

PRELIMINARY OFFICIAL STATEMENT
June 28, 2024

NEW ISSUES
BOOK-ENTRY-ONLY

S&P: "A"
Fitch: "A"
(See "RATINGS" herein.)

In the opinion of Bond Counsel, under existing law, interest on the Series 2024A Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except for any period during which a Bond is held by a person who is a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" of such a "substantial user," each within the meaning of section 147(a) of the Code, and (ii) is an item of tax preference for purposes of the alternative minimum tax on individuals. Further, in the opinion of Bond Counsel, under existing law, interest on the Series 2024B Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Code and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.



CITY OF GALVESTON, TEXAS
(Galveston County, Texas)

\$111,525,000*

**WHARVES AND TERMINAL FIRST LIEN
REVENUE BONDS, SERIES 2024A (AMT)**

\$48,475,000*

**WHARVES AND TERMINAL FIRST LIEN
REVENUE BONDS, SERIES 2024B (NON-AMT)**

Dated Date: August 1, 2024

Due: August 1, as shown on pages ii and iii

Interest Accrual Date: Date of Delivery

The City of Galveston, Texas (the "City" or the "Issuer") Wharves and Terminal First Lien Revenue Bonds, Series 2024A (AMT) (the "Series 2024A Bonds") and Wharves and Terminal First Lien Revenue Bonds, Series 2024B (Non-AMT) (the "Series 2024B Bonds, and together with the Series 2024A Bonds, the "Bonds") are issued in fully registered form in denominations of \$5,000 (or integral multiples thereof). The Bonds bear interest from the Delivery Date (as defined below), payable semiannually each August 1 and February 1, commencing February 1, 2025, until maturity or earlier redemption. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Trustee (as defined herein) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. The Trustee and the Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association.

The Bonds are being issued pursuant to the general laws of the State of Texas, including particularly, Chapter 1371, Texas Government Code, as amended, Chapter 54, Texas Transportation Code, as amended, the home-rule charter of the City, an ordinance (the "Bond Ordinance") adopted by the City Council of the City on June 27, 2024, and an Amended and Restated Trust Indenture dated as of October 1, 2023 between the City and the Trustee (the "Trust Indenture"), as supplemented by the Second Supplemental Amended and Restated Trust Indenture, dated August 1, 2024 (collectively with the Trust Indenture, the "Indenture"). In the Bond Ordinance, the City delegated to authorized officers of the City, the authority to execute a pricing certificate (the "Pricing Certificate") that will set forth the final terms of the Bonds. Together, the Bond Ordinance and the Pricing Certificate are herein referred to as the "Ordinance." The Indenture permits the issuance and incurrence of additional bonds and other obligations to be secured on a parity basis with the Bonds. The Bonds will be issued as First Lien Obligations and secured on a parity basis with the outstanding First Lien Obligations (as defined herein). See "SECURITY FOR THE BONDS" and "APPENDIX C – Selected Provisions of the Indenture" herein.

Proceeds from the sale of the Series 2024A Bonds will be used to: (i) construct, improve and renovate certain Port facilities, to wit, Piers 16 and 18 to facilitate the operation of cruise vessels with capacities of approximately 6,000 passengers, inclusive of certain systems, controls, equipment, HVAC, passenger boarding bridges, and related infrastructure; (ii) fund all or a portion of a debt service reserve fund in accordance with the Second Supplemental Trust Indenture; and (iii) pay the costs of issuance of the Series 2024A Bonds.

Proceeds from the sale of the Series 2024B Bonds will be used to: (i) construct, improve and equip a multi-level parking garage facility and other surface parking facilities; (ii) fund all or a portion of a debt service reserve fund in accordance with the Second Supplemental Trust Indenture; and (iii) pay the costs of issuance of the Series 2024B Bonds. See "THE BONDS - Purpose" and "THE WHARVES - Operations and Facilities - Redevelopment and Future Operations – Piers 16-18 and Cruise Terminal No. 16" herein.

THE BONDS, TOGETHER WITH THE OUTSTANDING FIRST LIEN OBLIGATIONS, ARE SPECIAL LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM CERTAIN NET REVENUES AND CERTAIN OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE AN INDEBTEDNESS, LIABILITY, GENERAL OR MORAL OBLIGATION OR A LOAN OF THE FAITH AND CREDIT OR A CHARGE OF ANY TAXING POWER OF THE CITY, THE STATE OF TEXAS OR ANY POLITICAL SUBDIVISION OF THE STATE OF TEXAS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OF THE STATE OF TEXAS AND SHALL NEVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE CITY, OR A CHARGE AGAINST ITS GENERAL CREDIT. NEITHER THE STATE OF TEXAS NOR ANY POLITICAL SUBDIVISION THEREOF NOR THE CITY, SHALL BE OBLIGATED TO PAY THE PRINCIPAL (OR REDEMPTION PRICE) OF THE BONDS, THE INTEREST THEREON OR OTHER COSTS INCIDENT THERETO EXCEPT FROM THE NET REVENUES AND OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NO OWNER OF ANY BOND SHALL HAVE THE RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWER OF THE CITY, TO PAY THE PRINCIPAL OF THE BONDS OR INTEREST THEREON.

