PORT OF HOUSTON AUTHORITY

June 10, 2011

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

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, its finances and its activities.

As you are all aware, the Port Authority plays an integral role in the mission of the overall Port of Houston, which is a major economic engine for the Houston region and the state of Texas. Annually, the port generates more than 785,000 direct, induced and indirect jobs, statewide, and nearly $118 billion of statewide economic activity. In addition, the port helps generate $3.7 billion, annually, in local and state taxes.

The port is also a vital link to the rest of the world, engaging in trade and commerce with more than 90 percent of the world’s countries, including the four BRIC nations (Brazil, Russia, India and China), which boast the world’s fastest-growing economies.

The Port Authority, which owns/operates the public terminals of the Port of Houston, performed significantly better financially and in tonnage handled in 2010 than it did in 2009 – a year in which a slumping economy prevented the Port Authority from posting its 10th consecutive year of record-setting operating income.

A total of 31.3 million tons – 8.5 percent more than in 2009 – of cargo moved through Port Authority facilities in 2010. In addition, the Port Authority posted a 9.7-percent increase in operating revenue of $184.5 million. Strong throughput in steel – particularly, export steel – and a modest increase in the number of containers moved were primary contributors to last year’s solid performance.

That upward trend continued through the first four months of 2011. Total tonnage through the end of April is 22 percent higher and operating revenue increased by 16 percent, compared to the first four months of last year, primarily due to increased activity at the Port Authority’s Turning Basin terminal, and container terminals at Bayport and Barbours Cut.

James T. Edmonds • Chairman
111 East Loop North • Houston, Texas 77029-4326 • phone 713-670-2662 • fax 713-670-2429 • www.portofhouston.com
In addition to last year’s growth in operations and revenue, policies and programs were implemented with the goal of ensuring substantial success in Port Authority security, environmental, marketing, business origination and community relations efforts.

The Port Authority strives to serve as a model for safety and security, environmental stewardship and sustainability to our maritime partners in the region, and is continually enhancing Houston’s role as a major urban port.

It is a privilege to present this update to you and the communities you represent.

**TURNING BASIN TERMINAL ACTIVITY**

Significant capital investments have been made at the Turning Basin Terminal to better facilitate traffic flow, enhance security screening and make for efficient use of space, particularly in handling steel, breakbulk and RO/RO cargo.

The Cargo Bay Road portal, an $11.8 million project that provides an entry-exit gate on the northeast edge of the terminal, opened in January 2011. The project, which includes a nearly two-mile-long road and four at-grade railroad crossings, consolidates commercial truck traffic that previously flowed through three gates at the Turning Basin.

In addition to rerouting traffic from those three gates and separately handling most commercial truck traffic, the gate makes for more efficient vehicle movements by providing areas for trucks to queue during peak periods.

It also includes two state-of-the-art radiation scanners used for security screening of cargo exiting the terminal.

The Port Authority is spending $1.16 million on a demolition project that removed two transit sheds from Dock 24 and Dock 25 of the Turning Basin, freeing up an additional 220,000 square feet of open dock area to allow for easier handling of steel, and out-of-gauge cargo.

This project was in response to higher demand for open berth space at the Turning Basin, where the occupancy rate for open berths is more than 2½ times greater than that of covered wharves.

**2011 – REVENUE PERFORMANCE HIGHLIGHTS**

Through the first four months of this year, Houston Public Grain Elevator 2 posted a 321-percent year-to-date revenue increase, compared to the same period in 2010. Double-digit increases were realized at four terminals – Turning Basin (35%), Woodhouse (33%), Bayport (30%) and Jacintoport (18%).
CARGO UPDATE

As indicated earlier, the increases in cargo tonnage and operating revenue that marked 2010 continue into 2011. Through the first four months of 2011, steel shipments were up 69 percent over the prior year, with twice as much export steel and 55 percent more import steel crossing Port Authority docks. Through the first four months of this year, the Port Authority has handled 1.1 million tons of steel.

It is a remarkable improvement for the commodity compared to first-quarter 2010, where a 1.1 million-ton decline from 2009 year-to-date performance put the Port Authority at a 62-percent deficit. However, a resurgent 2.1 million tons was handled through the remainder of 2010 to bring Port Authority totals to 2.7 million tons.

The 249,000 tons moved in December 2010 alone nearly tripled 2009’s December throughput and ensured the Port Authority a 2-percent yearly gain over 2009’s figures. Notably, the surge in steel was dominated by a rare, 71-percent increase in export steel.

