676,785	\$ 615,169	\$ 476,709	\$ 431,595	\$ 397,063
<b>Restricted</b>							
Capital	<b>8,388</b>	3,978	3,846	24,863	23,841	24,012	22,874
Debt Service	<b>39,072</b>	37,310	28,774	27,909	32,465	35,391	34,970
<b>Unrestricted</b>	<b>191,830</b>	214,339	144,588	145,236	217,419	199,901	186,737
<b>Total Net Assets</b>	<b><u>\$ 909,133</u></b>	<u>\$ 902,404</u>	<u>\$ 853,993</u>	<u>\$ 813,177</u>	<u>\$ 750,434</u>	<u>\$ 690,899</u>	<u>\$ 641,644</u>

**Port of Houston Authority**  
**Changes in Net Assets**  
**Last seven fiscal years**  
(in thousands)  
(unaudited)

	2009	2008	2007	2006	2005	2004	2003
<b>Operating revenues:</b>							
Vessel and cargo services	\$ 145,781	\$ 172,381	\$ 164,595	\$ 143,550	\$ 132,283	\$ 116,506	\$ 101,085
Rental of equipment & facilities	20,524	19,984	18,872	18,103	17,473	15,878	14,977
Grain elevator	1,155	787	809	717	590	835	840
Bulk materials	2,243	2,319	2,903	3,221	2,568	2,348	2,978
Other	2,040	2,522	3,679	2,072	2,454	1,246	1,022
<b>Nonoperating revenues:</b>							
Investment income	4,136	7,154	10,019	11,606	7,478	2,963	3,243
Other	4,588	982	6,734	1,060	5,718	5,106	8,207
<b>Nonoperating revenues related to property taxes:</b>							
Property taxes	46,911	48,675	35,819	29,454	29,568	33,088	37,396
Investment income on unlimited tax bonds	165	1,113	2,045	2,077	1,432	346	(286)
<b>Total Revenues</b>	<b>227,543</b>	<b>255,917</b>	<b>245,475</b>	<b>211,860</b>	<b>199,564</b>	<b>178,316</b>	<b>169,462</b>
<b>Operating expenses:</b>							
Maintenance and operation of facilities	83,758	105,579	98,343	80,809	74,901	65,535	63,735
General and administrative	48,183	36,898	40,063	29,527	28,656	31,856	26,776
Depreciation and amortization	48,892	44,016	34,161	28,436	25,383	24,448	23,499
<b>Nonoperating expenses-</b>							
Interest expense on revenue bonds	-	-	-	176	328	808	1,176
Contribution to federal and state agencies	17,468	4,224	29,017	5,457	8,400	-	-
Other, Net							
<b>Nonoperating expenses related to property taxes:</b>							
Interest expense on unlimited tax bonds	26,072	21,344	10,124	10,775	9,580	8,217	7,639
Property tax expense	506	1,083	480	67	148	715	931
Other, net	901	423	357	360	369	391	431
<b>Total Expenses</b>	<b>225,780</b>	<b>213,567</b>	<b>212,545</b>	<b>155,607</b>	<b>147,765</b>	<b>131,970</b>	<b>124,187</b>
<b>Income (loss) before contributions</b>	<b>1,763</b>	<b>42,350</b>	<b>32,930</b>	<b>56,253</b>	<b>51,799</b>	<b>46,346</b>	<b>45,275</b>
<b>Contribution from federal and state agencies</b>	<b>3,549</b>	<b>6,061</b>	<b>7,886</b>	<b>6,490</b>	<b>7,736</b>	<b>2,909</b>	<b>870</b>
<b>Contribution from federal and state agencies-FEMA</b>	<b>1,417</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Contribution from federal and state agencies</b>	<b>4,966</b>	<b>6,061</b>	<b>7,886</b>	<b>6,490</b>	<b>7,736</b>	<b>2,909</b>	<b>870</b>
<b>Net Income</b>	<b>6,729</b>	<b>48,411</b>	<b>40,816</b>	<b>62,743</b>	<b>59,535</b>	<b>49,255</b>	<b>46,145</b>
<b>Net assets, January 1</b>	<b>902,404</b>	<b>853,993</b>	<b>813,177</b>	<b>750,434</b>	<b>690,899</b>	<b>641,644</b>	<b>595,499</b>
<b>Net assets, December 31</b>	<b>\$ 909,133</b>	<b>\$ 902,404</b>	<b>\$ 853,993</b>	<b>\$813,177</b>	<b>\$750,434</b>	<b>\$690,899</b>	<b>\$641,644</b>

## **Revenue Capacity Information**

*[This page intentionally left blank.]*



Schedule 3

**Port of Houston Authority of Harris County, Texas**  
**Assessed Value and Actual Value of Taxable Property**  
**Last Ten Fiscal Years**  
(Unaudited)  
(amounts in thousands)

<u>Year Levied</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Less Exemptions(a)</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>
2000	150,684,234	28,349,189	25,039,054	153,994,369	0.01830
2001	166,766,060	29,648,949	28,562,178	167,852,831	0.01826
2002	177,384,368	30,086,451	31,497,120	175,973,699	0.01989
2003	188,724,992	30,104,266	34,561,745	184,267,513	0.02000
2004	198,837,806	32,119,652	37,273,945	193,683,513	0.01673
2005	225,099,703	37,135,876	58,291,042	203,944,537	0.01474
2006	245,978,734	34,366,780	62,806,433	217,539,081	0.01302
2007	276,832,919	40,024,020	69,264,770	247,592,169	0.01437
2008	303,289,718	41,639,012	76,330,731	268,597,998	0.01773
2009	311,188,647	45,005,241	80,505,070	275,688,818	0.01636

(a) Exemptions are primarily made up of the homestead property exemption of 20%. In addition, persons 65 years of age or older receive an exemption up to a maximum individual amount of \$156,240.

Source: Harris County Appraisal District Property Use Recap as of 12/28/09

Note: Property in the county is reassessed each year. Property is assessed at actual value; therefore, the assessed values are equal to actual value. Tax rates are per \$100 of assessed value.

**Port of Houston Authority of Harris County, Texas**  
**County - Wide Ad Valorem Tax Rates (a)**  
 Last Ten Fiscal Years  
**Year Levied**  
 (Unaudited)

<b>Purpose</b>	<b>2009</b>	2008	2007	2006	2005	2004	2003	2002	2001	2000
<b>Harris County</b>										
General Fund (b)	<b>\$0.33401</b>	\$0.33815	\$0.33918	\$0.34221	\$0.34728	\$0.33117	\$0.34490	\$0.33538	\$0.33606	\$0.32599
General Bonds Debt Service	<b>0.03642</b>	0.03192	0.03200	0.03465	0.03047	0.04303	0.01889	0.03056	0.02368	0.01772
Total Constitutional Funds	<b>0.37043</b>	0.37007	0.37118	0.37686	0.37775	0.37420	0.36379	0.36594	0.35974	0.34371
County - Wide Road Debt Service	<b>0.02181</b>	0.01916	0.02121	0.02553	0.02211	0.02566	0.02424	0.02220	0.02419	0.01531
	<b>0.39224</b>	0.38923	0.39239	0.40239	0.39986	0.39986	0.38803	0.38814	0.38393	0.35902
<b>Flood Control District</b>										
Maintenance	<b>0.02754</b>	0.02754	0.02754	0.02733	0.02733	0.02553	0.02981	0.02853	0.02853	0.04001
Debt Service	<b>0.00168</b>	0.00332	0.00352	0.00508	0.00589	0.00765	0.01193	0.01321	0.01905	0.02172
	<b>0.02922</b>	0.03086	0.03106	0.03241	0.03322	0.03318	0.04174	0.04174	0.04758	0.06173
<b>Port of Houston Authority</b>										
Debt Service	<b>0.01636</b>	0.01773	0.01437	0.01302	0.01474	0.01673	0.02000	0.01989	0.01826	0.01830
<b>Hospital District</b>										
General	<b>0.19216</b>	0.19216	0.19216	0.19216	0.19216	0.19021	0.19021	0.19021	0.19021	0.20268
Total	<b>\$0.62998</b>	\$0.62998	\$0.62998	\$0.63998	\$0.63998	\$0.63998	\$0.63998	\$0.63998	\$0.63998	\$0.64173

(a) Tax rates are stated per \$100 assessed valuation. Source: Harris County Auditor.