THE BONDS INVOLVE A CERTAIN DEGREE OF RISK AND THUS ARE SPECULATIVE IN NATURE. POTENTIAL INVESTORS SHOULD CAREFULLY EVALUATE THE INVESTMENT RISKS RELATING TO THE BONDS. SEE "RISK FACTORS" AND "SECURITY FOR THE BONDS."

SEE MATURITY SCHEDULES ON PAGES ii AND iii

The Bonds are offered when, as and if issued and subject to the approval of legality by the Attorney General of the State of Texas and Bracewell LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the underwriters of the Bonds named below (the "Underwriters") by their co-counsel, Cantu Harden Montoya LLP and Greenberg Traurig, LLP, both of Houston, Texas. The Bonds are expected to be available for initial delivery to the Underwriters through the facilities of DTC on or about August 1, 2024 (the "Delivery Date").

PIPER SANDLER & CO.

HILLTOPSECURITIES

BAIRD

RAYMOND JAMES

SIEBERT WILLIAMS SHANK & CO., LLC

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

SERIES 2024A BONDS MATURITY SCHEDULE
CUSIP Base Number: 364568⁽¹⁾

\$111,525,000*
CITY OF GALVESTON, TEXAS
Wharves and Terminal First Lien Revenue Bonds, Series 2024A (AMT)

| Maturity Date (8/1) | Principal Amount* | Interest Rate | Yield⁽²⁾ | CUSIP Suffix⁽¹⁾ |
|------------------------------------|------------------------------|--------------------------|----------------------------|---------------------------------------|
| 2026 | \$3,110,000 | % | % | |
| 2027 | 3,815,000 | | | |
| 2028 | 4,010,000 | | | |
| 2029 | 4,210,000 | | | |
| 2030 | 4,420,000 | | | |
| 2031 | 4,640,000 | | | |
| 2032 | 4,870,000 | | | |
| 2033 | 5,115,000 | | | |
| 2034 | 5,370,000 | | | |
| 2035 | 5,640,000 | | | |
| 2036 | 5,935,000 | | | |
| 2037 | 6,245,000 | | | |
| 2038 | 6,575,000 | | | |
| 2039 | 6,920,000 | | | |
| 2040 | 7,285,000 | | | |
| 2041 | 7,685,000 | | | |
| 2042 | 8,105,000 | | | |
| 2043 | 8,550,000 | | | |
| 2044 | 9,025,000 | | | |

(Interest to accrue from the Delivery Date)

The City reserves the right, at its option, to redeem Series 2024A Bonds having stated maturities on and after August 1, _____, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, _____ or any date thereafter, at par value thereof plus accrued interest to the date of redemption. If in connection with the pricing of the Series 2024A Bonds two or more consecutive maturities are combined to create one or more term bonds at the election of the Underwriters (the "Term Series 2024A Bonds"), such Series 2024A Term Bonds shall be subject to mandatory sinking fund redemption as provided herein. (See "THE BONDS – Redemption Provisions").

* Preliminary, subject to change.

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the City or the Financial Advisor are responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ The initial yields are established by and are the sole responsibility of the Underwriters and may subsequently be changed.

SERIES 2024B BONDS MATURITY SCHEDULE
CUSIP Base Number: 364568⁽¹⁾

\$48,475,000*

CITY OF GALVESTON, TEXAS

Wharves and Terminal First Lien Revenue Bonds, Series 2024B (Non-AMT)

| Maturity Date (8/1) | Principal Amount* | Interest Rate | Yield⁽²⁾ | CUSIP Suffix⁽¹⁾ |
|------------------------------------|------------------------------|--------------------------|----------------------------|---------------------------------------|
| 2026 | \$1,365,000 | % | % | |
| 2027 | 1,670,000 | | | |
| 2028 | 1,755,000 | | | |
| 2029 | 1,845,000 | | | |
| 2030 | 1,935,000 | | | |
| 2031 | 2,030,000 | | | |
| 2032 | 2,135,000 | | | |
| 2033 | 2,240,000 | | | |
| 2034 | 2,350,000 | | | |
| 2035 | 2,470,000 | | | |
| 2036 | 2,595,000 | | | |
| 2037 | 2,725,000 | | | |
| 2038 | 2,860,000 | | | |
| 2039 | 3,000,000 | | | |
| 2040 | 3,150,000 | | | |
| 2041 | 3,315,000 | | | |
| 2042 | 3,490,000 | | | |
| 2043 | 3,675,000 | | | |
| 2044 | 3,870,000 | | | |

(Interest to accrue from the Delivery Date)

The City reserves the right, at its option, to redeem Series 2024B Bonds having stated maturities on and after August 1, _____, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, _____ or any date thereafter, at par value thereof plus accrued interest to the date of redemption. If in connection with the pricing of the Series 2024B Bonds two or more consecutive maturities are combined to create one or more term bonds at the election of the Underwriters (the "Term Series 2024B Bonds"), such Series 2024B Term Bonds shall be subject to mandatory sinking fund redemption as provided herein. (See "THE BONDS – Redemption Provisions").

* Preliminary, subject to change.

