



Port of Houston Authority of Harris County Texas
Debt Information
As of December 31, 2016 and 2015

Port of Houston Authority of Harris County, Texas (“Port Houston” or the “Authority”) is pleased to provide the following information as part of its commitment to financial transparency.

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Investors in Port Houston securities should rely on their own evaluation of Port Houston and its debt securities, including the merits and risks involved.

Ad Valorem Tax Bonds

At the end of 2016, Port Houston had total debt outstanding of \$697.1 million (net of premiums/discounts), consisting of Unlimited Tax Port Improvement Bonds and Unlimited Tax Refunding Bonds (collectively, the "Ad Valorem Tax Bonds" or “General Obligation Bonds”).

At the end of 2015, Port Houston had total debt outstanding of \$717.6 million (net of premiums/discounts), consisting entirely of Ad Valorem Tax Bonds.

Debt service on the Ad Valorem Tax Bonds is funded entirely from ad valorem taxes approved by Harris County voters at duly held bond elections, plus any interest earnings on such debt service tax funds. Property taxes are levied annually by the Harris County Commissioners Court on behalf of Port Houston and collected by the Harris County Tax Assessor-Collector. Port Houston has no obligation to use any of its operating revenues or general funds to repay any of the Ad Valorem Tax Bonds.

Port of Houston Authority of Harris County, Texas

Outstanding Debt

Ad Valorem Tax Bonds

(net of premiums/discounts)

(\$ in millions)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Ad Valorem Tax Bonds			
Unlimited Tax Port Improvement Bonds	\$ 90.1	\$ 90.2	\$ 95.3
Unlimited Tax Refunding Bonds	<u>607.0</u>	<u>627.4</u>	<u>641.5</u>
Total Ad Valorem Tax Bonds	\$ 697.1	\$ 717.6	\$ 736.7
Less Current Maturities	<u>(19.2)</u>	<u>(16.3)</u>	<u>(16.0)</u>
Long-Term Debt (net of unamortized premiums/discounts)	<u>\$ 677.9</u>	<u>\$ 701.3</u>	<u>\$ 720.8</u>

The proceeds of such Ad Valorem Tax Bonds have been used solely to fund Port Houston's infrastructure investments and capital projects, as well as to refund prior bond issuances.

During 2016, Port Houston issued no new debt. Port Houston's total debt principal outstanding decreased \$16.3 million during 2016 due to the scheduled debt service payment. Interest expense for 2016 on the unlimited tax bonds decreased by \$1.6 million.

During 2015, Port Houston issued \$116.0 million par value of Series 2015A, 2015B and 2015C unlimited tax refunding bonds at a premium. The bond proceeds net of issuance cost, were used to refund \$128.1 million in par value relating to Series 2002A, 2005A, 2005B, 2006B and 2006C. Interest expense for 2015 on the unlimited tax bonds decreased by \$0.3 million.

Port Houston's total debt principal outstanding decreased \$28.1 million during 2015. The key factors for this decrease were the scheduled debt service payment of \$16.0 million and the refunding of \$128.1 million of unlimited tax bonds, partially offset by the issuance of \$116.0 million related to Series 2015A, 2015B and 2015C.

Credit Ratings

A summary of Port Houston's credit ratings relating to its Ad Valorem Tax Bonds is provided in the table below:

<u>Year</u>	<u>Fitch</u>	<u>Moody's</u>	<u>S & P</u>
2016	AAA	Aaa	AAA
2015	AAA	Aaa	AAA

Note Purchase Program

In September 2015, Port Houston executed a \$300 million note purchase program (the “Flexible Rate Revolving Note Program”) with a group of banks in order to provide the capability for the Port Commission to continue to award capital projects, as unencumbered operating cash flows were projected to be depleted in fiscal 2016. Affiliates of Bank of America Merrill Lynch serve as Agent and Administrative Agent.

This form of financing is not considered a long-term solution, as any funds actually drawn must be repaid by September 2018, but is an interim measure while decisions are being made regarding financing alternatives. Drawings are secured from Port Houston’s net revenues, and not from ad valorem taxes. No encumbrances or draw-downs against the Flexible Rate Revolving Note Program have occurred since inception and through December 31, 2016.

