

PORT OF HOUSTON AUTHORITY

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JAMES T. EDMONDS
Chairman

June 22, 2010

The Honorable Ed Emmett, County Judge, Harris County
The Honorable El Franco Lee, Commissioner, Precinct One, Harris County
The Honorable Sylvia Garcia, Commissioner, Precinct Two, Harris County
The Honorable Steve Radack, Commissioner, Precinct Three, Harris County
The Honorable Jerry Eversole, Commissioner, Precinct Four, Harris County

Dear Members of the Harris County Commissioners Court:

On behalf of the Port Commission and staff of the Port of Houston Authority, I am pleased to submit this update on the Port Authority's activities.

After several years of record performances, the 2009 global economic recession gave us an opportunity to stand back and look carefully at the Port Authority's future. Having a diverse portfolio of cargo business has been an advantage, enabling us to weather the economic storm and prepare for the recovery. Even so, we have taken the opportunity to renew our focus on the drivers of our continued prosperity.

The Port Authority is a vital piece of the overall Port of Houston, which is a major economic engine in the city, state and region. The port also serves as a link to the rest of the world, delivering jobs, generating economic energy and adapting to the uncertain national economy as one of the nation's leading export ports.

We began a new era at the Port Authority in September with the appointment of Alec Dreyer as chief executive officer. Mr. Dreyer has been a business leader in the energy trading, power generation, alternative energy and financial service industries. As the Port Authority's 10th leader in 90 years – the first to come from outside the maritime industry – he has brought new energy and a fresh perspective. We are confident that the Port Authority is well-positioned for the economic recovery and for sustained economic success in the long term with Mr. Dreyer at the helm.

On the security front, we continue to put measures in place to ensure the port and its neighboring communities will be safe and secure. In June 2009, Harris County Commissioners Court unanimously voted to give final approval to creation of the Houston Ship Channel Security District, a public-private partnership that will fund enhancements to security technology, infrastructure and processes along the ship channel.

Over the years, the growth of Houston and its port has been facilitated by local contributions and federal funds to progressively deepen and widen the ship channel. In turn, the funding helps to strengthen the port's stimulus to the economy, by contributing 785,000 jobs a year and \$118 billion in economic activity to the region and 1.5 million jobs and \$285 billion of economic activity to the nation.

In 2009, thanks to the administration and the regional Congressional delegation, the Houston Ship Channel has received the benefit of a \$98.8 million allocation in the American Recovery and Reinvestment Act to the U.S. Army Corps of Engineers. These vital funds will help address pressing needs, enable the port to continue providing economic benefits to the region and nation, and create new jobs related to the ship channel. But many needs remain. In fact, in the federal fiscal year 2011, the ship channel will need \$41 million for critical dredging work. Achieving this funding goal will be challenging, considering the still-recovering economy and the enormous pressures on the federal budget. But because of its impact to the regional and national economic health and importance to U.S. energy security, the Houston Ship Channel remains a good investment of federal dollars.

Serving as a model for safety and security, environmental stewardship and sustainability to our maritime partners in the Houston region, the Port Authority is continually enhancing Houston's role as a major urban port. The Port Authority also reaches out to neighboring communities that sustain us.

I am privileged to present this update to you and our community.

TERMINAL ACTIVITY

As the public component of the more than 150 terminals that are aligned along 25 miles of the 52-mile-long Houston Ship Channel, the Port Authority continues to contribute to the overall success of the Port of Houston. In 2009, the Port Authority generated: \$171.7 million in operating revenues, a decrease of \$26.3 million from 2008. About 28.8 million tons of cargo moved across Port Authority docks in 2009, a majority of which was manufactured goods impacting more than 58,000 direct jobs. That represents roughly 13 percent of the total estimated tonnage of 220 million moved through the Port of Houston, which is the nation's second largest port in terms of total tonnage and our nation's leader in foreign waterborne tonnage.