Current cargo activity also reflects an increase in container handling – 654,000 twenty-foot equivalent units (TEUs) were moved through the first four months of 2011 for a year-to-date increase of 9-percent – a 26-percent increase in automobile imports and a 100-percent increase in bulk grain.

BAYPORT CONTAINER AND CRUISE TERMINAL

The first phase of the Bayport Container Terminal opened in February 2007, and significant milestones in its development were reached in 2010. The construction of two environmentally friendly office buildings and 50 acres of new container yards at Bayport Container Terminal, completion of Bayport’s Wharf 3 and the acquisition of three additional wharf cranes essentially places the terminal at 50-percent completion. The midyear arrival of the three wharf cranes brings the terminal total to nine cranes and follows the terminal’s master plan, which calls for three cranes per berth. In addition, there are 27 RTG (rubber tired gantry) cranes at Bayport – nine of which have been delivered since 2010 – to accommodate the increase in loads, as well as the associated vessel and yard support activities. The additional container yard acreage allows for an expected 6% increase in total vessel lifts for 2011.

Another notable capital project was the incorporation of an Optical Character Recognition system in the exit gate processes at Bayport and Barbours Cut. The system allows up to 60 percent of trucks to free flow through the gate with transaction verification, resulting in a decrease in truck idling time and shortening overall turn times at both terminals. Plans are under way to integrate similar technology into the inbound gate systems at Bayport and Barbours Cut.

Construction has been completed on both the $8.6 million Administration and $15 million Maintenance and Repair (M&R) buildings at Bayport. Each building was designed and constructed to U.S. Green Building Council Leadership in Energy & Environmental Design (LEED) specifications. LEED is “an internationally recognized
green building certification system, providing third-party verification that a building . . . was designed and built using strategies aimed at improving performance in all the metrics that matter most: energy savings, water efficiency, CO2 emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts.”

The Administration building has been selected for certification, and is on track to meet the LEED Gold level – the second highest level of certification.

Bayport already moved 700,596 TEUs in 2010 – but these capital investments will meet the demands of vessels that will call more frequently and grow ever larger. Earlier this year, history was made as three super post-panamax vessels, capable of handling 8,200 TEUs, each called at Bayport, the largest container ships ever to call at the Port of Houston. We can expect even larger vessels, as shipping line MSC is presently petitioning the Houston Pilots for permission to dispatch a 9,200 TEU vessel to the port.

The Port Authority continues as well its unstinting efforts to bring a cruise line to Houston. Among its many initiatives, in 2010 the Port Authority prepared a Request for Proposals to supplement its effort to reach out to the cruise industry, and help definitively determine the current interest of cruise lines in establishing a homeport in Houston. The Port Authority may explore other options for development of the cruise terminal in the coming months as well.

Last year, as part of its ongoing commitment toward being a responsible and responsive industrial neighbor, the Port Authority unveiled its Bayport Mitigation Solution Program in March 2010.

The program was the cornerstone of several initiatives designed to mitigate the impact of sounds related to terminal operations on residential neighbors along the north shore of the Bayport Channel in La Porte and Shoreacres. The owners of 411 residential properties (in an area defined by the results of a comprehensive, independent acoustics study) were provided the opportunity to apply for a mitigation payment in return for granting an easement to the Port Authority.

Response to the Bayport Mitigation Solution Program has been positive, with the following results as of April 2011:

- Total of 278 applications were received from eligible property owners interested in participating in the program. This number represents 78 percent of all owners in the program boundary area.
- We have closed on 270, or 97 percent, of these applications resulting in total mitigation payments of $9.6 million. Of these applications, 86 percent pertain to homes.
SECURITY INITIATIVES

The Port Authority continues its efforts to set exemplary standards for security at all its facilities. We are proud to have played an important role in conceptualizing and helping to start the Houston Ship Channel Security District (HSCSD). HSCSD was formed to enhance security along the ship channel by funding operations and maintenance costs associated with port security grants. HSCSD provides:

- A layered approach to port security, involving local, state and federal law enforcement officers
- An ideal model since its creation in June 2009
- A funding mechanism for portwide security projects

Three years ago, the Port Authority became the world’s first port authority to attain International Organization for Standardization (ISO) 28000:2007 certification for its security management system (SMS). Earlier this year, as the result of an independent audit of our SMS, we were recertified to the ISO model, committing ourselves to even more stringent security management standards with our Port Police and perimeter security operations.