Other Debt Information

On the next few pages, we show additional information on Port Houston’s debt, extracted from Port Houston’s Comprehensive Annual Financial Report for the fiscal year ended December 31, 2016.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015
(in thousands)

6. Long-Term Debt and Noncurrent Liabilities

The following is a summary of bonds payable and other noncurrent liabilities, and the changes therein, which comprise the Authority's long-term liabilities for the years ended December 31, 2016 and 2015.

Changes in Long-Term Liabilities - 2016

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable					
Unlimited tax bonds	\$ 674,269	\$ -	\$ (16,275)	\$ 657,994	\$ 19,165
Accreted interest on capital appreciation bonds	293	95	-	388	-
Less unamortized premiums / discounts, net	<u>43,070</u>	<u>-</u>	<u>(4,329)</u>	<u>38,741</u>	<u>-</u>
Total Bonds Payable	<u>\$ 717,632</u>	<u>\$ 95</u>	<u>\$ (20,604)</u>	<u>\$ 697,123</u>	<u>\$ 19,165</u>
Net Pension Liability	<u>\$ 5,061</u>	<u>\$ 16,083</u>	<u>\$ (7,672)</u>	<u>\$ 13,472</u>	<u>\$ -</u>
Other Noncurrent Liabilities					
Net OPEB obligation	\$ 21,776	\$ 2,193	\$ (5,300)	\$ 18,669	\$ -
Compensated absences	6,009	6,041	(5,808)	6,242	-
Fees received in advance	5,706	1,826	(1,873)	5,659	1,102 *
Claims liability	3,836	1,533	(1,062)	4,307	-
Other liabilities	<u>15,635</u>	<u>8,728</u>	<u>-</u>	<u>24,363</u>	<u>-</u>
Total Other Noncurrent Liabilities	<u>\$ 52,962</u>	<u>\$ 20,321</u>	<u>\$ (14,043)</u>	<u>\$ 59,240</u>	<u>\$ 1,102</u>

* Included in accounts payable and other current liabilities

The Authority's long-term debt consists of ad valorem tax General Obligation Bonds. Repayment of the outstanding principal of these General Obligation Bonds and interest thereon is made from property taxes. Additional information on property taxes can be found in Note 1 in the accompanying notes to the financial statements.

The Authority had no long-term, capital leases outstanding during 2016 or 2015.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015
(in thousands)

6. Long-Term Debt and Noncurrent Liabilities (continued)

Changes in Long-Term Liabilities - 2015

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable					
Unlimited tax bonds	\$ 702,379	\$ 115,970	\$ (144,080)	\$ 674,269	\$ 16,275
Accreted interest on capital appreciation bonds	217	76	-	293	-
Less unamortized premiums / discounts, net	<u>34,149</u>	<u>15,253</u>	<u>(6,332)</u>	<u>43,070</u>	<u>-</u>
Total Bonds Payable	<u>\$ 736,745</u>	<u>\$ 131,299</u>	<u>\$ (150,412)</u>	<u>\$ 717,632</u>	<u>\$ 16,275</u>
Net Pension (Asset) Liability	<u>\$ (5,725)</u>	<u>\$ 27,478</u>	<u>\$ (16,692)</u>	<u>\$ 5,061</u>	<u>\$ -</u>
Other Noncurrent Liabilities					
Net OPEB obligation	\$ 27,588	\$ 5,390	\$ (11,202)	\$ 21,776	\$ -
Compensated absences	5,503	5,361	(4,855)	6,009	575 *
Fees received in advance	5,270	3,708	(3,272)	5,706	1,089 *
Claims liability	3,845	1,200	(1,209)	3,836	-
Other liabilities	<u>14,070</u>	<u>1,565</u>	<u>-</u>	<u>15,635</u>	<u>-</u>
Total Other Noncurrent Liabilities	<u>\$ 56,276</u>	<u>\$ 17,224</u>	<u>\$ (20,538)</u>	<u>\$ 52,962</u>	<u>\$ 1,664</u>

* Included in accounts payable and other current liabilities

During 2015, the Authority issued long-term debt of \$115,970, which was used to extinguish a portion of the long-term debt described herein.