(b) For the 1995 through 2001 tax years, the tax levied by Harris County for General Fund purposes includes Jury Fund & Road & Bridge Fund purpos

Port of Houston Authority of Harris County, Texas  
**Direct and Overlapping Debt and Property Tax Rates (a)**  
 December 31, 2009  
 (Unaudited)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<b>County - Wide Taxing Jurisdiction</b>										
Harris County	0.3922	\$0.3924	\$0.4024	\$0.3999	\$0.3999	\$0.3880	\$0.3881	\$0.3839	\$0.3590	\$0.3948
Harris County Flood Control District	0.0292	0.0311	0.0324	0.0332	0.0332	0.0417	0.0417	0.0475	0.0617	0.0800
Port of Houston Authority	0.0164	0.0144	0.0130	0.0147	0.0167	0.0200	0.0198	0.0183	0.0183	0.0204
Harris County Hospital District	0.1922	0.1922	0.1922	0.1922	0.1902	0.1902	0.1902	0.1902	0.2027	0.1465
	<u>\$0.6301</u>	<u>\$0.6301</u>	<u>\$0.6400</u>	<u>\$0.6400</u>	<u>\$0.6400</u>	<u>\$0.6399</u>	<u>\$0.6398</u>	<u>\$0.6399</u>	<u>\$0.6417</u>	<u>\$0.6417</u>
<b>Cities</b>										
Baytown	0.7870	0.7370	0.7370	0.7370	0.7370	0.7370	0.7370	0.7370	0.7370	0.7370
Bellaire	0.3759	0.4400	0.4400	0.4700	0.4800	0.4800	0.4900	0.4900	0.4900	0.4900
Deer Park	0.7050	0.7200	0.7200	0.7200	0.7200	0.7000	0.6990	0.7000	0.7000	0.7000
Houston	0.6388	0.6450	0.6450	0.6500	0.6550	0.6550	0.6550	0.6650	0.6650	0.6650
La Porte	0.7100	0.7100	0.7100	0.7100	0.7100	0.7100	0.7100	0.7100	0.7100	0.7100
League City	0.6300	0.6088	0.6088	0.6275	0.6400	0.6400	0.6625	0.6700	0.6700	0.7250
Missouri City	0.5284	0.4993	0.4945	0.4980	0.5017	0.5100	0.5330	0.5200	0.5503	0.5679
Pasadena	0.5620	0.5670	0.5670	0.5670	0.5670	0.5670	0.5670	0.5790	0.5790	0.5790
Pearland	0.6526	0.6526	0.6527	0.6744	0.6950	0.6960	0.6860	0.6860	0.6950	0.6950
Seabrook	0.5884	0.6203	0.6210	0.6307	0.6196	0.6082	0.6006	0.6010	0.5840	0.5530
South Houston	0.6732	0.6770	0.6588	0.6863	0.7000	0.7000	0.0000	0.6950	0.6910	0.6951
Webster	0.2325	0.2489	0.2575	0.2575	0.2680	0.2510	0.2400	0.2600	0.2600	0.2900
West University Place	0.3588	0.3660	0.4020	0.4300	0.4467	0.4467	0.4300	0.4200	0.4000	0.4000
<b>School Districts</b>	.1101-1.5266	.1144-1.6450	.1167-1.8150	.1207-2.000	.1145-2.000	.1145-1.970	.1055-1.940	.0110-1.920	.110-1.868	.110-1.862

(a) Includes all Tax Bonds.

**HARRIS COUNTY, TEXAS  
PRINCIPAL PROPERTY TAX PAYERS  
CURRENT YEAR AND NINE YEARS AGO  
(amounts in thousands)  
(Unaudited)**

Taxpayers	2009			2000		
	2009 Taxable Valuations (a)	Rank	Percentage of Total 2009 Taxable Valuation (b)	2000 Taxable Valuations (a)	Rank	Percentage of Total 2000 Taxable Valuation (c)
Exxon Mobil Corporation	\$ 3,173,961	1	1.11	\$ 3,036,331	1	1.97
Centerpoint Energy, Inc.	2,515,491	2	0.88	-		0.00
Shell Oil Company	2,098,922	3	0.74	1,319,878	4	0.86
Houston Refining	1,506,923	4	0.53	-		0.00
Chevron Chemical Company	1,504,773	5	0.53	466,393	10	0.30
AT&T Corporation	922,964	6	0.32	-		0.00
Hewlett Packard Company	902,828	7	0.32	-		0.00
Hines Interests Ltd Partnership	846,907	8	0.30	452,264	11	0.29
Crescent Real Estate	824,060	9	0.29	369,976	15	0.24
Equistar Chemicals LP	777,240	10	0.27	1,248,405	5	0.81
Walmart	768,751	11	0.27	-		0.00
National Oilwell Inc	708,729	12	0.25	-		0.00
Amoco Chemical Company	689,661	13	0.24	-		0.00
Cullen Allen Holdings LP	679,739	14	0.24	-		0.00
Lyondell Chemical	585,844	15	0.21	923,706	6	0.60
Houston Lighting and Power Company	-		0.00	2,034,703	2	1.32
Southwestern Bell Telephone	-		0.00	1,352,634	3	0.88
Compaq Computer Corporation	-		0.00	710,101	7	0.46
Crescent Real Estate Equities	-		0.00	589,342	8	0.38
Lyondell-Citgo Refining Company	-		0.00	496,316	9	0.32
Occidental Chemical Corporation	-		0.00	415,896	12	0.27
Celanese Ltd	-		0.00	399,033	13	0.26
Anhueser Busch Incorporated	-		0.00	392,509	14	0.25
<b>Total</b>	<u>\$ 18,506,793</u>		<u>6.50%</u>	<u>\$ 14,207,487</u>		<u>9.21%</u>

Source: Harris County Appraisal District.

- (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 County's total taxable value as of February 28, 2010.
- (c) Based on the County's total taxable value as of February 20, 2001.

Port of Houston Authority of Harris County, Texas  
**Property Tax Levies and Collections (a)**  
 For the Years 2000 Through 2009  
 (Unaudited)  
 (in thousands)

Fiscal Year	Taxes levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percent of Levy
2000	\$ 28,191	\$ 26,144	92.7	\$ 789	\$ 26,933	95.5
2001	30,659	28,574	93.2	825	29,399	95.9
2002	34,904	32,558	93.3	887	33,445	95.8
2003	36,923	34,417	93.2	1085	35,502	96.2
2004	32,403	30,064	92.8	1216	31,280	96.5
2005	29,689	26,805	90.3	1119	27,924	94.1
2006	28,671	26,131	91.1	955	27,086	94.5
2007	35,566	32,795	92.2	703	33,498	94.2
2008	48,288	43,622	90.3	688	44,310	91.8
2009	45,086	41,875	92.9	611	42,486	94.2

(a) Source: Harris County Tax Assessor - Collector as of February 28, 2010 (Harris County Year End)

(b) Taxes levied in any year which are collected commencing October 1 of such year through June 30 of the following year are shown as current collections. Such amounts include collections of the current levy after February 1, which is the date taxes become legally delinquent.

(c) Noncurrent collections of real and personal property taxes during the period beginning on July 1 of the year indicated and ending on June 30 of the following year are shown as delinquent collections.

(d) The accumulation of all unpaid ad valorem taxes at the end of the collection period, beginning on July 1 of the year indicated and ending on June 30 of the following year, is shown as delinquent taxes receivable.

**Port of Houston Authority**  
**Operating Revenues by Type**  
**Last ten fiscal years**  
(unaudited)  
(in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Operating revenues: (a) (b) (c)</b>										
Vessel and cargo services	\$ 142,310	\$ 169,584	\$ 162,636	\$ 143,550	\$ 132,283	\$ 116,506	\$ 101,085	\$ 88,923	\$ 86,906	\$ 88,297
Rental of equipment & facilities	20,451	19,911	18,801	18,103	17,473	15,878	14,977	15,340	15,510	14,878
Grain elevator	1,155	787	809	717	590	835	840	838	1,511	1,980
Bulk materials	2,243	2,319	2,903	3,221	2,568	2,348	2,978	2,662	2,134	1,543
Other	2,040	2,435	3,630	2,072	2,454	1,246	1,022	568	2,278	1,442
	<u>\$ 168,199</u>	<u>\$ 195,036</u>	<u>\$ 188,779</u>	<u>\$ 167,663</u>	<u>\$ 155,368</u>	<u>\$ 136,813</u>	<u>\$ 120,902</u>	<u>\$ 108,331</u>	<u>\$ 108,339</u>	<u>\$ 108,140</u>
<b>Revenue Tonnage</b>										
General Cargo	19,681	24,871	23,051	23,657	19,942	18,441	15,184	14,704	14,091	14,723
Bulk	9,184	10,371	10,096	9,696	8,623	7,909	9,012	8,637	7,890	7,779
	<u>28,865</u>	<u>35,242</u>	<u>33,147</u>	<u>33,353</u>	<u>28,565</u>	<u>26,350</u>	<u>24,196</u>	<u>23,341</u>	<u>21,981</u>	<u>22,502</u>

- (a) General Cargo Tonnage and Bulk Tonnage generate Operating Revenues from Vessel and Cargo Services, Grain Elevator and Bulk Material
- (b) Revenues are defined by tariffs based upon terminal and type of services. Some units of measure used (depending on type of service) are units, weight, number of days and gallons.
- (c) Excludes Port Development Corporation and Port of Houston Authority International Corporation.