STRATEGIC MARKETING EFFORTS

The Port Authority continuously competes in the global marketplace to attract and maintain customers, generate revenue and build market share. With that in mind, the Port Authority has committed itself to its most aggressive, comprehensive and expansive international marketing strategy ever.

Under the direction of the newly organized Origination Division, the Port Authority marketed itself, the Port of Houston and the Houston region energetically and effectively. These efforts yielded notable results.

Relationships with Brazilian partners resulted in the launching of Houston Express Service (HES), which connects Brazil and Houston to the rest of the world. HES, a product of Brazilian consolidator and logistics service provider Uniship Transporte Internacional Ltda, effectively makes Houston the world’s first international hub for Brazilian exports, particularly over-dimensioned cargo.

The service synergizes the Port Authority’s pre-eminence as operator of first-class breakbulk and heavy lift cargo terminals, Houston’s geographic presence as an international gateway to the heartland of North America, and the growing demands of international shippers in need of efficient consolidation, handling of oversized shipments and connectivity to the global markets.
This also marks a significant milestone in an ever-strengthening relationship between the Port of Houston and one of the world’s fastest-growing economies. Late last year, Houston overtook New York-New Jersey as Brazil’s No. 1 U.S. trading partner. Today, Brazil ranks as the Port of Houston’s second leading trading partner in both tonnage and cargo value.

HES was unveiled at the 2010 Breakbulk Americas Transportation Conference, held at the Hilton Americas Hotel in October. Port Authority representatives, in concert with the City of Houston, the Greater Houston Partnership, the George R. Brown Convention Center, the Hilton Americas-Houston Hotel and the Greater Houston Convention and Visitors Bureau, worked hard to secure a commitment from conference organizer Journal of Commerce (JOC) to bring the conference to Houston for the first time in its 21-year history.

JOC officials were so impressed with Houston that they have committed to return to Houston as host city on alternate years.

Breakbulk Americas 2010 generated more than $4.9 million in direct and indirect economic impact on Houston, according to a report from the Port of Houston Authority’s Economic Analysis Division and the Greater Houston Convention and Visitors Bureau. The analysis considered many factors, including hotel accommodations, transportation, food and beverage services and more during the two-day conference.

In order to ensure a constant presence in Asia, the world’s largest and most populous market, in 2010 the Port Authority entered into a historic, two-year professional services agreement with Ben Line Agencies Limited of Singapore. Ben Line was enlisted to represent the Port Authority in promoting all-water direct trade between Asia and Houston.

With Ben Line’s assistance, the Port Authority established a presence for itself and its port in 90 cities across 15 countries, including Cambodia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Myanmar, the Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand and Vietnam. That presence is essential, considering that more trade currently flows across the Pacific Ocean than any other trade lane, and Asia has been the Port Authority’s fastest-growing trade segment for the last 10 years, currently accounting for 16 percent of the Port Authority’s overall trade and 32 percent of its import container trade.

In late September of 2010, the Port Authority launched the Gulf Coast Advantage, an innovative and unprecedented collaborative among three U.S. Gulf coast ports – Houston, Mobile (Ala.) and Tampa (Fla.). The Gulf Coast Advantage gives shippers and carriers total Gulf Coast coverage by linking these three regional seaports.

The marketing initiative is designed to address the anticipated growth in cargo volume that the Panama Canal expansion will bring. It also showcases to shippers the potency of a regional market anchored by huge consumption centers like Houston and Tampa and a growing industrial base such as the one found in Mobile.
The Gulf Coast Advantage also presents a viable alternative to the traditional east-west trade routes that have long served the continental U.S. by providing intermodal service into America’s heartland and delivering access to a market of more than 100 million people.

**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. Since its inception and through the first quarter of 2011, the program has facilitated the awarding of $333.1 million to eligible small businesses.

In an effort to help small businesses grow and prosper, the Small Business Development Division enlisted in the “Guiding Protégés to Success” (GPS) program in September 2010. GPS is a partnership among the Port of Houston Authority, City of Houston Small Business Opportunity, Houston Independent School District and METRO. It is designed to foster long-term relationships between prime contractors and certified small businesses registered with the Port of Houston Authority.

GPS helps small businesses become more self-sustaining and provides broad-based training and professional guidance. The program works by pairing small businesses with mentors who have proven track records of success in their particular fields.

The Port Authority’s GPS program got off to a healthy start in 2010, pairing 10 protégé businesses with mentors. Mentors are continuously being sought as the number of protégé applicants to the program exceeds the number of mentors available by a ratio of 2.5-to-1.