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015
(in thousands)

6. Long-Term Debt and Noncurrent Liabilities (continued)

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

	Original Issue	Interest Rate % *	Issue Date	Maturity	December 31	
					2016	2015
General Obligation Bonds						
Unlimited Tax Refunding Bonds						
Series 2004A	\$ 9,000	3.00-5.00	12/8/2004	2016	\$ -	\$ 680
Series 2006A	28,380	5.00	7/19/2006	2017	2,545	5,105
Series 2006B	47,085	4.75-5.00	10/18/2006	2031	19,640	19,640
Series 2008A	234,630	5.625-6.25	7/24/2008	2038	182,045	182,045
Series 2010A	38,095	1.00-5.00	2/17/2010	2019	11,035	14,750
Series 2010B	22,930	1.00-5.00	2/17/2010	2026	13,345	14,670
Series 2010C	30,254	2.00-5.00	2/3/2010	2038	28,224	28,584
Series 2010D-1	147,940	5.00	8/19/2010	2035	147,940	147,940
Series 2010E	22,330	2.00-5.00	8/19/2010	2038	21,475	21,765
Series 2011A	47,345	1.00-5.00	10/20/2011	2026	34,805	37,455
Series 2015A	62,805	3.125-5.00	8/26/2015	2031	62,805	62,805
Series 2015B	25,905	5.00	8/26/2015	2023	21,210	25,905
Series 2015C	27,260	3.054-5.00	8/26/2015	2026	27,260	27,260
					572,329	588,604
Unamortized premiums / (discounts), net					34,322	38,533
Series 2010C and 2010E CAB Accretion, net					388	293
Unlimited Tax Refunding Bonds, net					607,039	627,430
Unlimited Tax Port Improvement Bonds						
Series 2010D-2	85,665	5.00	8/19/2010	2039	85,665	85,665
Total Unlimited Tax Port Improvement Bonds					85,665	85,665
Unamortized premiums / (discounts), net					4,419	4,537
Unlimited Tax Port Improvement Bonds, net					90,084	90,202
Total Debt					697,123	717,632
Less Current Maturities					(19,165)	(16,275)
Long - Term Debt (net of unamortized premiums / (discounts))					\$ 677,958	\$ 701,357

* Interest rate of original issue

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015
(in thousands)

6. Long-Term Debt and Noncurrent Liabilities (continued)

Debt Service Requirements

Total debt service requirements for outstanding bonds as of December 31, 2016 are as follows:

Year Ending December 31	Bond	Capital Appreciation	Bond Interest	Total
	Principal General Obligation	Bond Accreted Interest	General Obligation	
2017	\$ 19,165	\$ -	\$ 33,976	\$ 53,141
2018	19,945	-	33,046	52,991
2019	21,185	-	32,063	53,248
2020	21,735	-	31,015	52,750
2021	22,790	-	29,939	52,729
2022-2026	112,830	-	133,355	246,185
2027-2031	146,875	-	101,969	248,844
2032-2036	171,074	17,976	60,491	249,541
2037-2039	122,395	-	12,035	134,430
	<u>\$ 657,994</u>	<u>\$ 17,976</u>	<u>\$ 467,889</u>	<u>\$ 1,143,859</u>

General Obligation Bonds

Although the Authority's cash flows from operations fully support day-to-day operating needs and a significant portion of its capital infrastructure investments, the Authority's operating revenues alone have not been considered by the Authority to sustain the pace of market driven port infrastructure required to maintain the flow of cargo, job creation and positive economic impact for the region. At times, when the projected cash flow is insufficient to fully cover the capital improvement plan, the Authority has obtained approval at a bond election for issuance of ad valorem tax General Obligation Bonds or short-term commercial paper notes to supply the shortfall.

The proceeds of past General Obligation Bond issuances have been applied towards dredging of the Houston Ship Channel, acquisition of wharf cranes and other major equipment, as well as construction of docks, wharves and container facilities. The support of taxpayers, industry partners, and many other stakeholders have made these capital improvements possible. Such investments contribute to the Authority's mandate for economic development.

The following table lists the Authority's bonds outstanding as of December 31, 2016, along with the stated purpose for which the debt was issued:

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015
(in thousands)

6. Long-Term Debt and Noncurrent Liabilities (continued)

General Obligation Bonds (continued)