Terminal activity through April 2010 suggests that the Port Authority is headed toward recovery:

- Total cargo handling is at 12.3 million tons;
- Import cargo tonnage is at 4.5 million tons;
- Export cargo tonnage is at 7.8 million tons;
- Container tonnage is at 5.4 million tons;
- TEUs (twenty-foot equivalent units, a measure of container capacity) total 600,776.

Container TEUs were up 9 percent year to date. Overall, our loaded TEUs were split 66 percent export and 34 percent import year to date through April.

CARGO UPDATE

After generating record-setting revenues for nine consecutive years, the Port Authority saw the effects of the global economic downturn in 2009. But over the last several months, the Port Authority has seen a gradual upward trend in commodity volumes.

In 2009, steel shipments totaled 2.7 million tons, a decrease of nearly 58 percent from the 2008 record level of 6.3 million tons. Steel tonnage is down slightly more than 1 million tons through the first four months of this year relative to last year's levels. However, steel continues to trend upward off of the lows seen late last year, and in April 2010, steel tonnage scored its best month since April 2009.

The impact of these declines on the Port Authority was buffered by the diversity of products moving through the port, its importance to the region, and the important fact that Texas continues to lead the country in population growth.

In 2009, containerized cargo tonnage through the Port Authority declined 5.7 percent. But the Port Authority continues to dominate container cargo traffic along the U.S. Gulf Coast. According to the *Journal of Commerce*, a leading global maritime trade magazine, the Port of Houston continues to rank as the seventh largest container port in the U.S. The Port of Houston handles about 70 percent of the containerized cargo in the U.S. Gulf, and about 96 percent of the waterborne containers moving through Texas ports. Most of that activity takes place at the Bayport and Barbours Cut container terminals.

The Port Authority's leadership in breakbulk handling helped bring the 2010 *Journal of Commerce* Breakbulk Conference to Houston as host city – a first in the event's 21-year history. Breakbulk cargoes include steel, rolling stock and heavy over-dimensional project cargo. As part of the largest breakbulk and project cargo port in the U.S., the Port Authority offers customers a convenient and efficient intermodal gateway to local and global markets. The conference will officially come to Houston in October 2010, with about 2,500 delegates from around the world representing manufacturers, shipping lines and ports. Many jobs will be positively impacted by this international conference, and the venue is expected to impact future conference decisions as well as the Houston tourist market.

BAYPORT CONTAINER AND CRUISE TERMINAL

The first phase of the Bayport Container Terminal opened in February 2007, and in 2009, container imports and exports totaled 676,253 TEUs.

Construction of Bayport is continuing under a newly extended 10-year permit term that was approved by the U.S. Army Corps of Engineers in December 2009. The amended permit allows for the ongoing construction, dredging, dredge material placement and mitigation associated with the complex. Bayport is being constructed in phases as market conditions dictate, but the \$1.4 billion complex is expected to be largely completed within the time frame of the extended permit.

The Port Authority continues its track record of cooperating with communities in the region to ensure that the Bayport terminal remains a good neighbor.

In 2010, we implemented a plan to mitigate the impact of sounds from the Bayport terminal on the neighboring communities of Shoreacres and LaPorte. The Port of Houston Bayport Mitigation Solution program is part of our ongoing work to meet or exceed permit requirements for Bayport construction and as part of the Port Authority's Good Neighbor Program. Reflecting our commitment to our residential neighbors along the north shore of the terminal, this program included a comprehensive independent study.

The Port Authority's mitigation solution provides 411 residential property owners (in an area defined the study) the opportunity to apply for participation. For eligible property owners, the program provides a mitigation payment – through the Port Authority's purchase of property easements – for use as the owner sees fit.

As we planned for the economic rebound, the Port Authority had some \$200 million in about 150 capital improvement projects under way during 2009. One example of a successful partnership-funded infrastructure improvement project is the reconstructed Barbours Cut Boulevard, a joint effort involving Harris County Precinct 2, the Port Authority and the Texas Department of Transportation.