Port of Houston Authority  
Financial & Statistical Results - December 2009

**Revenue Tonnage (a)**

Last Ten Fiscal Years  
(unaudited)

(in short tons)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<b>General Cargo</b>										
Barbours Cut										
All other	5,571,883	7,592,527	10,044,562	9,550,199	8,897,900	8,103,018	7,382,472	6,620,054	5,983,853	5,604,541
Lease	3,848,608	4,224,952	3,959,332	5,676,018	5,369,441	4,852,423	3,744,455	3,564,903	3,021,031	2,871,918
	<u>9,420,491</u>	<u>11,817,479</u>	<u>14,003,894</u>	<u>15,226,217</u>	<u>14,267,341</u>	<u>12,955,441</u>	<u>11,126,927</u>	<u>10,184,957</u>	<u>9,004,884</u>	<u>8,476,459</u>
Bayport Container Terminal	5,802,758	4,198,520	1,522,186	-	-	-	-	-	-	-
Turning Basin										
Autos Import	73,325	115,660	113,567	95,719	121,370	114,124	142,706	132,056	123,235	88,989
Autos Export	23,641	32,211	21,585	18,216	24,654	20,901	14,222	10,479	12,768	9,499
Steel Imports	2,195,728	4,961,811	3,631,363	4,206,717	2,008,066	1,861,318	1,104,480	1,510,864	1,837,728	2,499,536
All other	622,113	1,559,870	1,571,635	1,610,654	1,524,844	1,185,115	1,038,280	942,259	813,373	1,044,956
	<u>2,914,807</u>	<u>6,669,552</u>	<u>5,338,150</u>	<u>5,931,306</u>	<u>3,678,934</u>	<u>3,181,458</u>	<u>2,299,688</u>	<u>2,595,658</u>	<u>2,787,104</u>	<u>3,642,980</u>
Jacintoport	1,072,605	1,220,081	1,509,501	1,312,717	1,285,578	1,328,490	1,118,457	1,003,913	1,007,195	1,002,217
Care Terminal	249,001	421,064	438,722	522,501	427,792	552,025	373,560	402,195	354,885	571,707
Woodhouse	221,798	544,590	289,586	638,609	204,494	274,128	164,597	243,710	312,355	405,329
Galveston	-	-	-	25,131	77,677	149,251	100,777	274,048	624,969	623,984
	<u>19,681,460</u>	<u>24,871,286</u>	<u>23,102,039</u>	<u>23,656,481</u>	<u>19,941,816</u>	<u>18,440,793</u>	<u>15,184,006</u>	<u>14,704,481</u>	<u>14,091,392</u>	<u>14,722,676</u>
<b>Bulk</b>										
Barbours Cut	2,426	4,409	-	-	3,438	1,110	1,346	-	-	4,754
Galveston	-	-	-	-	-	-	-	-	-	2,550
Jacintoport	10,803	-	626	-	4,529	-	-	-	298,206	1,957
Care Terminal	192,753	756,891	610,965	399,887	388,737	312,168	185,787	194,457	2,756	189,731
Woodhouse	30,468	6,031	45,780	11,003	36,447	11,525	30,181	38,318	82,308	94,549
Sims Bayou	648,650	571,557	860,009	1,108,220	1,292,821	996,984	865,383	917,982	968,014	1,019,104
S.J.B. Liquid Facility	492,921	428,698	404,359	410,613	364,969	309,205	217,285	264,269	194,953	285,706
Turning Basin	1,732,249	1,985,245	1,505,652	1,608,685	1,640,084	1,533,430	1,551,894	1,436,370	1,373,977	1,603,857
	<u>3,110,270</u>	<u>3,752,831</u>	<u>3,427,391</u>	<u>3,538,408</u>	<u>3,731,025</u>	<u>3,164,422</u>	<u>2,851,876</u>	<u>2,851,396</u>	<u>2,920,214</u>	<u>3,202,208</u>
Bulk Materials Terminal	4,513,258	4,520,962	4,949,954	4,551,697	3,561,052	3,694,483	4,808,372	3,846,720	2,979,139	2,275,081
Grain Elevator #2	1,560,258	2,096,735	1,746,128	1,606,343	1,330,575	1,050,119	1,351,313	1,938,668	1,990,476	2,301,755
	<u>9,183,786</u>	<u>10,370,528</u>	<u>10,123,473</u>	<u>9,696,448</u>	<u>8,622,652</u>	<u>7,909,024</u>	<u>9,011,561</u>	<u>8,636,784</u>	<u>7,889,829</u>	<u>7,779,044</u>
<b>Grand Total</b>	<u>28,865,246</u>	<u>35,241,814</u>	<u>33,225,512</u>	<u>33,352,929</u>	<u>28,564,468</u>	<u>26,349,817</u>	<u>24,195,567</u>	<u>23,341,265</u>	<u>21,981,221</u>	<u>22,501,720</u>

Based on information as received and estimates.

Source: The Authority

(a) Revenue tonnage is tonnage from which PHA revenues are derived. Does not include non Authority tonnage figures

**Port of Houston Authority**  
**Top Ten Vessel and Cargo Customers**  
**Current Year and Nine Years Ago**  
**(amounts in thousands)**  
**(Unaudited)**

Taxpayers	2009			2000		
	2009 Customers	Rank	Percentage of Total 2009 Revenue	2000 Customers	Rank	Percentage of Total 2000 Revenue
Mediterranean Shipping Inc. SA	\$ 24,191	1	14.18%	\$ 5,864	2	5.11%
Hapag-Lloyd AG	19,718	2	11.56	2,762	6	2.41
CMA-CGM (America), Inc	13,658	3	8.01			
Hamburg Sud North America	6,243	4	3.66			
Cia Libra de Navegacao	4,658	5	2.73			
Zim Integrated Shipping	4,065	6	2.38			
Biehl & Company - Vessel	3,764	7	2.21	2,783	5	2.43
Seaboard Marine, Ltd.	3,168	8	1.86			
ISS-RioMar, L.L.C.	2,965	9	1.74			
OOCL(USA) Inc./	2,261	10	1.33	2,159	7	1.88
CP Ships US Agency, LLC				6,931	1	6.05
P & O Ned Lloyd Limited				5,679	3	4.95
Kerr Norton Strachan Agency				3,684	4	3.21
APL Limited				2,107	8	1.84
Lykes Lines Limited, LLC				2,030	9	1.77
American Shipping & Chartering				1,830	10	1.60
<b>Total</b>	<b>\$ 84,691</b>		<b>49.65%</b>	<b>\$ 35,829</b>		<b>31.25%</b>

**Source:** The Authority Billing Department



## **Debt Capacity Information**

*[This page intentionally left blank.]*

**Port of Houston Authority of Harris County, Texas**  
**Ratios of net General Bonded Debt by Type**  
**Last Ten Fiscal Years**  
(unaudited)  
(in thousands, except per capita)

<b>General Obligation Bonds</b>								
<b>Fiscal Year</b>	<b>Unlimited Tax Refunding Bonds</b>	<b>Unlimited Tax Port Improvement Bonds</b>	<b>Commercial Paper</b>	<b>Gross General Bonded Debt</b>	<b>Less Debt Service Funds Cash</b>	<b>Net General Bonded Debt</b>	<b>Percentage of Actual Property Value</b>	<b>Per Capita</b>
2000	\$ 44,405	\$ 219,070	\$ -	\$ 263,475	3	\$ 263,472	0.17	77
2001	38,135	286,570	-	324,705	9	324,696	0.19	94
2002	40,495	291,160	-	331,655	7	331,648	0.19	93
2003	34,685	271,560	-	306,245	8	306,237	0.17	85
2004	37,975	249,925	6,800	294,700	11	294,689	0.15	81
2005	130,620	184,085	21,034	335,739	7	335,732	0.16	91
2006	211,100	146,005	21,744	378,849	7	378,842	0.17	97
2007	204,935	139,030	113,478	457,443	5	457,438	0.18	116
2008	431,065	131,950	-	563,015	7	563,008	0.21	141
2009	422,665	124,750	70,245	617,660	6	617,654	0.22	152

<b>Fiscal Year</b>	<b>Revenue Bonds</b>	<b>Special Purpose Revenue Bonds</b>	<b>Total Outstanding Debt</b>	<b>Percentage of Personal Income</b>	<b>Per Capita</b>
2000	\$ 26,280	\$ 310	\$ 290,062	2.39	85
2001	22,125	240	347,061	2.68	100
2002	17,175	160	348,983	2.72	98
2003	12,935	80	319,252	2.39	89
2004	8,620	-	303,309	2.11	83
2005	4,363	-	340,095	2.17	92
2006	-	-	378,842	2.13	97
2007	-	-	457,438	2.36	116
2008	-	-	563,008	2.96	141
2009	-	-	620,289	n/a	152

**Note:** Details regarding the Authority's outstanding debt can be found in the notes to the financial statements  
See Schedule 3 for property value data  
Population data can be found in Schedule 14  
n/a - Not available