In 2010, eleven small business development forums were held that included speakers from the Port Authority, certifying agency partners (Houston Minority Supplier Development Council, Women’s Business Enterprise Alliance, City of Houston, METRO), and the U.S. Small Business Administration. The number of registered small businesses working with the Small Business Development Division also grew by 3 percent, with a total of 1,298 involved by year end.

The Port of Houston Partners in Maritime Education program, which operates under the auspices of the Small Business Development Division, continues to grow.

Its efforts have resulted in maritime academies first implemented in partnership with public and private sector entities during the 2009-2010 school year at two local Houston I.S.D. schools – Stephen F. Austin High and Jack Yates High.

For the 2010-2011 school year, the student enrollment of both high schools in the maritime academy program grew by 13 percent to include 396 students. The maritime program has also gained momentum and expanded to area local school districts by
offering dual credit opportunities to students enrolled in the La Porte, Pasadena, Galena Park, Deer Park and other school districts.

The Maritime Transportation Management program also began its first semester at Texas Southern University in the fall of 2010. TSU enrolled 33 students for the fall semester with 12 students receiving full scholarships and 11 students receiving partial scholarships. The Port of Houston Authority has committed a total of $2 million over a five-year period to the program.

ENVIRONMENTAL STEWARDSHIP

The foundation for the Port Authority’s sustainability activities is the Environmental Management System (EMS). The EMS has been certified to the ISO 14001 standard since 2002 and continues to improve and expand each year. In 2009, the new Bayport Container Terminal was included under a scope extension of the certification, and in 2010, the six facilities and five vessels of the Marine Department were added to the Port Authority’s certification.

Our Environmental Stewardship video was revised and updated during 2010. This tool conveys the Port Authority’s commitment to sustainability and the importance of that commitment being shared by employees, vendors and those routinely coming to the port. It is available on the Vendor Information System and Port Authority website. It is also played during employee orientation and is required viewing for all visitors applying for entry badges to Port Authority facilities.

A number of key environmental initiatives have been launched since last year, with the goal of expanding the impact of the Port Authority’s environmental stewardship portfolio beyond its own footprint, as the Port Authority assumes a larger role in improving the region’s air, water and waste management.

The Port Authority began rolling out its Clean Air Strategy Plan (CASP) in late 2010, recognizing the important role of the Port Authority in facilitating and encouraging significant emission reductions and promoting air quality awareness along the Houston Ship Channel and throughout the region.

The purpose of the CASP is to develop and implement voluntary programs to reduce emissions from maritime and associated transportation sources servicing ship channel industries. CASP benefits the entire Houston-Galveston-Brazoria community, assisting the state of Texas and Environmental Protection Agency (EPA) in reducing the harmful health effects of multiple pollutants and potential economic repercussions.

The latest version of the CASP was released earlier this month and is available for review on our website at www.portofhouston.com.

In 2010, the Port Authority and Maersk Line, which partnered with EPA on the first-ever low-sulfur “fuel switch” demonstration on a container ship in the Gulf of Mexico in
November 2009, were selected to receive a $1.5 million grant from the National Clean Diesel Emissions Reduction Program.

The grant pays the differential costs incurred when Maersk Line vessels switch from high-sulfur bunker fuel to lower-sulfur marine diesel while approaching Texas waters. Maersk Line vessels call at the APM Terminal located at the Port Authority’s Barbours Cut complex.

The program began in August 2010 and runs through March 31, 2012, with 20 Maersk Line vessels participating. Once those vessels are within 24 nautical miles of the Texas coast, they switch to lower-sulfur fuels. The cleaner marine diesel fuel contains no more than 0.2 percent sulfur, compared to the 2.7 percent sulfur contained in regular bunker fuel.

These emission reductions are aimed at improving local air quality and public health in the Houston-Galveston-Brazoria non-attainment area. Since the inception of the program, estimated emission reductions from fuel switching activities include 8.15 tons of Nitrous Oxide (6% reduction), 11.76 tons of Particulate Matter 10 (87% reduction), 9.82 tons of Particulate Matter 2.5 (87% reduction), 99.98 tons of sulfur dioxide (97% reduction) and 298.50 tons of carbon dioxide (5% reduction).

Continuing its efforts to improve regional air quality and in order to help drayage businesses and owner operators in need of newer, safer and more fuel-efficient trucks, the Port Authority, in partnership with Houston-Galveston Area Council and Environmental Defense Fund, hosted a drayage truck fair at a Port Authority facility in April 2011.