SECURITY INITIATIVES

A safe and secure port remains a priority for the Port Authority. With the cooperation of federal, state and local agencies, the Port Authority has integrated security initiatives in place along the Houston Ship Channel to mitigate security threats. In addition, we have been awarded \$39.9 million in federal port security grants since 2003.

Currently, the Port of Houston is coordinating with our regional security stakeholders and the Area Maritime Security Committee in applying for its portion of the \$28.9 million allocated to the Houston-Galveston area in the most recent round of federal port security grants. Congress appropriated \$288 million to this program nationwide.

The Port Authority successfully implemented the federal Transportation Worker Identification Credential (TWIC), with all its facilities becoming TWIC compliant on the April 14, 2009 deadline for the U.S. Houston-Galveston sector. The Port Authority continues to work with the U.S. Coast Guard on the TWIC program, which aims to ensure that individuals who pose a threat do not gain unescorted access to secure areas of the nation's maritime transportation system.

We appreciate that the Harris County Commissioners Court unanimously approved creation of the Houston Ship Channel Security District, a public-private partnership that will fund enhancements to security technology, infrastructure and processes along the ship channel. The first of its kind in the nation, the district uses a coordinated, system-wide approach to protect the Harris County portion of the waterway.

The security district includes the Port Authority and more than 100 refinery, chemical and marine facilities which will pay operations and maintenance assessments to the district. The \$4 million annual O&M cost is fairly distributed among all stakeholders that benefit from the

enhancements. We are also pleased that in January 2010, Harris County Commissioners Court approved nominations for the first Board of Director members to the district.

To facilitate responses to potential natural and man-made threats to port security, the Port Authority upgraded its Emergency Operations Plan to be consistent with National Incident Management System (NIMS) guidelines. NIMS provides a systematic, proactive approach to guide governmental organizations and the private sector to work together on incident management. The system's flexibility enables the Port Authority and its security partners to coordinate responses to threats and incidents under a Unified Command System and Joint Information Center.

SMALL BUSINESS DEVELOPMENT PROGRAM

In 2002, the Port Commission made a commitment to nurture small businesses in our region, establishing the Small Business Development Program. In just the first quarter of this year, \$5 million in contracts have been awarded to registered small businesses. Since the program's inception year to date, the Port Authority has awarded a total of \$285 million in contracts to registered small businesses and continues to meet the goal of 35 percent participation by certified small businesses in all eligible Port Authority contracts.

More than 1,200 companies are currently registered in the Authority's Small Business Program. Port Authority staff also conducts business forums and the Port University, a six-week course that covers the certification and approval process for bidding on projects at the Port Authority, to give vendors an overview on how the Port Authority operates and provides them insight on how to do business with the Authority. A total of 70 monthly small business forums have been held over the past eight years, and the number of Port University graduates has now reached more than 300.

The commitment of the Port Commission and Port Authority staff to achieve our small business goals, our partnerships with key economic organizations, and a focus on community outreach have all contributed to the success of the program.

ENVIRONMENTAL STEWARDSHIP

The Port Authority continues as a leader in innovation and implementation in its environmental programs. Among the Port Authority's most significant accomplishments in 2009 were air quality compliance and stewardship. The Port Authority developed the Clean Air Strategy Plan (CASP) to be 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.

The CASP was initiated in 2008 with the Goods Movement Air Emissions Inventory (GMEI) serving as the baseline for emissions from ocean-going vessels, harbor vessels, cargo-handling equipment, locomotives and heavy-duty, diesel-fueled vehicles. The Port Authority and its CASP stakeholders utilize this data to establish programs addressing emissions, ultimately establishing specific air quality goals and objectives. Local and state agencies have used the results to model overall air quality in the HGB non-attainment area.