Port of Houston Authority of Harris County, Texas  
**Net Revenues Available for Debt Service on First - Lien Revenue Bonds**  
For Each of the Ten Years in the Period Ended December 31, 2009  
(Unaudited)  
(in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Gross Revenues</b>					
<b>Operating Revenues</b>					
Vessel and Cargo Services	\$142,310	\$169,584	\$162,636	\$141,697	\$131,007
Rental of Port Facilities	20,451	19,910	18,800	18,033	17,412
Grain Elevator	1,155	787	809	717	589
Bulk Materials Handling Plant	2,243	2,319	2,903	3,221	2,568
Other	2,040	2,435	3,630	1,915	2,361
Total	<u>168,199</u>	<u>195,035</u>	<u>188,778</u>	<u>165,583</u>	<u>153,937</u>
<b>Nonoperating Revenues</b>					
Interest on Investments	4,552	6,736	9,992	11,292	7,427
Other	9,806	7,198	14,699	8,255	13,660
Total	<u>14,358</u>	<u>13,934</u>	<u>24,691</u>	<u>19,547</u>	<u>21,087</u>
Total Gross Revenues	<u>182,557</u>	<u>208,969</u>	<u>213,469</u>	<u>185,130</u>	<u>175,024</u>
<b>Operation Expenses</b>					
<b>Maintenance and Operation of Facilities</b>					
Vessel and Cargo Services	77,591	94,473	85,178	73,236	66,918
Rental of Port Facilities	3,774	3,311	4,185	3,560	6,151
Grain Elevator	221	163	404	557	477
Bulk Materials Handling Plant	88	94	307	723	435
Other	1,796	1,797	1,916	358	919
Total	<u>83,470</u>	<u>99,838</u>	<u>91,990</u>	<u>78,434</u>	<u>74,900</u>
<b>General and Administrative Expenses</b>	<u>47,986</u>	<u>41,930</u>	<u>46,029</u>	<u>28,846</u>	<u>28,380</u>
Total Operating Expenses	<u>131,456</u>	<u>141,768</u>	<u>138,019</u>	<u>107,280</u>	<u>103,280</u>
<b>Nonoperating Expenses</b>	<u>18,469</u>	<u>4,461</u>	<u>29,151</u>	<u>5,869</u>	<u>8,550</u>
Total Operation Expenses	<u>149,925</u>	<u>146,229</u>	<u>167,170</u>	<u>113,149</u>	<u>111,830</u>
<b>Net Revenues Available For Debt</b>					
<b>Service on First Lien Revenue Bonds</b>	<u>\$32,632</u>	<u>\$62,740</u>	<u>\$46,299</u>	<u>\$71,981</u>	<u>\$63,194</u>
<b>Average Annual Debt Service</b>					
<b>on First Lien Revenue Bonds</b>	\$ -	\$ -	\$ -	\$4,456	\$4,514
<b>Coverage by Net Revenues</b>	0%	0%	0%	1615%	1399%

Port of Houston Authority of Harris County, Texas  
**Net Revenues Available for Debt Service on First - Lien Revenue Bonds**  
For Each of the Ten Years in the Period Ended December 31, 2009  
(Unaudited)  
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Gross Revenues</b>					
<b>Operating Revenues</b>					
Vessel and Cargo Services	\$114,915	\$99,655	\$87,666	\$85,575	\$86,793
Rental of Port Facilities	15,817	14,929	15,294	15,497	14,866
Grain Elevator	835	840	838	1,511	1,980
Bulk Materials Handling Plant	2,348	2,978	2,662	2,133	1,543
Other	1,036	971	548	2,279	1,442
Total	<u>134,951</u>	<u>119,373</u>	<u>107,008</u>	<u>106,995</u>	<u>106,624</u>
<b>Nonoperating Revenues</b>					
Interest on Investments	3,500	3,713	5,472	9,267	9,869
Other	8,172	9,611	639	4,638	491
Total	<u>11,672</u>	<u>13,324</u>	<u>6,111</u>	<u>13,905</u>	<u>10,360</u>
Total Gross Revenues	<u>146,623</u>	<u>132,697</u>	<u>113,119</u>	<u>120,900</u>	<u>116,984</u>
<b>Operation Expenses</b>					
<b>Maintenance and Operation of Facilities</b>					
Vessel and Cargo Services	60,906	58,506	51,837	47,878	44,036
Rental of Port Facilities	2,954	2,962	3,059	2,618	2,863
Grain Elevator	197	221	412	123	227
Bulk Materials Handling Plant	589	268	265	230	142
Other	888	899	865	407	25
Total	<u>65,534</u>	<u>62,856</u>	<u>56,438</u>	<u>51,256</u>	<u>47,293</u>
<b>General and Administrative Expenses</b>	<u>31,316</u>	<u>26,250</u>	<u>28,360</u>	<u>22,504</u>	<u>16,385</u>
Total Operating Expenses	<u>96,850</u>	<u>89,106</u>	<u>84,798</u>	<u>73,760</u>	<u>63,678</u>
<b>Nonoperating Expenses</b>	<u>686</u>	<u>1,053</u>	<u>269</u>	<u>122</u>	<u>87</u>
Total Operation Expenses	<u>97,536</u>	<u>90,159</u>	<u>85,067</u>	<u>73,882</u>	<u>63,765</u>
<b>Net Revenues Available For Debt</b>					
<b>Service on First Lien Revenue Bonds</b>	<u>\$49,087</u>	<u>\$42,538</u>	<u>\$28,052</u>	<u>\$47,018</u>	<u>\$53,219</u>
<b>Average Annual Debt Service</b>					
<b>on First Lien Revenue Bonds</b>	\$4,619	\$4,938	\$5,675	\$5,225	\$5,280
<b>Coverage by Net Revenues</b>	1063%	861%	494%	900%	1008%

Port of Houston Authority of Harris County, Texas  
**Table of Bonded Debt Service Requirements (a)**  
(unaudited)

<b>Fiscal Year Ending December 31</b>	<b>Outstanding Debt Service Requirements</b>
2010	\$ 137,770,951
2011	35,424,283
2012	35,994,282
2013	35,947,003
2014	36,413,587
2015	36,360,218
2016	36,304,030
2017	38,425,880
2018	38,439,442
2019	39,070,245
2020	43,012,482
2021	42,911,293
2022	42,105,167
2023	32,633,276
2024	27,074,665
2025	26,946,702
2026	25,977,376
2027	26,882,803
2028	27,881,812
2029	27,784,187
2030	27,682,068
2031	26,884,468
2032	26,729,034
2033	26,558,784
2034	26,398,629
2035	26,227,128
2036	26,045,082
2037	25,852,907
2038	29,448,247
<b>Total</b>	<b>\$ 1,035,186,031</b>

(a) The table sets forth the annual debt service requirements on the Authority's ad valorem tax bonds as of December 31, 2009, excluding bonds that have been refunded and defeased.

## Demographic and Economic Information

*[This page intentionally left blank.]*



**Schedule 14**

Port of Houston Authority of  
Harris County, Texas  
**Demographic and Economic Statistics**  
Last Ten Calendar Years  
(Unaudited)

<u>Calendar Year</u>	<u>Population</u>	<u>Unemployment Rate</u>	<u>Personal Income (amounts in thousands)</u>	<u>Per Capita Personal Income</u>
1999	3,250,404	4.1%	\$ 109,635,167	\$ 33,730
2000	3,400,578	3.2%	121,592,842	35,600
2001	3,460,589	5.7%	129,728,437	37,165
2002	3,557,055	5.4%	128,298,585	35,919
2003	3,596,086	6.3%	133,463,543	36,719
2004	3,644,285	5.9%	143,417,824	38,810
2005	3,693,050	5.4%	156,920,733	41,703
2006	3,886,207	4.5%	178,160,838	45,961
2007	3,935,855	4.2%	194,177,877	49,634
2008	3,984,349	4.6%	190,226,395	47,788
2009	4,070,989	7.6%	n/a	n/a

Sources: Population - Bureau of the Census  
Unemployment Rate - Texas Workforce Commission  
Personal Income - Bureau of Economic Analysis  
n/a - not available

**HARRIS COUNTY, TEXAS  
PRINCIPAL EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO\*  
(amounts in thousands)  
(Unaudited)**

Employer	2009			2000		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Continental Airlines (merger pending w/ United Airlines)	14,651	1	0.54%	16,779	1	0.74%
Exxon Mobil	13,353	2	0.49%			
Shell Oil Company	11,855	3	0.44%	7,425	10	0.33%
Chevron Companies	7,000	4	0.26%			
JP Morgan Chase	6,500	5	0.24%			
AT&T Inc. (former Southwestern Bell)	6,047	6	0.22%			
Baker Hughes Incorporated	5,369	7	0.20%			
KBR Inc. (spun off from Halliburton)	5,089	8	0.19%	15,550	3	0.68%
CenterPoint Energy (spun off from Reliant Energy)	4,750	9	0.17%			
Aramark	4,500	10	0.17%			
Halliburton Company	4,500	10	0.17%			
Administaff				16,458	2	0.72%
Enron				13,669	4	0.60%
Compaq Computer				13,400	5	0.59%
Wal-Mart				9,560	6	0.42%
Kroger Food Stores				9,100	7	0.40%
Southwestern Bell/SWB				7,800	8	0.34%
Reliant Energy Inc/Center Point Energy				7,670	9	0.34%
	83,614			117,411		

\* Based on calendar year.