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the City or the Financial Advisor are responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ The initial yields are established by and are the sole responsibility of the Underwriters and may subsequently be changed.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purpose of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (“Rule 15c2-12”), this document, as the same may be supplemented or corrected from time to time, constitutes an “official statement” of the City with respect to the Bonds that has been “deemed final” by the City as of the date hereof (or of any supplement or correction) except for the omission of no more than the information permitted by Subsection (b)(1) of Rule 15c2-12.

This Official Statement, which includes the cover page, and appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriters to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to the accuracy or completeness and is not to be construed as a promise or guarantee of the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES 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.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE CITY, THE WHARVES, THE FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY (“DTC”) OR ITS BOOK-ENTRY-ONLY SYSTEM AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

THIS OFFICIAL STATEMENT CONTAINS “FORWARD-LOOKING” STATEMENTS. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. SEE “FORWARD-LOOKING STATEMENTS” HEREIN.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for any purposes.

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this page from this Official Statement or to otherwise use it without the entire Official Statement.

| | |
|--------------------------|---|
| The City | The City of Galveston, Texas (the “City”) is a political subdivision and municipal corporation of the State of Texas (the “State”), located in Galveston County, Texas (the “County”) (see “INTRODUCTORY STATEMENT – Description of the City”). |
| The Wharves | The Galveston Wharves (the “Wharves”) was created by City ordinance in 1940 as a separate utility of the City to manage, maintain, operate and control all existing port properties and all additions, improvements, or extensions to such properties. All of the Wharves properties are located within the corporate limits of the City. The City Charter (as defined herein) provides that all City-owned wharf and terminal properties, and all income and revenues therefrom, are to be set aside and controlled, maintained and operated exclusively by a “Board of Trustees of the Galveston Wharves” (the “Board”). |
| The Bonds | The City of Galveston, Texas \$111,525,000* Wharves and Terminal First Lien Revenue Bonds, Series 2024A (AMT) (the “Series 2024A Bonds”) and \$48,475,000* Wharves and Terminal First Lien Revenue Bonds, Series 2024B (Non-AMT) (the “Series 2024B Bonds” and, together with the Series 2024A Bonds, the “Bonds”) are issued pursuant to an ordinance adopted by the City Council of the City on June 27, 2024 (the “Bond Ordinance”), and an Amended and Restated Trust Indenture dated as of October 1, 2023 by and between the City and The Bank of New York Mellon Trust Company, National Association (together with its successor in such capacity, the “Trustee”) (the “Trust Indenture”), as supplemented by the Second Supplemental Amended and Restated Trust Indenture, dated August 1, 2024 by and between the City and the Trustee (collectively with the Trust Indenture, the “Indenture”). The Bonds mature on the dates and in the amounts shown on page ii hereof. The Bonds are issued in fully registered form in denominations of \$5,000 of principal amount or integral multiples thereof. See “THE BONDS.” |
| Authorization | The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1371, Texas Government Code, as amended, Chapter 54, Texas Transportation Code, as amended, the home-rule charter of the City, the Bond Ordinance, and the Indenture. In the Bond Ordinance, the City delegated to authorized officers of the City, the authority to execute a pricing certificate (the “Pricing Certificate”) that will set forth the final terms of the Bonds. Together, the Bond Ordinance and the Pricing Certificate are herein referred to as the “Ordinance.” |
| Source of Payment | The Bonds, together with the outstanding First Lien Obligations (hereinafter defined), are special limited obligations of the City, payable solely from certain Net Revenues (as defined herein) and certain other assets pledged therefor under the Indenture. The Bonds and the interest thereon do not constitute an indebtedness, liability, general or moral obligation or a loan of the faith and credit or a charge of any taxing power of the City, the State or any political subdivision of the State within the meaning of any constitutional or statutory provision of the State and shall never constitute or give rise to a pecuniary liability of the City, or a charge against its general credit. Neither the State nor any political subdivision thereof nor the City, shall be obligated to pay the principal (or redemption price) of the Bonds, the interest thereon or other costs incident thereto except from the Net Revenues and other assets pledged therefore under the Indenture. No owner of any Bond shall have the right to compel any exercise of the taxing power of the City, to pay the principal of the Bonds or interest thereon. The Bonds involve a certain degree of risk and thus are speculative in nature. Potential investors should carefully evaluate the investment risks relating to the Bonds. See “RISK FACTORS” and “SECURITY FOR THE BONDS – Pledge of Net Revenues.” |
| Trustee | The initial Trustee and Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association (see “REGISTRATION, TRANSFER AND EXCHANGE – Trustee” herein). Initially, the City intends to use the Book-Entry-Only System of The Depository Trust Company (see “BOOK-ENTRY-ONLY SYSTEM” herein.) |
| Use of Proceeds | Proceeds from the sale of the Series 2024A Bonds will be used to: (i) construct, improve and renovate certain Port facilities, to wit, Piers 16 and 18 to facilitate the operation of cruise vessels with capacities of approximately 6,000 passengers, inclusive of certain systems, controls, equipment, HVAC, passenger boarding bridges, and related infrastructure; (ii) fund all or a portion of a debt service reserve fund in accordance with the Second Supplemental Trust Indenture; and (iii) pay the costs of issuance of the Series 2024A Bonds. |

*Preliminary, subject to change.