One future project proposed through the CASP is the Marine Vessel Advanced Powertrain Technology Development and Deployment Program. General Electric Transportation, FEV Inc., a global engineering services leader, and the Houston Advanced Research Center have come together with the Port Authority in a public-private partnership to develop a proposal accelerating the development and implementation of Tier 4 diesel engines to the marine and adjacent markets. Reducing nitrogen oxide and particulate matter, the project would involve re-powering engines on such marine vessels as towboats, tugboats or dredges.

As part of the port's environmental leadership, the Port Authority worked with several private partners in applying for American Recovery and Reinvestment Act grant monies through the federal Diesel Emissions Reduction Act (DERA) program. These funds are used for the replacement, repower and retrofit of older diesel equipment and engines. The result was awards that upgraded nearly 180 pieces of equipment with cleaner and more fuel efficient diesel engines.

At the Bayport Container Terminal, a gate modernization system was implemented to increase efficiency at the terminal, in part by reducing the need for clerical staff validation of outbound moves. The added environmental benefit of the changes results in improved air quality.

The Port Authority became the first port in the nation to receive ISO 14001 certification for its environmental management system at the Barbours Cut Terminal and Central Maintenance facility at the Turning Basin Terminal in 2002, and first renewed the certification in 2005. The Port Authority formally added Bayport to its commitment to environmental excellence during the 2009 recertification. As the Port Authority continues the cycle of recertification, one of the principles of the ISO standard – that of continual improvement – will continue to be embraced as we strive to raise the level of environmental stewardship.

From its beginnings, Bayport has operated as one of the greenest marine terminals in the world, using the cleanest-burning engines available for its equipment. Water quality is carefully protected through the Port Authority's spill control and management program, including a first-flush system that captures storm water runoff.

The Port Authority has made huge strides in recycling and now recycles 90 percent of its industrial waste material. In 2009, 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. These and other environmental best practices are shared with our tenants, so that they also can help us achieve environmental sustainability at our urban port.

For more than 50 years, the Port Authority's *M/V Sam Houston* public tour boat has been giving visitors free tours along the Houston Ship Channel. This year the *Sam Houston* was repowered with new, low-emission-fuel engines and a new generator in a progressive move to make the vessel more environmentally friendly. This was all made possible with grants from the Texas Emissions Reduction Plan and American Recovery and Reinvestment Act funding through EPA's National Clean Diesel Funding Assistance Program.

The Port Authority has long been a leader in environmental stewardship, but as we face a changing environment with new policies and regulations, we must do even more. We will

continue to lead, and look forward to partnerships with industry on environmental initiatives to ensure cleaner air, water and a reduced environmental footprint for our region.

COMMUNITY AFFAIRS

The Port Authority successfully reached out to the community with numerous initiatives supporting education, environmental stewardship and volunteerism during 2009.

Port Authority support for educational advancement has continued in its partnership with Junior Achievement, as it annually sponsors \$20,000 in college scholarship awards to 10 Harris County high school students. For the past eight years, the Port Authority has also sponsored a paid summer internship program that provides work experience at Port Authority terminals and offices. The program continues this summer.

Educational partnerships in which the Port Authority participates are helping to prepare the future regional workforce. In 2008, we introduced the Maritime Academy Program at area high schools for local students interested in pursuing a career in the maritime industry. This month, the first classes of ninth graders in the program at both Austin and Yates high school were recognized at special ceremonies for successfully completing their first year of maritime training.

We also partner with Texas Southern University on a degree program in Maritime Transportation Management and Security, which addresses logistics, security and environment. Preparing graduates in this degree program is not only important to the regional economy but also significant to meeting the workforce needs of the Port of Houston maritime industry.

Community initiatives also highlight the Port Authority's commitment to the environment, with such activities as the annual Rivers, Lakes, Bays 'n' Bayous Trash Bash, WaterWise, which teaches elementary students the benefits of efficient water usage, the American Lung Association Stair Climb, and the KTRK-TV Earth Day e-cycling drive.