**Source:** Houston Business Journal, Business First Survey/Greater Houston Partnership/HBJ

**Note:** Total County Employment for 2009 was approximately 2,715,000 and for 2000 was 2,278,600

**Schedule 16**

Port of Houston Authority of Harris County, Texas  
**Miscellaneous Statistical Data**  
 December 31, 2009  
 (Unaudited)

**Date of Incorporation:** 1911

**Form of Government:** A political subdivision of the State of Texas

**Area :** 1,778 Square Miles

**Altitude:** Harris County (generally coterminous with Port of Houston Authority) - Sea level to 310 feet  
 City of Houston - Center of downtown area - 41 feet

<b>Population (a)</b>					
<b>Year</b>	City of Houston	Harris County	<b>Year</b>	City of Houston	Harris County
<b>1870</b>	9,332	17,375	<b>1940</b>	384,514	528,961
<b>1880</b>	16,513	27,985	<b>1950</b>	596,163	806,701
<b>1890</b>	27,557	37,249	<b>1960</b>	938,219	1,243,158
<b>1900</b>	44,633	63,786	<b>1970</b>	1,232,802	1,741,912
<b>1910</b>	78,800	115,693	<b>1980</b>	1,594,086	2,409,544
<b>1920</b>	138,276	186,667	<b>1990</b>	1,632,833	2,818,199
<b>1930</b>	292,352	359,328	<b>2000</b>	1,953,631	3,400,578

**Harris County Voters in Presidential Elections (b)**

	<b>2 0 0 8</b>	2 0 0 4	2 0 0 0	1 9 9 6	1 9 9 2
Registered Voters	<b>1,974,777</b>	1,876,296	1,886,661	1,597,211	1,337,405
Votes Cast	<b>1,188,731</b>	1,088,793	995,631	871,656	958,234
Percentage of Registered Voters Voting	<b>60.20%</b>	58.03%	52.78%	54.60%	71.60%

**Motor Vehicle Registration (c)**

	<b>2 0 0 9</b>	2 0 0 8	2 0 0 7	2 0 0 6	2 0 0 5
Passenger Cars, Small Trucks and Misc.	<b>3,341,255</b>	3,207,888	2,814,918	2,814,918	2,908,646
Large Trucks	<b>31,418</b>	32,468	22,367	22,367	29,729
Total	<b>3,372,673</b>	3,240,356	2,837,285	2,837,285	2,938,375

(a) Source: Department of Commerce, Bureau of Census

(b) Source: Harris County Tax Assessor - Collector

(c) Source: Harris County Clerk

Port of Houston Authority  
**Miscellaneous Statistical Data**  
 December 31, 2009  
 (Unaudited)

**Schedule 16**

**Students enrolled in colleges and universities located within Harris County**

	<u>2 0 0 9</u>	<u>2 0 0 8</u>	<u>2 0 0 7</u>	<u>2 0 0 6</u>	<u>2 0 0 5</u>
Baylor College of Medicine	1,431	1,385	1,398	1,358	1,340
Houston Baptist University	2,710	2,564	2,339	2,143	2,296
Houston Community College	69,755	61,396	57,457	57,168	52,443
Lone Star College System	58,844	51,483	49,253	46,048	43,433
Rice University	5,556	5,132	5,243	5,119	5,207
San Jacinto College:	-	-	-	-	-
Central, South, North	27,011	24,616	25,556	26,712	26,775
South Texas College of Law	1,270	1,267	1,252	1,237	1,240
Texas Southern University	9,394	9,102	9,540	11,224	11,903
Texas Woman's University: Houston Center	1,252	1,184	1,223	1,184	1,266
University of Houston:	-	-	-	-	-
University Park	37,000	36,104	34,663	34,334	35,344
Downtown	12,742	12,283	11,793	11,449	11,484
Clear Lake	7,644	7,658	7,522	7,706	7,853
University of St. Thomas	3,234	3,246	3,350	3,607	3,776
University of Texas:	-	-	-	-	-
Dental Branch	474	471	452	439	390
Graduate School of Biomedical Sciences	593	570	578	544	545
Medical School	1,009	963	935	912	869
Health Information Sciences	103	99	80	73	123
School of Nursing	765	759	771	753	755
School of Public Health	1,025	1,003	959	930	979
Total	<u>241,812</u>	<u>221,285</u>	<u>214,364</u>	<u>212,940</u>	<u>208,021</u>

**Number of Employees**

	<u>2 0 0 9</u>	<u>2 0 0 8</u>	<u>2 0 0 7</u>	<u>2 0 0 6</u>	<u>2 0 0 6</u>
Harris County	15,809	15,693	15,237	15,313	15,313
Flood Control District	382	326	339	346	346
Port of Houston Authority	592	595	580	560	560

(a) Source: Department of Commerce, Bureau of Census

(b) Source: Harris County Tax Assessor - Collector

(c) Source: Harris County Clerk

## **Operating Information**

*[This page intentionally left blank.]*

## Port of Houston Authority

Table of Physical Characteristics of the Port Facilities of the Authority  
(Unaudited)

	<b>Berth Lengths (Feet)</b>	<b>Water Depth Below Mean Low Tide (Feet)</b>	<b>Paved Marshalling Area (Acres)</b>	<b>Covered Storage (Sq. Feet)</b>
<b>Turning Basin</b>				
36 general Cargo Wharves	376 - 600	27 - 37*	27.3	1,400,000
5 Liquid Bulk Wharves	226 - 570	33 - 36	-	-
Wharf - 32 Project Cargo	800	37*	20.2	-
<b>Woodhouse Terminal**</b>				
Wharf 1	660	39	2.2	-
Wharves 2 and 3	1,250	35	-	231,750
Grain Dock**	600	42	-	-
<b>Dry Bulk Cargo Facility</b>				
Wharf 1	800	42	-	-
Wharf 2	400	42	-	-
<b>Jacintoport</b>				
Wharves 1 - 3	1,830	40	7.5	82,500
<b>Care Terminal</b>				
Wharf 1	500	36	9.6	45,000
Wharf 2	618	38	4	-
<b>Sims Bayou Liquid Bulk Facility</b>				
Berths	320	40	-	-
<b>San Jacinto Barge Terminal</b>				
Berth	200 - 700	16	-	-
<b>Barbours Cut Terminal</b>				
LASH Berth	810	36	-	-
Container Berths 1 - 6	6,000	40	230	255,000
<b>Passenger Berth</b>				
	900	36	-	-
<b>Bayport</b>				
Container Berths 4 & 5	2,000	40	60	-

\* The maximum depth allowable due to Channel Project depths.

\*\* 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**

One 40-long ton capacity container crane which serves 9 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 long ton, four 50 long ton  
**Yard Cranes:** forty 40 long ton  
**Other Cranes:** four 20,000-pound lifters for handling empty containers and two 80,000 pound container handling machines  
**Other Equipment:** 33 heavy duty yard tractors and 125 heavy duty yard chassis are available for rent from the Authority. Private firms also provide this equipment as well as heavy lift equipment.

**Bayport**

**Container Cranes:** six 65 long ton  
**Yard Cranes:** 18 40 long ton  
**Other Equipment:** 6 heavy duty terminal tractors and 20 yard chassis  
one 80,000 pound container handling machine