Proceeds from the sale of the Series 2024B Bonds will be used to: (i) construct, improve and equip a multi-level parking garage facility and other surface parking facilities; (ii) fund all or a portion of a debt service reserve fund in accordance with the Second Supplemental Trust Indenture; and (iii) pay the costs of issuance of the Series 2024B Bonds. See “THE BONDS - Purpose” and “THE WHARVES - Operations and Facilities - Redevelopment and Future Operations – Piers 16-18 and Cruise Terminal No. 16” herein.

Redemption Provisions

The City reserves the right, at its option, to redeem Series 2024A Bonds having stated maturities on and after August 1, _____, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, _____ or any date thereafter, at par value thereof plus accrued interest to the date of redemption. If in connection with the pricing of the Series 2024A Bonds two or more consecutive maturities are combined to create one or more term bonds at the election of the Underwriters (the “Term Series 2024A Bonds”), such Series 2024A Term Bonds shall be subject to mandatory sinking fund redemption as provided herein.

The City reserves the right, at its option, to redeem Series 2024B Bonds having stated maturities on and after August 1, _____, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, _____ or any date thereafter, at par value thereof plus accrued interest to the date of redemption. If in connection with the pricing of the Series 2024B Bonds two or more consecutive maturities are combined to create one or more term bonds at the election of the Underwriters (the “Term Series 2024B Bonds”), such Series 2024B Term Bonds shall be subject to mandatory sinking fund redemption as provided herein.

Tax Exemption

In the opinion of Bond Counsel, under existing law, interest on the Series 2024A Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), except for any period during which a Bond is held by a person who is a “substantial user” of the facilities financed with the proceeds of the Bonds or a “related person” of such a “substantial user,” each within the meaning of section 147(a) of the Code, and (ii) is an item of tax preference for purposes of the alternative minimum tax on individuals. Further, in the opinion of Bond Counsel, interest on the Series 2024B Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Code and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See “TAX MATTERS” herein, including information regarding potential alternative minimum tax consequences for corporations.

Ratings

The Bonds have been assigned a rating of “A” by S&P Global Ratings (“S&P”) and “A-” by Fitch Ratings, Inc. (“Fitch”). An explanation of the significance of such ratings may be obtained from the applicable rating agency. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. See “RATINGS” herein.

Payment Record

The City has not defaulted on the payment of its general obligation debt except during the period of rehabilitation following the disastrous hurricane and flood of 1900 when maturing interest coupons were compromised at \$0.50 on the dollar. The City has not had a payment default on its revenue bonds except for the Marine Park & Recreation Pier Revenue Bonds issued to Reconstruction Finance Corporation, an independent agency of the United States Government, in 1941 for which no payments were made and the bonds were subsequently refunded in August 1963.

CITY OF GALVESTON, TEXAS
823 Rosenberg
Galveston, Texas 77550

CERTAIN CITY OFFICIALS

CITY COUNCIL⁽¹⁾

| Name | Elected | Occupation |
|--|---------|----------------------------------|
| Dr. Craig Brown, Mayor | 2020 | Retired Dentist |
| Sharon B. Lewis, Councilmember District 1 | 2022 | Retired Teacher |
| David Finklea, Councilmember District 2 | 2023 | Engineer |
| Robert Brown, Councilmember District 3 | 2024 | Retired University Administrator |
| Alexander Porretto, Councilmember District 4 | 2024 | Business Manager |
| Beau Rawlins, Councilmember District 5 | 2024 | General Contractor |
| Marie Robb, Councilmember District 6 | 2020 | Small Business Owner |

⁽¹⁾ Pursuant to the City Charter, neither Mayor nor Councilmember may serve for more than 3 consecutive regular 2-year terms in each office.

APPOINTED CITY OFFICIALS

| Name | Position | Years of Experience | Time in Current Position |
|-------------------|--|---------------------|--------------------------|
| Brian Maxwell | City Manager | 28 Years | 13 Years |
| Janelle Williams | City Secretary | 29 Years | 11 Years |
| Donald Glywasky | City Attorney | 38 Years | 11 Years |
| Daniel J. Buckley | Deputy City Manager | 36 Years | 10 Years |
| Csilla Ludanyi | Finance Director | 22 Years | 1 Year |
| Brandon Cook | Assistant City Manager, Development & Municipal Services | 22 Years | 7 Years |
| Tammy Jacobs | Director and City Controller | 15 Years | 10 Years |

GALVESTON WHARVES

BOARD OF TRUSTEES

| Name | Appointed | Occupation |
|----------------------------------|-----------|--|
| Vic Pierson, Chairperson | 2021 | Bank President |
| Jeff Patterson, Vice Chairperson | 2020 | Retired Engineer |
| Dr. Craig Brown, Mayor | 2019 | Retired Dentist |
| Sheila Lidstone | 2021 | Retired Executive Administrator |
| James D. Yarbrough | 2022 | Businessman & Former Government Official |
| Willie Gonzales | 2022 | Teacher and Musician |
| Richard Moore | 2023 | Retired University Administrator |