The event gave drayage business owners and operators the opportunity to learn about the H-GAC Drayage low interest, reduced requirements loan program, as well as information on regional Texas Emissions Reduction Plan (TERP) incentives. More than 150 people attended this year’s event, generating more than 50 truck loan applications for the program.

COMMUNITY AFFAIRS

Community Affairs initiatives are among the most interactive of all Port Authority relationships. Economic development is supported by the Port Authority through partnerships with chambers of commerce and economic development organizations, including nineteen formal strategic partnerships.

Education, particularly related to the maritime industry, conservation and environment, is a cornerstone of the Port Authority’s community affairs efforts.

More than 1,500 young people sailed along the Houston Ship Channel or in Galveston Bay in floating “classrooms” during 2010, thanks to the BaySmart program that uses the waterways as an outdoor learning experience. BaySmart’s overriding theme is to show students that what they study in school is relevant to the outside world. The marine
component is part of a curriculum that also teaches subjects such as geography and history.

Students learn about marine vessels, career opportunities, commercial and recreational fishing, wetlands and wildlife. They also learn about homeland security, international trade and the economic contributions of bay-related activities. Finally, they are introduced to the fact that the Port of Houston brings millions of dollars in revenue into the local economy and provides thousands of jobs, some of which could be available to them in the future.

The Port Authority has continued its involvement with the City of Houston Water Festival. The WaterFest focuses on teaching elementary and middle school-aged children the importance of water conservation and water pollution avoidance. The Port Authority uses a hands-on model to illustrate how pollution can travel through local Houston waterways to Galveston Bay.

Last year was also the seventh year that Port Authority employees have participated in the Junior Achievement (JA) program, which involves teaching five-week-long classes with the goal of helping the students make practical, day-to-day economic application of the subjects they learn in school. In addition, the students were taught lessons on citizenship, how to be good neighbors and how interaction among different countries helps drive global economies.

A total of 25 Port Authority employees taught JA classes at Port Houston and Pleasantville elementary schools.

Free tours of the port aboard the M/V Sam Houston still rank as one of the most popular maritime education initiatives of the Community Affairs Department. Last year, more than 15,000 passengers on 425 trips toured the Houston Ship Channel aboard the M/V Sam Houston and more than 4,000 had done so through the first three months of this year.

An additional 60 special tours – most of which included catering, were also conducted aboard the tour vessel. Those tours included trade representatives from other countries, organizations affiliated with higher education, such as the Harvard Club of Houston, Rice Alumni Association, Brown University Club of Houston, U.S. Merchant Marine Academy Alumni Association and Texas Southern University’s Maritime Transportation Management and Security, public officials such as the Harris County Mayors and Councils Association, and Houston City Council Members.

Buffalo Bayou is the primary tributary for the Houston Ship Channel and its environmental integrity is important to the Port Authority. Since 2007, the Port Authority has joined with the Buffalo Bayou Partnership, Shell Oil Company, the East End Improvement Corporation, the Greater East End Management District, the Precinct 6 Harris County Constable’s Office, the Harris County Flood Control District, and others to help clean up Buffalo Bayou through the Clean and Green Port of Houston program. Five days a week, land-based and waterborne crews work to keep the bayou clean of debris.
Periodically, volunteer groups from the Port Authority, Shell and the community volunteer their time to keep the bayou clear of debris.

The Port Authority partners with Gulf Coast Regional Blood Center to host quarterly blood drives each year in the Executive Office training room and a mobile unit at Barbours Cut Terminal. In 2010, the Port Authority gave more than 100 units of blood – equivalent to saving 300 lives in the Houston region.

**KEEPING THE SHIP CHANNEL SAFE AND NAVIGABLE**

One of the important mandates given the Port Authority is oversight of the development and maintenance of the Houston Ship Channel. Activity along the channel is responsible for hundreds of thousands of jobs and billions of dollars in economic impact, and it is a critical economic engine for the Houston region, the state of Texas and the United States. The channel is also integral to our nation’s energy security as host to the second-largest petrochemical complex in the world.

Maintaining this dynamic waterway system is essential to protecting these economic benefits.

In 2010, the Port Authority used the results from a federally-funded security grant project to expand its Geographic Information System (GIS) to include pipeline crossings of the ship channel and rail lines. This will facilitate improved administration and management of the thousands of pipelines which could potentially interfere or otherwise impact ship and train traffic. Overall, in 2010 the Port Authority processed 122 permits and licenses for channel and pipeline improvements.