**Port of Houston Authority**  
 Freight Traffic Statistics  
 (unaudited)  
 (in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Freight handled by the Authority only (excluding tonnages handled by private terminals) - short tons (2,000 lbs.) (a) (d)</b>										
Breakbulk Cargo	3,768	8,006	6,678	7,545	4,679	4,481	3,244	3,697	3,971	4,971
Container Cargo	15,914	16,866	16,425	16,111	15,156	13,960	11,941	11,007	10,120	9,752
Bulk Grain	1,560	2,097	1,746	1,606	1,331	1,050	1,351	1,939	1,991	2,302
Bulk Plant	4,513	4,521	4,950	4,552	3,561	3,694	4,808	3,847	2,979	2,275
Other Bulk	11,032	11,248	10,621	10,622	10,064	9,588	8,675	8,170	8,399	9,417
Total	<u>36,787</u>	<u>42,738</u>	<u>40,420</u>	<u>40,437</u>	<u>34,791</u>	<u>32,773</u>	<u>30,019</u>	<u>28,660</u>	<u>27,460</u>	<u>28,717</u>
<b>Freight handled by entire Port of Houston (includes tonnage handled by both the Authority and private terminals) - short tons (2,000 lbs.) (b) (c) (d)</b>										
<b>Foreign</b>										
Imports	(e)	92,019	94,692	106,905	103,190	97,713	90,335	80,027	85,485	87,032
Exports	(e)	54,380	50,650	45,972	41,860	39,824	36,558	35,161	35,108	36,918
Total Foreign		<u>146,399</u>	<u>145,342</u>	<u>152,877</u>	<u>145,051</u>	<u>137,537</u>	<u>126,893</u>	<u>115,188</u>	<u>120,593</u>	<u>123,950</u>
<b>Coastwise</b>										
Receipts	(e)	3,143	4,182	4,625	3,045	2,064	2,901	2,659	3,324	2,987
Shipments	(e)	4,909	4,717	5,366	6,789	6,450	7,791	9,622	8,207	8,352
Total Coastwise		<u>8,052</u>	<u>8,899</u>	<u>9,991</u>	<u>9,834</u>	<u>8,514</u>	<u>10,692</u>	<u>12,281</u>	<u>11,531</u>	<u>11,339</u>
<b>Internal</b>										
Receipts	(e)	25,179	29,227	28,035	25,514	26,314	25,055	22,230	22,921	21,744
Shipments	(e)	17,830	17,948	17,787	17,114	16,833	15,963	14,923	16,255	16,247
Total Internal		<u>43,009</u>	<u>47,175</u>	<u>45,822</u>	<u>42,628</u>	<u>43,147</u>	<u>41,018</u>	<u>37,153</u>	<u>39,176</u>	<u>37,991</u>
<b>Local</b>										
	(e)	14,747	14,648	13,457	14,153	12,848	12,320	12,939	13,750	13,287
<b>Total</b>		<u>212,207</u>	<u>216,064</u>	<u>222,147</u>	<u>211,666</u>	<u>202,046</u>	<u>190,923</u>	<u>177,561</u>	<u>185,050</u>	<u>186,567</u>
<b>Value of foreign trade handled by entire Port of Houston (c)</b>										
Imports	\$	48,435,089	\$ 78,873,336	\$ 61,005,734	\$ 61,032,718	\$ 52,172,024	\$ 36,835,357	\$ 28,454,318	\$ 22,545,812	\$ 24,966,895
Exports		57,866,051	68,821,466	53,805,807	41,957,426	34,266,240	29,063,697	21,455,130	19,395,811	19,521,665
<b>Total</b>	\$	<u>106,301,140</u>	<u>147,694,802</u>	<u>114,811,541</u>	<u>102,990,144</u>	<u>86,438,264</u>	<u>65,899,054</u>	<u>49,909,448</u>	<u>41,941,623</u>	<u>44,488,560</u>

(a) Source: Annual Review published by the Authority.

(b) Source: U. S. Army Corps of Engineers, Waterborne Commerce of the U. S.

(c) Source: Bureau of Census, U.S. Department of Commerce.

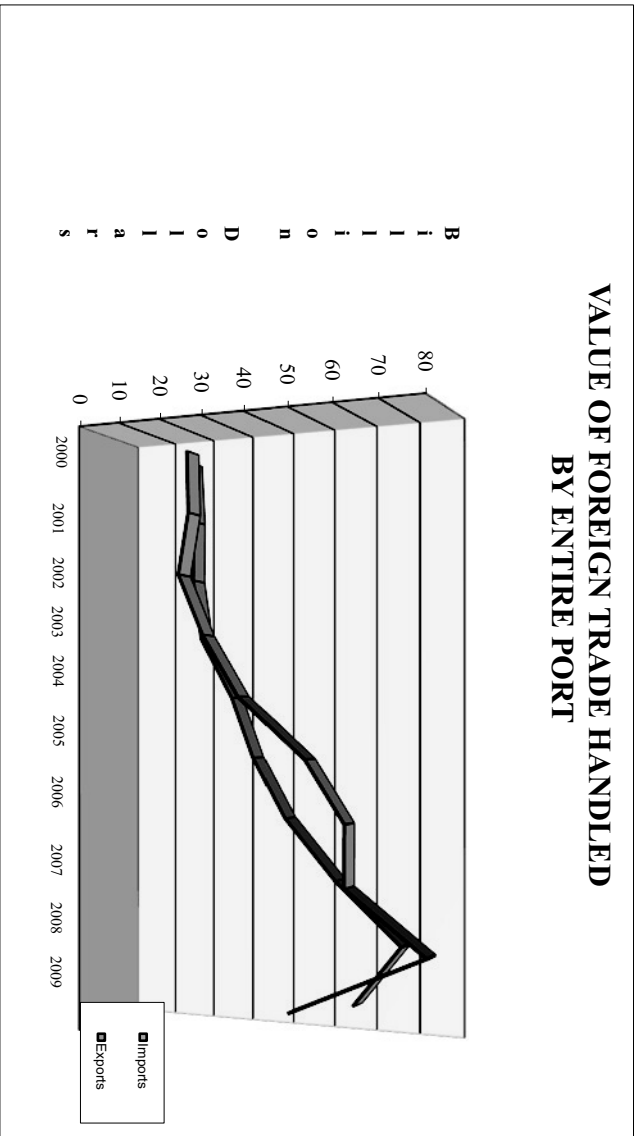
(d) The amounts are restated to reflect actual volumes after year - end adjustments.

(e) Amounts not available.

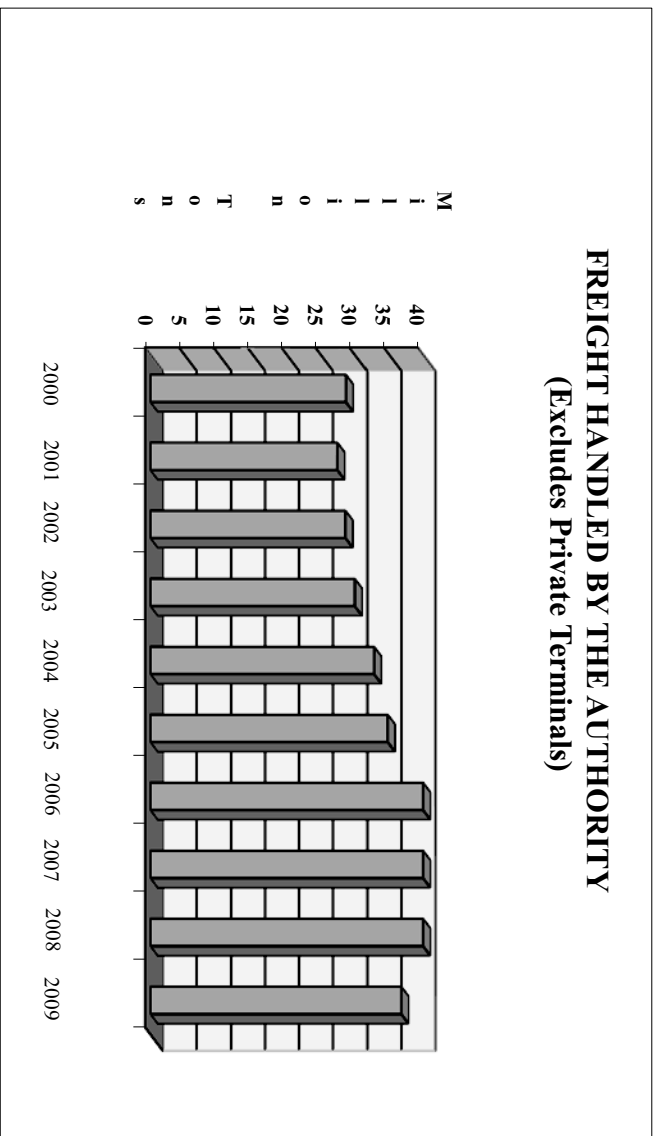


**PORT OF HOUSTON AUTHORITY  
OF HARRIS COUNTY, TEXAS  
FREIGHT STATISTICS  
LAST TEN YEARS**

**VALUE OF FOREIGN TRADE HANDLED  
BY ENTIRE PORT**



**FREIGHT HANDLED BY THE AUTHORITY  
(Excludes Private Terminals)**



See Freight Traffic Statistics on Page 82

Port of Houston Authority  
**Cargo Statistics**  
 Last Ten Fiscal Years  
 (in thousands)  
 (in short tons)  
 (unaudited)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<b>Total Revenue Tonnage</b>										
Including Bayport Companies	36,787	42,738	40,342	40,437	34,791	32,773	30,019	28,660	27,460	28,717
Excluding Bayport Companies	28,865	3,522	33,147	33,353	28,458	26,350	24,196	23,341	21,981	22,502
<b>General Cargo (a)</b>	19,681	24,871	23,051	23,656	19,835	18,441	1,584	14,704	14,091	14,723
<b>Bulk Materials Handling Plant</b>	4,513	4,521	4,950	4,552	3,561	3,694	4,808	3,847	2,979	2,275
<b>Grain Elevator #2</b>	1,560	2,097	1,746	1,606	1,331	1,050	1,351	1,939	1,990	2,302
<b>Other Bulk Movements</b>										
Bulk (Excluding Bayport Companies) (b)	3,110	3,753	3,400	3,538	3,731	3,164	2,852	2,851	2,920	3,202
Bulk Bayport companies	7,922	7,496	7,194	7,084	6,333	6,423	5,823	5,319	5,479	6,215
<b>Barbours Cut Terminal</b>										
Bulk (b)	2	4	-	-	3	1	1	-	-	5
General Cargo (a)	9,420	11,817	13,991	15,226	14,161	12,955	11,127	10,185	9,005	8,476
<b>Steel</b>										
Import	2,405	5,976	4,398	5,385	2,559	2,618	1,403	1,970	2,367	3,288
Export	251	310	319	243	243	180	178	107	115	109
<b>Auto Units - Turning Basin</b>										
Import	41	64	61	51	65	63	81	81	76	55
Export	12	12	7	7	11	9	7	4	4	2
<b>Bagged Goods (a)</b>										
Import	1	16	44	58	39	59	66	142	37	31
Export	352	346	551	620	526	569	590	540	376	501
<b>Container TEU</b>	1,799	1,795	1,769	1,608	1,584	1,440	1,244	1,147	1,058	1,062