PORT MANAGEMENT

| Name | Position | Years of Experience | Time in Current Position |
|--------------------|---------------------------------|---------------------|--------------------------|
| Rodger E. Rees | Port Director and CEO | 36 | 6 years |
| Brett Milutin | Deputy Port Director | 23 | 3 years |
| Jeffrey Thomas | Chief Engineer | 15 | 5 years |
| Mark Murchison | Chief Financial Officer | 31 | 14 years |
| Laura Camcioglu | Director of Special Projects | 31 | 4 years |
| Julio DeLeon | Director of Port Mobility | 21 | 5 years |
| Kenneth Campbell | Director of Safety and Security | 31 | 6 years |
| Kenneth Brown, Jr. | Chief of Port Police | 28 | 5 years |
| William Dell | Director of Cruise Operations | 19 | 7 years |

BOND COUNSEL AND ADVISORS

Bond Counsel

Bracewell LLP
711 Louisiana Street, Suite 2300
Houston, Texas 77002

Certified Public Accountants

FORVIS, LLP
2700 Post Oak Blvd., Suite 1500
Houston, Texas 77056

Financial Advisor for the City

Huntington Capital Markets
500 North Akard St. Suite 2350
Dallas, Texas 75201

Financial Advisor for the Wharves

RBC Capital Markets, LLC
303 Pearl Parkway, Suite 220
San Antonio, Texas 78215

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The cover page hereof, this Table of Contents and the Appendices attached hereto are part of this Official Statement.

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PRELIMINARY OFFICIAL STATEMENT
relating to

CITY OF GALVESTON, TEXAS

\$111,525,000*
WHARVES AND TERMINAL FIRST LIEN
REVENUE BONDS, SERIES 2024A (AMT)

\$48,475,000*
WHARVES AND TERMINAL FIRST LIEN
REVENUE BONDS, SERIES 2024B (NON-AMT)

INTRODUCTORY STATEMENT

This Official Statement, including the Appendices hereto, furnishes certain information in connection with the sale by the City of Galveston, Texas (the “City”) of \$111,525,000* of its Wharves and Terminal First Lien Revenue Bonds, Series 2024A (AMT) (the “Series 2024A Bonds”) and \$48,475,000* Wharves and Terminal First Lien Revenue Bonds, Series 2024B (Non-AMT) (the “Series 2024B Bonds, and together with the Series 2024A Bonds, the “Bonds”) to be issued by the City pursuant to an ordinance adopted by the City Council of the City on June 27, 2024 (the “Bond Ordinance”), and an Amended and Restated Trust Indenture dated as of October 1, 2023 by and between the City and The Bank of New York Mellon Trust Company, National Association (together with its successor in such capacity, the “Trustee”) (the “Trust Indenture”), as supplemented by the Second Supplemental Amended and Restated Trust Indenture, dated August 1, 2024 by and between the City and the trustee (the “Supplemental Indenture,” and collectively with the Trust Indenture, the “Indenture”). Capitalized terms used but not defined herein have the same meanings as used in the Indenture unless the context clearly indicates otherwise. This Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the City, the Wharves (defined below), the Indenture, the Bonds and certain contracts and agreements of the Wharves. Such descriptions and information do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to such documents, and references to the Bonds are qualified in their entirety to the forms thereof included in the Indenture.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

Description of the City

The City is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City's Home Rule Charter (the “City Charter”). The City was incorporated and first adopted its Home Rule Charter in 1839. The present Home Rule Charter was adopted in 1960. Prior to that, the City used a commission form of government. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Council members (the “City Council”). The term of office is two years, which are not staggered. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2020 Census population was 53,695.

Galveston Wharves

The Port of Galveston (the “Port”) has been in operation since 1825. The port was a privately owned entity until 1940, when the City acquired then-existing port properties from the private owners. The Galveston Wharves (the “Wharves”) were created by City ordinance in 1940 as a separate utility of the City to manage, maintain, operate and control all existing port properties and all additions, improvements, or extensions to such properties. All of the Wharves’ properties are located within the corporate limits of the City. The City Charter provides that all City-owned wharf and terminal properties, and all income and revenues therefrom, are to be set aside and controlled, maintained and operated exclusively by a “Board of Trustees of the Galveston Wharves” (the “Board”). One member of the Board is an ex-officio representative of the City Council and is elected by the City Council from its own membership. The City Council appoints the remaining six members of the Board. The City Charter provides that the Board shall have those powers which are necessary or proper to the discharge of its responsibilities including, but not limited to, the employment of a General Manager for the Wharves and such subordinate officers and employees as may be required for the proper conduct of the business of the Wharves, the preparation of budgets, the fixing of charges, the authorization of expenditures, the acquisition of properties, the determination of policies, and, in general, the complete management and control of the Wharves and the income and revenues thereof, subject only to the special limitations provided in the City Charter. State law authorizing the creation and operation of the Board is now codified in Chapter 54 of the Texas Transportation Code. See “THE WHARVES” herein.

See “Appendix D – Annual Comprehensive Financial Report of the Wharves for the Fiscal Year Ended December 31, 2023.”