Port Authority volunteers filled backpacks for Volunteer Houston's "A Visit from Saint Nicholas" project, donated food to KHOU-TV's annual Spirit of Texas Food Drive, and toys to clients of Harris County Children's Assessment Center, which provides a safe haven to sexually abused children and their families.

In addition, the Port Authority continues to work alongside its federal, state and local government stakeholders on its many policy priorities. The Port of Houston enjoys strong bi-partisan support among the elected officials in the region. Even so, to help maintain this partnership, the Port Authority conducts numerous briefings and tours with public officials to explain initiatives and needs related to security, facility and ship channel maintenance, improved trade, and other improvements for the growth and flow of transportation.

The Port Authority has also worked successfully in conjunction with local leaders and elected officials to secure roughly \$125 million in much needed grants and appropriations priority port projects. This includes funding for the continued maintenance of the Houston Ship Channel, American Recovery and Reinvestment Act allocations, and security grants, as well as funds for environmental programs.

Finally, Port Authority staff has continued its commitment to meet and work with local chambers of commerce and economic development organizations, to jointly map out measures to assist our local economy.

CAPITAL FUNDING PROGRAM

The Port Authority has taken a careful look at its continuing capital needs, and expects to continue to work with Harris County to conduct its commercial paper and bond finance program.

The Port Authority has issued slightly over \$142 million in commercial paper, in order to help fund the construction of several major capital projects. Future construction projects will mandate additional long-term capital financing.

The Port Authority’s capital program has taken advantage of several unique opportunities. Increased competition in the construction marketplace has resulting in reduced construction costs. Additionally, its public works spending has delivered economic stimulus to the local economy.

National economic recovery efforts have also opened a window of opportunity, with recent federal legislation permitting the Port Authority (along with other public issuers) to exclusively offer “NON-AMT” bonds in 2009 and 2010. These are expected to bear a lower interest rate, because they are not subject to the “Alternate Minimum Tax” under the Internal Revenue Code. The benefit to our local community is clear.

Using the current estimates of capital needs and projected sources of revenue, the chart below illustrates the liquidity position of the Port Authority for the next three years.

Port of Houston Authority
Liquidity
(in thousands)

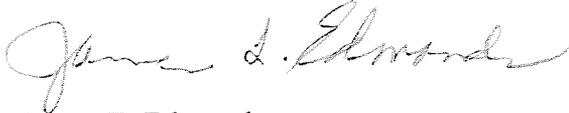
	<u>2010</u> <u>Forecast</u>	<u>2011</u> <u>Projection</u>	<u>2012</u> <u>Projection</u>
Cash & Cash Equivalents, Beginning of Year	\$ 85,514	\$ 167,166	\$ 52,050
Sources:			
Operating Cash Flow	72,041	70,760	87,000
New Bonds or Commercial Paper	<u>179,755</u>	<u>0</u>	<u>0</u>
Available Resources	337,310	237,926	139,050
Uses:			
Capital Investment	<u>(170,144)</u>	<u>(185,870)</u>	<u>(385,050)</u>
Cash & Cash Equivalents, End of Year	<u>\$ 167,166</u>	<u>\$ 52,056</u>	<u>\$ (246,000)</u>

CONCLUSION

As the Port Authority prepares for the economic recovery that is now beginning, the Port Commission and staff are reviewing mid- and long-range capital plans and analyzing our needs. We remain committed to improving the competitive position of the Port of Houston in a global economy, and we appreciate your support of our efforts.

Our capital improvements program depends on these funds. Without them, we could not continue to fuel the economic engine that drives the region's economy, providing employment opportunities and an improved quality of life for all Houstonians. We thank you for your support and assistance with our work.

Respectfully,



James T. Edmonds
Chairman

- c: Port Commissioners:
Steve Phelps
James Fonteno, Jr.
Kase Lawal
Jimmy Burke
Janiece Longoria
Elyse Lanier

Chief Executive Officer, Alec Dreyer
Vice President - Finance, Tom Heidt

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HARRIS COUNTY
MANAGEMENT SERVICES