(a) Tonnage included in General Cargo above

(b) Tonnage included in Bulk Cargo above

Source: The Authority Billing Department

Houston Ship Channel Including Port of Houston Authority  
**Vessel Arrivals**  
(unaudited)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<b>American Flag</b>										
Break Bulk	20	15	17	24	15	34	24	23	16	18
Bulk Carrier	15	18	13	15	14	10	18	16	11	12
Containers	118	130	139	139	148	166	174	168	159	159
Roll-On/Roll-Off	3	9	7	13	10	12	9	22	15	14
Tankers	144	199	175	191	220	208	210	219	335	285
Tug Tow	265	410	470	402	164	165	384	457	382	300
Vehicle Carrier	2	4	12	16	12	4	7	3	3	2
Other	3	7	18	7	4	5	3	7	3	6
	<u>570</u>	<u>792</u>	<u>851</u>	<u>807</u>	<u>587</u>	<u>604</u>	<u>829</u>	<u>915</u>	<u>924</u>	<u>796</u>
<b>Foreign Flag</b>										
Break Bulk	702	893	866	802	757	659	705	754	948	879
Bulk Carrier	692	902	865	979	844	838	663	698	729	765
Containers	886	836	799	859	866	759	709	738	670	601
Roll-On/Roll-Off	134	129	125	154	154	169	137	176	396	247
Tankers	4,209	4,396	4,086	3,832	3,703	3,358	3,117	2,977	2,793	3,334
Tug Tow	-	1	-	-	-	-	-	-	-	-
Vehicle Carrier	61	39	49	34	66	50	79	81	57	47
Other	25	70	62	81	80	102	62	75	96	132
	<u>6,709</u>	<u>7,266</u>	<u>6,852</u>	<u>6,741</u>	<u>6,470</u>	<u>5,935</u>	<u>5,472</u>	<u>5,499</u>	<u>5,689</u>	<u>6,005</u>
<b>Total Vessel Arrivals</b>	<u>7,279</u>	<u>8,058</u>	<u>7,703</u>	<u>7,548</u>	<u>7,057</u>	<u>6,539</u>	<u>6,301</u>	<u>6,414</u>	<u>6,613</u>	<u>6,801</u>

Source: Piers Global Intelligence Solutions

Port of Houston Authority  
**PHA Public Wharves**  
**Vessel Arrivals (continued)**  
(unaudited)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<b>Turning Basin</b>										
Ships	962	1,255	1,196	1,177	1,021	911	832	910	979	1,006
Barges	1,186	1,546	1,492	1,596	1,556	1,391	1,052	1,092	1,279	1,415
<b>Bulk Plant, Jacintoport, Care Woodhouse, and HPGE#2</b>										
Ships	541	669	705	684	710	624	622	609	631	674
Barges	525	485	496	805	635	704	998	709	518	461
<b>Barbours Cut and Galveston</b>										
Ships	704	809	969	1,067	1,122	1,010	927	943	970	1,013
Barges	43	46	58	280	517	471	409	286	167	154
<b>Bayport Container Terminal</b>										
Ships	335	225	97	-	-	-	-	-	-	-
Barges	1	1	4	-	-	-	-	-	-	-
<b>Bayport Companies</b>										
Ships	652	611	632	583	518	466	494	511	480	597
Barges	1,754	1,657	1,620	1,597	1,597	1,483	1,305	1,241	1,223	1,437
<b>Total PHA Arrivals</b>										
Ships (a)	3,194	3,569	3,599	3,511	3,371	3,011	2,875	2,973	3,060	3,290
Barges	3,509	3,735	3,670	4,278	4,305	4,049	3,764	3,328	3,187	3,467

(a) Included in Total of Vessel Arrivals for the Houston Ship Channel

Port of Houston Authority  
**Bulk Commodity Statistics**  
 Last Ten Fiscal Years  
 (in thousands)  
 (short tons) (a)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<b>Cement</b>	-	-	-	158	179	-	-	-	-	84
<b>Coke</b>	4,518	4,563	4,979	4,404	3,382	3,660	4,808	3,835	2,970	1,703
<b>Cotton Seed Oil</b>	-	-	-	-	-	-	6	-	5	-
<b>Fertilizer</b>	26	37	-	-	-	3	-	24	-	-
<b>Grain</b>	1,560	2,097	1,746	1,606	1,331	1,050	1,351	1,939	1,990	2,302
<b>Industrial Chemical</b>	9,490	8,929	8,957	8,938	8,335	7,986	7,319	6,807	6,709	7,585
<b>Molasses</b>	206	234	156	347	283	330	344	281	464	565
<b>Petroleum Products</b>	342	125	43	32	72	71	73	53	156	268
<b>Sand &amp; Clay</b>	-	-	-	-	-	-	-	-	-	14
<b>Tallow</b>	320	518	480	419	328	402	382	423	319	405
<b>Dry Bulk</b>	377	964	870	824	995	737	496	562	719	1,034
<b>Vegetable Oil</b>	252	375	64	-	-	-	-	-	-	-
<b>Miscellaneous Bulk</b>	14	24	23	53	51	93	56	31	36	35
<b>Totals</b>	17,105	17,866	17,318	16,780	14,956	14,332	14,834	13,955	13,368	13,994

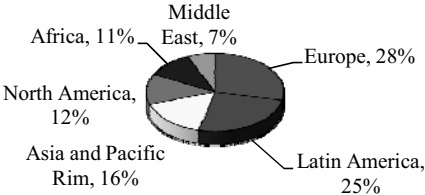
(a) Short tons equal 2000 pounds

Source: The Authority Billing Department

**Houston's Foreign Seaborne Trade by Region**

Europe and Latin America are Houston's top seaborne trading partners.

**2009 Foreign Trade Through the Port of Houston by Region (\$ Value)**



Europe was Houston's top seaborne trading region in 2009, accounting for 28 percent of total foreign shipments through the Port of Houston. The countries of Latin America account for 25 percent, making the region Houston's second largest trading area

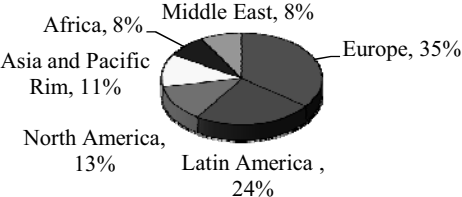
TRADE THROUGH THE PORT OF HOUSTON BY REGION IN 2009 (000s)				
	Imports	Exports	Total	Percent of World Total
Europe	14,592,491	15,542,062	30,134,553	28%
Latin America	8,732,180	18,352,458	27,084,638	25%
Asia and Pacific Rim	7,245,432	9,918,885	17,164,317	16%
North America	8,395,402	4,779,624	13,175,026	12%
Africa	6,042,860	5,598,487	11,641,347	11%
Middle East	3,419,475	3,642,893	7,062,368	7%
Worldwide Total	48,427,840	57,834,409	106,262,249	100%

Source: U.S. Dept. of Commerce, Bureau of Census

**Houston's Foreign Seaborne Trade by Region**

Europe and Latin America are Houston's top seaborne trading partners.

**2000 Foreign Trade Through the Port of Houston by Region (\$ Value)**



Europe was Houston's top seaborne trading region in 2000, accounting for 35 percent of total foreign shipments through the Port of Houston. The countries of Latin America account for 24 percent, making the region Houston's second largest trading area.