THE BONDS

General Description

The Bonds will be dated August 1, 2024 (the “Dated Date”), and will be issued in fully-registered form, in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the Delivery Date and interest will be paid

*Preliminary, subject to change.

semiannually on August 1 and February 1 of each year, commencing February 1, 2025, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will mature on the dates and in the amounts as set forth on pages ii and iii hereof.

Principal of and interest on the Bonds will be paid by the Trustee. Subject to the requirements associated with the use of the Book-Entry-Only System, interest will be paid by check dated as of the interest payment date and mailed first class, postage paid, on or before each interest payment date by the Trustee to the registered owners (the "Owners") appearing on the registration books of the Trustee on the Record Date (herein defined), or by such other method acceptable to the Trustee, requested by, and at the risk and expense, of such Owner. Principal will be paid to the Owners at maturity or prior redemption upon presentation and surrender of the Bonds to the Trustee. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Trustee is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The City will initially use the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), in regard to the issuance, payment and transfer of the Bonds. Such system will affect the timing and method of payment of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein).

Authority for Issuance

The Bonds are being issued pursuant to the general laws of the State, including particularly Chapter 1371, Texas Government Code, as amended, Chapter 54, Texas Transportation Code, as amended, the City Charter, the Bond Ordinance, and the Indenture. In the Bond Ordinance, the City delegated to authorized officers of the City, the authority to execute a pricing certificate (the "Pricing Certificate") that will set forth the final terms of the Bonds. Together, the Bond Ordinance and the Pricing Certificate are herein referred to as the "Ordinance." The Indenture permits the issuance and incurrence of additional bonds and other obligations to be secured on a parity basis with the Bonds. The Bonds will be secured on a parity basis with the First Lien Obligations (as defined herein). See "SECURITY FOR THE BONDS" and "APPENDIX C – Selected Provisions of the Indenture" herein.

Purpose

Proceeds from the sale of the Series 2024A Bonds will be used to: (i) construct, improve and renovate certain Port facilities, to wit, Piers 16 and 18 to facilitate the operation of cruise vessels with capacities of approximately 6,000 passengers, inclusive of certain systems, controls, equipment, HVAC, passenger boarding bridges, and related infrastructure; (ii) fund all or a portion of a debt service reserve fund in accordance with the Second Supplemental Trust Indenture; and (iii) pay the costs of issuance of the Series 2024A Bonds. (See "THE WHARVES - Operations and Facilities - Redevelopment and Future Operations – Piers 16-18 and Cruise Terminal No. 16" herein).

Proceeds from the sale of the Series 2024B Bonds will be used to: (i) construct, improve and equip a multi-level parking garage facility and other surface parking facilities; (ii) fund all or a portion of a debt service reserve fund in accordance with the Second Supplemental Trust Indenture; and (iii) pay the costs of issuance of the Series 2024B Bonds. (See "THE WHARVES - Operations and Facilities - Redevelopment and Future Operations – Piers 16-18 and Cruise Terminal No. 16" herein).

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and Bracewell LLP, Houston, Texas, Bond Counsel (see "LEGAL MATTERS" herein and "Appendix E – Form of Opinion of Bond Counsel").

Source of Payment

THE BONDS, TOGETHER WITH THE OUTSTANDING FIRST LIEN OBLIGATIONS, ARE SPECIAL LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM CERTAIN NET REVENUES AND CERTAIN OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE AN INDEBTEDNESS, LIABILITY, GENERAL OR MORAL OBLIGATION OR A LOAN OF THE FAITH AND CREDIT OR A CHARGE OF ANY TAXING POWER OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OF THE STATE AND SHALL NEVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE CITY, OR A CHARGE AGAINST ITS GENERAL CREDIT. NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF NOR THE CITY, SHALL BE OBLIGATED TO PAY THE PRINCIPAL (OR REDEMPTION PRICE) OF THE BONDS, THE INTEREST THEREON OR OTHER COSTS INCIDENT THERETO EXCEPT FROM THE NET REVENUES AND OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NO OWNER OF ANY BOND SHALL HAVE THE RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWER OF THE CITY, TO PAY THE PRINCIPAL OF THE BONDS OR INTEREST THEREON. THE BONDS INVOLVE A CERTAIN DEGREE OF RISK AND THUS ARE SPECULATIVE IN NATURE. POTENTIAL INVESTORS SHOULD CAREFULLY EVALUATE THE INVESTMENT RISKS RELATING OF THE BONDS. SEE "RISK FACTORS" AND "SECURITY FOR THE BONDS" HEREIN.

Redemption Provisions

Optional Redemption . . . Series 2024A Bonds. The City reserves the right, at its sole option, to redeem Series 2024A Bonds having stated maturities on and after August 1, _____, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof, on

August 1, _____ or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If in connection with the pricing of the Series 2024A Bonds two or more consecutive maturities are combined to create one or more term bonds at the election of the Underwriters (the "Term Series 2024A Bonds"), such Series 2024A Term Bonds shall be subject to mandatory sinking fund redemption as provided herein.