Outstanding Bond Issue	Use of Proceeds
Unlimited Tax Refunding Bonds, Series 2006A	Refund a portion of the Unlimited Tax Port Improvement Bonds, Series 1996
Unlimited Tax Refunding Bonds, Series 2006B	Refund a portion of the outstanding commercial paper notes
Unlimited Tax Refunding Bonds, Series 2008A	Refund all of the outstanding commercial paper notes
Unlimited Tax Refunding Bonds, Series 2010A	Refund a portion of the Unlimited Tax Port Improvement Bonds, Series 1998A
Unlimited Tax Refunding Bonds, Series 2010B	Refund a portion of the Unlimited Tax Port Improvement Bonds, Series 1997A, Series 2001A, Series 2002A
Unlimited Tax Refunding Bonds, Series 2010C	Refund a portion of the Unlimited Tax Port Improvement Bonds, Series 2008A
Unlimited Tax Refunding Bonds, Series 2010D-1	Refund all of the outstanding commercial paper notes
Unlimited Tax Port Improvement Bonds, Series 2010D-2 (Non-AMT)	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
Unlimited Tax Refunding Bonds, Series 2010E	Refund a portion of the Unlimited Tax Refunding Bonds, Series 2008A
Unlimited Tax Refunding Bonds, Series 2011A	Refund a portion of the Unlimited Tax Port Improvement Bonds, Series 2001B
Unlimited Tax Refunding Bonds, Series 2015A (Non-AMT)	Refund the Unlimited Tax Port Improvement Bonds, Series 2002A, Series 2005B, Series 2006C
Unlimited Tax Refunding Bonds, Series 2015B	Refund the Unlimited Tax Refunding Bonds, Series 2005A
Unlimited Tax Refunding Bonds, Series 2015C	Refund a portion of the Unlimited Tax Refunding Bonds, Series 2006B

Bond Refundings

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.

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 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

Port of Houston Authority of Harris County, Texas

Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015
(in thousands)

6. Long-Term Debt and Noncurrent Liabilities (continued)

Bond Refundings (continued)

Authority's financial statements. The outstanding defeased unlimited tax bonds as of December 31, 2016 and 2015 were \$0 and \$36,605, respectively. During 2016, there were no bond issues or refundings.

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 and ad valorem taxes levied. These assets can be used only in accordance with the terms of the bond resolutions to fund the capital costs of enlarging, extending or improving the Authority's facilities or to pay the debt service cost of the related bonds.

Note Purchase Program

In September 2015, the Authority executed a \$300 million note purchase program with a group of banks in order to provide the capability for the Port Commission to continue to award capital projects, as unencumbered operating cash flows were projected to be depleted. This form of financing is not considered a long-term solution as any funds actually drawn must be repaid by September 2018, but is an interim measure while decisions are being made regarding financing alternatives. No encumbrances or draw-downs against the program have occurred as of December 31, 2016.

Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the U.S. Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment, if applicable, for each issue every five years. There was no arbitrage liability for tax-exempt debt subject to the Tax Reform Act through December 31, 2016 and 2015. The estimated liability is updated annually for any tax-exempt issuance or changes in yields until payment of the calculated liability is due.

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

General Obligation Bonds												
Fiscal Year	Unlimited Tax Refunding Bonds	Unlimited Tax Port Improvement Bonds	Unlimited Tax Commercial Paper	Premiums (Discounts)	General Bonded Debt	Less Debt Service Funds Cash	Net General Bonded Debt	Percentage of Actual Property Value	GOB Debt per Capita	Total Outstanding Debt	Percentage of Personal Income	Total Debt Per Capita
2007	\$ 204,935	\$ 139,030	\$ 113,478	\$ 6,345	\$ 463,788	\$ 5,000	\$ 458,788	0.19	\$ 117	\$ 458,788	0.24 %	\$ 117
2008	431,065	131,950	-	8,340	571,355	7,000	564,355	0.21	142	564,355	0.30 %	142
2009	422,665	124,750	70,245	7,769	625,429	6,000	619,429	0.22	154	619,429	0.35 %	154
2010	616,814	146,805	-	28,629	792,248	10,900	781,348	0.30	190	781,348	0.41 %	190
2011	654,674	91,200	-	42,139	788,013	10,456	777,557	0.29	186	777,557	0.38 %	186
2012	641,324	90,645	-	39,160	771,129	8,784	762,345	0.27	179	762,345	0.34 %	179
2013	626,979	90,645	-	36,674	754,298	9,672	744,626	0.25	172	744,626	0.32 %	172
2014	611,734	90,645	-	34,366	736,745	13,854	722,891	0.21	163	722,891	0.29 %	163
2015	588,604	85,665	-	43,363	717,632	6,414	711,218	0.19	157	711,218	N/A	157
2016	572,329	85,665	-	39,129	697,123	6,983	690,140	0.17	N/A	690,140	N/A	N/A