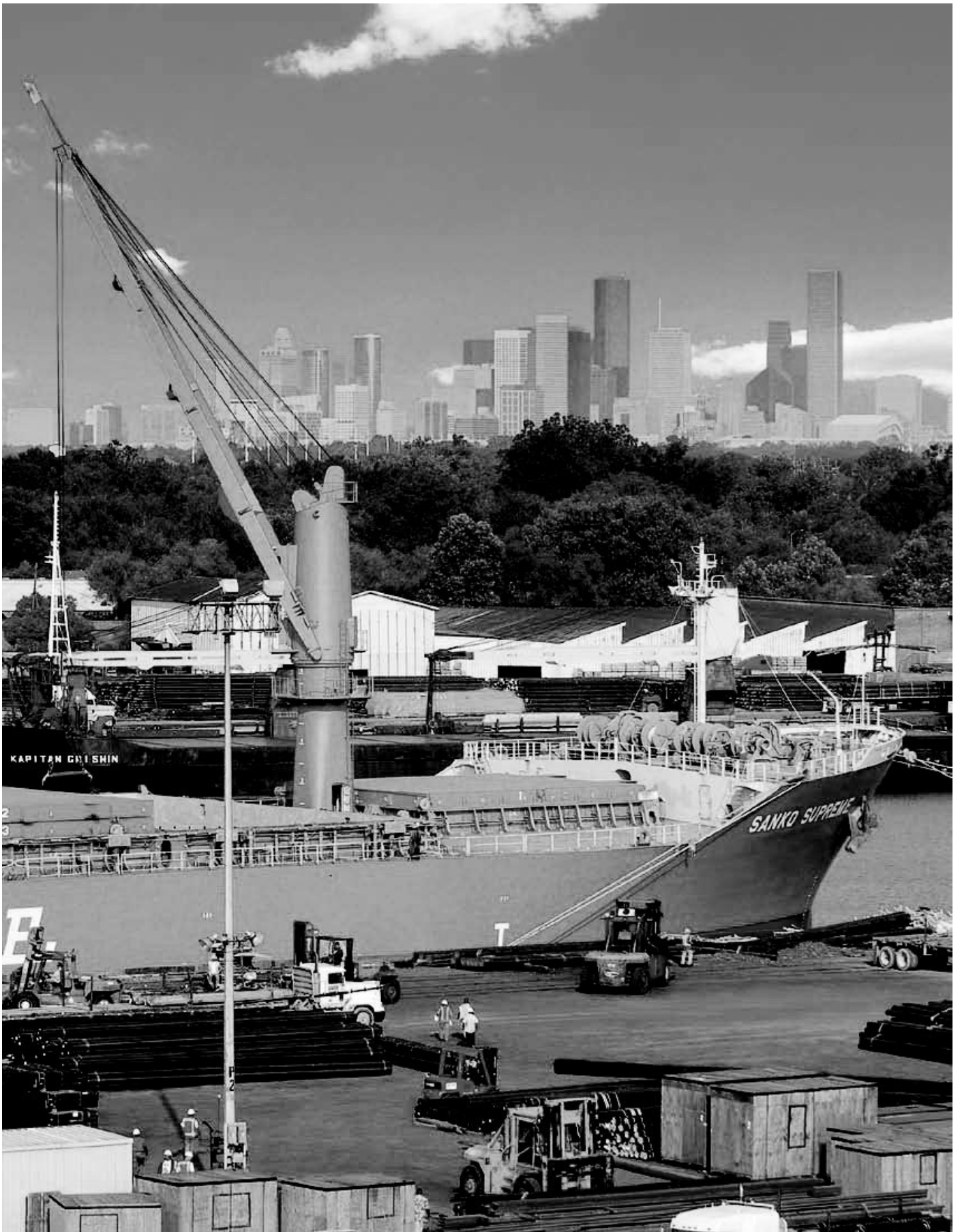
TRADE THROUGH THE PORT OF HOUSTON BY REGION IN 2000 (000s)				
	Imports	Exports	Total	Percent of World Total
Europe	9,366,313	5,921,696	15,288,009	35%
Latin America	4,927,180	5,473,397	10,400,577	24%
North America	3,579,255	2,046,021	5,625,276	13%
Asia and Pacific Rim	2,090,543	2,867,472	4,958,015	11%
Africa	2,105,266	1,366,430	3,471,696	8%
Middle East	2,564,503	1,057,218	3,621,721	8%
Worldwide Total	24,633,060	18,732,234	43,365,294	100%

Source: U.S. Dept. of Commerce, Bureau of Census

Port of Houston Authority  
**Number of Authority Employees by Type**  
 Last Ten Fiscal Years  
 (unaudited)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Exempt Employees	182	177	160	146	141	130	127	125	107	101
Non-Exempt Employees	410	418	420	414	379	367	365	356	366	355
Total Employees	<u>592</u>	<u>595</u>	<u>580</u>	<u>560</u>	<u>520</u>	<u>497</u>	<u>492</u>	<u>481</u>	<u>473</u>	<u>456</u>
Hourly Employees (in above)	157	162	158	154	147	135	133	130	135	134
Operations Staff	143	148	143	140	127	112	111	110	112	108
General & Administrative Staff	400	403	382	360	337	329	324	314	303	294

Source: The Authority Human Resources Department





**APPENDIX B**  
**BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 certificate will be issued for each maturity of each series of the Bonds, in the aggregate principal amount of such series, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s Rating Services’ 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or 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 Bonds 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, 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 Paying Agent/Registrar; disbursement of such payments to Direct Participants will be the responsibility of DTC; and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent/Registrar's DTC account.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

\* \* \*

**APPENDIX C**

**FORMS OF BOND COUNSEL OPINIONS**

*[This page intentionally left blank.]*

August \_\_, 2010

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 2010D-1 (NON-AMT), dated August 1, 2010, in the aggregate principal amount of \$147,940,000 maturing on October 1 in each year from 2023 through and including 2031, and in 2035. 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 and the commercial paper notes that are being refunded with the proceeds 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. T-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 existing law, 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 Internal Revenue Code of 1986, as amended (the “Code”), and is not subject to the alternative minimum tax on individuals or corporations.

THE OPINION SET FORTH in the preceding paragraph is subject to the condition that the Authority comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in its Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of 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.

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.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

August \_\_, 2010

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 PORT IMPROVEMENT BONDS, SERIES 2010D-2 (NON-AMT), dated August 1, 2010, in the aggregate principal amount of \$85,665,000 maturing on October 1, 2039. 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 and the commercial paper notes that are being refunded with the proceeds 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. T-2.

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 existing law, 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 Internal Revenue Code of 1986, as amended (the “Code”), and is not subject to the alternative minimum tax on individuals or corporations.

THE OPINION SET FORTH in the preceding paragraph is subject to the condition that the Authority comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in its Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of 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.

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.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.



August \_\_, 2010

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 2010E (NON-AMT), dated August 1, 2010, in the aggregate principal amount of \$22,330,000 maturing on October 1 in each year from 2014 through and including 2030, 2033 through and including 2035, and in the year 2038. The Bonds are issuable in fully registered form only, in denominations of \$5,000 of principal amount or Maturity Amount, as the case may be, 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. The Bonds are issued in part as Current Interest Bonds and in part as Capital Appreciation Bonds.

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 and the bonds (the "Refunded Bonds") that are being refunded with the proceeds 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 Nos. T-1 and T-2.

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 existing law, 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 Internal Revenue Code of 1986, as amended (the “Code”), and is not subject to the alternative minimum tax on individuals or corporations.

THE OPINION SET FORTH in the preceding paragraph is subject to the condition that the Authority comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in its Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of 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.

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.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

**APPENDIX D**

**SUMMARY OF TABLES RELATED TO  
CONTINUING DISCLOSURE OF INFORMATION**

Table 1	—	AUTHORITY AD VALOREM TAXES	—	Authority Tax Rates
Table 2	—	AUTHORITY AD VALOREM TAXES	—	Authority Taxable Values and Tax Rates
Table 3	—	AUTHORITY AD VALOREM TAXES	—	Authority Tax Levies, Collections, and Delinquencies
Table 4	—	AUTHORITY AD VALOREM TAXES	—	Principal Taxpayers
Table 5	—	AUTHORITY AD VALOREM TAX DEBT	—	Ad Valorem Tax Debt Comparisons
Table 6	—	AUTHORITY AD VALOREM TAX DEBT	—	Debt Service Requirements
Table 7	—	THE AUTHORITY	—	Physical Characteristics of the Port Facilities of the Authority
Table 8	—	THE AUTHORITY	—	Annual Cargo Amounts
Table 9	—	INVESTMENTS	—	Current Investments Distribution

*[This page intentionally left blank.]*

*[This page intentionally left blank.]*

*[This page intentionally left blank.]*



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

**UNLIMITED TAX REFUNDING BONDS,  
SERIES 2010D-1 (NON-AMT)**

**and**

**UNLIMITED TAX PORT IMPROVEMENT BONDS,  
SERIES 2010D-2 (NON-AMT)**

**and**

**UNLIMITED TAX REFUNDING BONDS,  
SERIES 2010E (NON-AMT)**

**PORT COMMISSION**

James T. Edmonds

Steve L. Phelps

Jimmy Burke

James W. Fonteno, Jr.

Janiece Longoria

Kase L. Lawal

Elyse Lanier

Alec G. Dreyer ..... Chief Executive Officer  
Erik A. Eriksson ..... Senior Vice President and General Counsel  
Thomas J. Heidt ..... Vice President, Finance and Administration  
Barbara J. Schott, CPA ..... County Auditor  
Orlando Sanchez ..... County Treasurer