Series 2024B Bonds. The City reserves the right, at its sole option, to redeem Series 2024B Bonds having stated maturities on and after August 1, _____, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, _____ or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If in connection with the pricing of the Series 2024B Bonds two or more consecutive maturities are combined to create one or more term bonds at the election of the Underwriters (the "Term Series 2024B Bonds"), such Series 2024B Term Bonds shall be subject to mandatory sinking fund redemption as provided herein.

If less than all of the respective Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Trustee (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Trustee on the redemption date.

Notice of Redemption for the Bonds . . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Trustee at the close of business on the business day next preceding the date of mailing such notice. The notice shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment, if any, the conditions to redemption, and identification of the portion of Bonds to be redeemed. The notice with respect to optional redemption may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date, or (2) that the City retains the right to rescind such notice at any time prior to the scheduled redemption date if the City delivers a certificate of an authorized representative to the Trustee instructing the Trustee to rescind the redemption notice, and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is so rescinded. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND FUNDS TO PAY THE REDEMPTION PRICE OF SAID BONDS HAVING BEEN PROVIDED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provisions . . . The Trustee and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the City or the Trustee. Neither the City nor the Trustee will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see "BOOK-ENTRY-ONLY SYSTEM" herein).

Defeasance

The City reserves the right to discharge and defease its obligations with respect to the Bonds in any manner now or hereafter permitted by the laws of the State.

Record Date

The record date ("Record Date") for determining the person to whom the interest is payable on the Bonds on any interest payment date means the fifteenth day of the month next preceding such date.

Special Record Date for Interest Payment

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Trustee, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Trustee at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

The Issuer and the Trustee shall not be required to issue, transfer or exchange: (1) any of the Bonds during a period beginning at the opening of business 15 days before any selection of Bonds to be redeemed and ending at the close of business on the day of the first publication of the notice of redemption, or (2) any of the Bonds selected for redemption; provided that the Issuer and the Trustee shall, at the option of the Owner of the Bonds, be required to transfer or exchange any such Bonds which has been selected in whole or in part for redemption upon surrender thereof, if the Trustee makes such arrangements as it deems appropriate for notation on each new Bond issued in exchange for or upon the transfer of the Bond so selected for redemption of an appropriate legend to the effect that such new Bond has been so selected for redemption.

Payment Record

The City has not defaulted on the payment of its general obligation debt except during the period of rehabilitation following the disastrous hurricane and flood of 1900 when maturing interest coupons were compromised at \$0.50 on the dollar. The City has not had a payment default on its revenue bonds except for the Marine Park & Recreation Pier Revenue Bonds issued to Reconstruction Finance Corporation, an independent agency of the United States Government, in 1941 for which no payments were made and the bonds were subsequently refunded in August 1963.

Sources and Uses of Proceeds

The following table shows the estimated sources and uses of the proceeds of the Series 2024A Bonds, together with a cash contribution from the Wharves:

| | | |
|-----------------|--|------------------|
| Sources: | Principal Amount of the Series 2024A Bonds | \$ |
| | [Net] Reoffering Premium/Discount on the Series 2024A Bonds | |
| | Wharves' Contribution | |
| | Total Sources of Funds | <u>\$</u> |
| Uses: | Deposit to Series 2024A Bonds Project Fund | \$ |
| | Deposit to Series 2024A Bonds First Lien Debt Service Reserve Fund | |
| | Costs of Issuance and Underwriters' Discount | |
| | Total Uses of Funds | <u>\$</u> |

The following table shows the estimated sources and uses of the proceeds of the Series 2024B Bonds, together with a cash contribution from the Wharves:

| | | |
|-----------------|--|------------------|
| Sources: | Principal Amount of the Series 2024B Bonds | \$ |
| | [Net] Reoffering Premium/Discount on the Series 2024B Bonds | |
| | Wharves' Contribution | |
| | Total Sources of Funds | <u>\$</u> |
| Uses: | Deposit to Series 2024B Bonds Project Fund | \$ |
| | Deposit to Series 2024B Bonds First Lien Debt Service Reserve Fund | |
| | Costs of Issuance and Underwriters' Discount | |
| | Total Uses of Funds | <u>\$</u> |

RISK FACTORS

The ability of the City to comply with its obligations under the Indenture and to pay principal of and interest on the Bonds and the outstanding First Lien Obligations is dependent on the ability of the Wharves to generate sufficient Net Revenues (as defined herein) from the lease or operation of the facilities that are owned by the Wharves and located in the Galveston Port. In that regard, prospective bondholders should be aware of, and should carefully consider, the following risk factors:

Bonds Are Revenue Bonds Secured by Net Revenue

The Bonds are special limited obligations payable solely from the Net Revenues, if any, of the Wharves (See "SECURITY FOR THE BONDS" herein). Accordingly, the holders of the Bonds will not receive scheduled payments of principal and interest thereon if the Wharves do not generate sufficient Net Revenues to provide for payment of debt service. The ability of the Wharves to generate Net Revenues is subject to uncertainty, and can be impacted by the risk factors summarized or referenced below in this "RISK FACTORS" section of the Official Statement.

Competition

The Wharves' business is highly competitive, with numerous other port facilities competing for substantially all of the business conducted through the Port. Certain competing port facilities, including the Port of Houston, are much larger and have financial and other resources much greater than those available to the Wharves. Certain port facilities, including the Port of Houston, are legally authorized to assess ad valorem taxes for specific purposes to support their operations; the Wharves does not levy or receive ad valorem taxes.