In 2010, the Port Authority continued its recovery from the cumulative effects of Hurricane Ike on the berthing areas at its many docks. Storm siltation and an extraordinary quantity of debris were and continue to be systematically removed. The Port Authority is helping coordinate up to $11 million in FEMA dredging damage recovery, which is scheduled to be completed in 2012.

However, the condition of the Houston Ship Channel, for which operations and maintenance is federally funded, is in decline. In recent years, despite the best efforts of our Congressional Delegation, the appropriations for the Houston Ship Channel have not fully met identified needs.

For Fiscal Year 2011, the Houston Ship Channel needed at least $40.6 million to meet critical (but not all) dredging and capacity requirements, which on the low end of the typical average requirement of $40 to $50 million. This year, only approximately $24 million will be funded. As a result of this funding shortfall, the U.S. Army Corps of Engineers’ hydrographic report for the Houston Ship Channel shows that in 2010, only 42 percent of the center half of the channel was at full design depth. Other data indicates that since 2005 the channel has been losing an average of 8 percent of usable depth per year.
Depth and ship passing restrictions limit the drafts of ships navigating our channels and significantly reduce the amount of cargo carried per trip, slow ship movement, and increase the cost of both imports and exports. Eventually that is reflected in higher costs to consumers.

**CAPITAL FUNDING PROGRAM**

The Port Authority invested a total of $158.3 million in capital improvements during 2010, which reflects its continuing commitment to development, expansion and renewal of Port Authority facilities while promoting economic vitality throughout the region. Approximately $104.1 million of these improvements were funded with proceeds from commercial paper and unlimited tax bonds issued in 2010, with the balance paid from the Port Authority’s general fund.

With the advent of larger ships and increased cargo coming to our terminals, we will expand and diversify our efforts to obtain adequate funding both for terminal construction and improvement, and for the maintenance and operation of the Houston Ship Channel, our marine highway to the world.

As part of the Port Authority’s strategic initiatives review, we develop mid and long-range plans and analyze our revenue sources and capital needs. We estimate that we will need to make capital investments of about $1.2 billion over the next five years. However, cognizant of the fact that the economy has not fully recovered from the financial crisis of 2008, we have modified our capital improvements plans to better match our near term cash flows and postpone the need for additional external financing until 2012.

We have included on the next page a liquidity forecast through 2013, showing estimated capital expenditures of $118.4 million, $235.9 million and $126.5 million in 2011, 2012 and 2013, respectively. Although not presented in this report, our 2014 capital plans include $137.0 million in estimated dredging costs needed to deepen and widen the Bayport Ship Channel in anticipation of the increased large vessel traffic associated with the opening of the expanded Panama Canal in 2014.

The Port Authority expects to seek additional financing in order to further develop the facilities necessary to drive and support our region’s economic growth and employment opportunities. We continue to appreciate your support and assistance, and the community’s support and assistance, in these efforts. Going forward, we are exploring a variety of means by which to grow the Port of Houston, meet the capital needs of both the Port of Houston and the Port Authority itself, and not unduly burden the citizens of Harris County who have so greatly helped these efforts in the past.
Port of Houston Authority
Liquidity Forecast (000's)

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* 2011 reflects latest quarterly forecast
** Capital budget estimate as of 4/13/2011
SUMMARY

The Port Commission and staff take seriously our mandate to create jobs and contribute to the economic welfare of our local region, Texas and the nation through development of deep water navigation, waterways and facilities, and the promotion of commerce within our region. In addition, we remain committed to enhancing the competitive position of the Port of Houston in a global economy, while being a model environmental and security steward, and a community-focused and fiscally responsible organization.

This commitment comes with even more resolve, as we address the serious challenges facing the Port Authority including remaining competitive in the global marketplace, ensuring that the necessary infrastructure is in place to meet cargo demands, and providing answers to the questions brought to light in recent media reports.

We also welcome the opportunity to continue to improve the Port Authority as we undertake the upcoming state sunset review process.

I look forward to attending the June 21 Commissioners Court meeting, and I will be available to answer any questions you may have about the Port Authority, its recent activities and its future plans.

Respectfully,

[Signature]

James T. Edmonds, Chairman

cc: Steve Phelps, Port Commissioner  
    James W. Fonteno, Jr., Port Commissioner  
    Kase L. Lawal, Port Commissioner  
    Jimmy A. Burke, Port Commissioner  
    Janiece Longoria, Port Commissioner  
    Elyse Lanier, Port Commissioner  
    Alec G. Dreyer, Chief Executive Officer