- Additional information on the Authority's debt can be found in the accompanying notes to the financial statements.
- Premiums (Discounts) are inclusive of accreted interest on capital appreciation bonds.
- Updates are made to prior years.
- See Schedule 3 for property value data.
- Population data can be found in Schedule 15.
- N/A - Not Available

Port of Houston Authority of Harris County, Texas
Net Revenues Available for Debt Service on First - Revenue Obligations
For each of the Ten Years in the Period Ended December 31, 2016

(in thousands)
(unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Gross Revenues										
Operating Revenues (a)										
Vessel and cargo services	\$ 266,266	\$ 266,305	\$ 235,929	\$ 197,974	\$ 188,457	\$ 175,297	\$ 157,633	\$ 142,310	\$ 169,584	\$ 162,636
Rental of equipment and facilities	15,869	17,120	17,763	25,114	23,077	22,030	20,325	20,451	19,910	18,800
Grain Elevator	1,199	1,567	1,821	592	683	1,923	911	1,155	787	809
Bulk materials	3,941	4,019	4,270	2,665	2,485	2,131	2,368	2,243	2,319	2,903
Other	2,514	3,753	1,960	5,201	8,512	3,356	3,272	2,040	2,435	3,630
Total	289,789	292,764	261,743	231,546	223,214	204,737	184,509	168,199	195,035	188,778
NonOperating Revenues										
Investment (loss) income	4,850	4,100	4,881	(452)	2,406	3,126	3,572	4,552	6,736	9,992
Other, net	5,144	2,004	5,661	19,529	11,014	5,358	11,319	9,798	7,198	14,699
Total	9,994	6,104	10,542	19,077	13,420	8,484	14,891	14,350	13,934	24,691
Total Gross Revenues	299,783	298,868	272,285	250,623	236,634	213,221	199,400	182,549	208,969	213,469
Operation Expenses										
Maintenance and Operation of Facilities										
Vessel and cargo services	131,998	115,757	115,341	93,483	91,534	89,547	90,861	77,591	94,473	85,178
Rental of port facilities	2,140	1,130	1,164	1,387	1,174	6,893	3,945	3,774	3,311	4,185
Grain Elevator	330	293	260	288	219	322	263	221	163	404
Bulk Materials Handling Plant	8	11	9	9	22	46	34	88	94	307
Other	7,107	7,114	8,223	9,919	9,958	2,415	2,385	1,796	1,797	1,916
Total	141,583	124,305	124,997	105,086	102,907	99,223	97,488	83,470	99,838	91,990
General and Administrative										
Total Operating Expenses	44,286	42,297	39,152	41,845	43,875	39,894	51,487	63,411	41,930	46,029
Total Operating Expenses	185,869	166,602	164,149	146,931	146,782	139,117	148,975	146,881	141,768	138,019
Nonoperating Expenses										
Total Expenses	259	5,673	2,694	2,998	3,906	3,350	5,872	18,473	4,461	29,151
Total Expenses	186,128	172,275	166,843	149,929	150,688	142,467	154,847	165,354	146,229	167,170
Net Revenues Available For Debt Service on First Lien										
Revenue Bonds	\$ 113,655	\$ 126,593	\$ 105,442	\$ 100,694	\$ 85,946	\$ 70,754	\$ 44,553	\$ 17,195	\$ 62,740	\$ 46,299

- Note (a) The Bayport user fees described in Note 7 were excluded from this calculation as per the bond documents.

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

<u>Fiscal Year Ending December 31</u>	<u>Outstanding Debt Service Requirements</u>
2017	\$ 53,140,961
2018	52,991,411
2019	53,247,486
2020	52,750,461
2021	52,729,374
2022	52,070,673
2023	47,793,873
2024	48,775,098
2025	48,773,930
2026	48,771,084
2027	49,645,600
2028	49,801,100
2029	49,802,106
2030	49,800,694
2031	49,794,056
2032	49,907,888
2033	49,908,025
2034	49,905,806
2035	49,910,275
2036	49,909,275
2037	49,910,113
2038	49,912,181
2039	<u>34,608,000</u>
Total	<u>\$ 1,143,859,470</u>

The table sets forth the annual debt service requirements on the Authority's ad valorem tax bonds as of December 31, 2016, excluding bonds that have been refunded and defeased.