Volatility Of Net Revenues

The Net Revenues generated by the Wharves have varied from year to year. This volatility has been a result of: (i) changes in the demand for cruise ship services; (ii) swings in grain export volumes; (iii) changes in the identities and economic performance of certain third party operators and lessees of facilities owned by the Wharves; (iv) initiation and cessation of certain operations by third parties; (v) disposition by the Wharves of certain assets and discontinuation of certain operations, or transformation of the conduct of such operations from proprietary to landlord form; (vi) the absence of significant long-term "take or pay" commitment contracts; (vii) the absence of substantial local (as opposed to transshipment) demand for the Wharves' Facilities (as defined herein); and (viii) other factors, including weather and/or pandemic events which affect the Port. The Wharves' ability to reduce such volatility is limited, and there can be no assurance that such factors or others will not prevent the Wharves from generating sufficient Net Revenues in one or more future periods to provide for the payment of principal of and interest on the Bonds and the outstanding First Lien Obligations.

The City can give no assurance that it will be able to make timely payments of principal of and interest on the Bonds if Net Revenues are insufficient to make such payments in future years. For further information, see "APPENDIX A – Financial Information Regarding the Wharves – Table 2 – Net Revenues" and "APPENDIX D - Annual Comprehensive Financial Report of the Wharves for the Fiscal Year Ended December 31, 2023."

Pandemics

In 2023, cruise-related business activities accounted for approximately 72% of total revenues. A significant decline in revenues in the event of a pandemic or other significant event that may trigger an issuance of a "No Sail" order, or similar order, by the federal government or other governmental agency is a risk that could materially impact the Wharves and its operations and revenue.

A "No Sail" Order was issued by the U.S. Centers for Disease Control ("CDC") in March 2020 in response to the emerging COVID-19 pandemic. That CDC Order remained in effect through October 2020. During that time, the Wharves relied primarily on its cargo and lay dockage businesses, which resulted in a net operating loss of \$825,000 and a negative change in net position of \$655,000 in 2020 without significantly reducing payroll and while also paying down long-term debt by approximately \$5 million. The Wharves did not receive any federal funds as a result of the COVID-19 pandemic.

Capital Expenditures

The Wharves expects to incur ongoing capital expenditures in order to maintain and expand its facilities, and to dredge and deepen Port waterways and berths. Certain capital expenditures (including certain planned capital expenditures described in "THE WHARVES" herein) are elective in nature and will be undertaken with the goal of increasing Net Revenues in future periods, while other capital expenditures are mandatory and will be undertaken in order to permit the Port to remain a viable competitive facility. Funds for all such capital expenditures will, in general, be derived from sources that would otherwise be available to pay principal of and interest on the Bonds, in addition to occasional Federal or State grants. Such capital expenditures may be significant and may require the issuance of Additional First Lien Obligations, and there can be no assurances as to the amount or timing of any Net Revenues that may be generated in future periods as a result of any such capital expenditures. See "APPENDIX D - Annual Comprehensive Financial Report of the Wharves for the Fiscal Year Ended December 31, 2023." The Wharves' annual capital expenditures are:

| <u>Year</u> | <u>Capital Expenditure</u> |
|-------------|----------------------------|
| 2019 | \$2,687,975 |
| 2020 | 3,546,794 |
| 2021 | 11,066,572 |
| 2022 | 35,126,003 |
| 2023 | 58,015,944 |
| 2024* | 137,563,797 |

*Anticipated, per Wharves' updated Capital Plan as of April 23, 2024.

Risk From Weather Events

The Wharves is located on the Texas Gulf Coast, which is susceptible to high winds, heavy rain and flooding caused by rain events, hurricanes, tropical storms, and other tropical disturbances. If a weather-related event were to significantly damage all or part of the property managed and controlled by the Wharves, or rail lines, access roads and/or other improvements within the City, such events could result in a decrease in Net Revenues, during the period of time immediately following such events. Further, there can be no assurance that a casualty loss to such property within the City will be covered by insurance (or property owners will choose to carry flood or other casualty insurance), any insurance company will fulfill its obligations to provide insurance proceeds or that insurance proceeds will be used to

rebuild or repair damaged improvements within the City. Even if insurance proceeds are available and improvements are rebuilt, there could be a period of time in which the Wharves' ability to generate Net Revenues would be adversely affected. Additionally, the United States Coast Guard may limit or cease vessel traffic to and from the Wharves prior to, during, and after such events.

Cybersecurity Risks

The Wharves relies on its information systems to provide security for processing, transmission and storage of confidential personal, health-related, credit and other information. It is possible that its security measures will not prevent improper or unauthorized access or disclosure of personally identifiable information resulting from cyber-attacks. Security breaches, including electronic break-ins, computer viruses, attacks by hackers and similar breaches can create disruptions or shutdowns of the Wharves and the services it provides, or the unauthorized disclosure of confidential personal, health-related, credit and other information. If personal or otherwise protected information is improperly accessed, tampered with or distributed, the Wharves may incur significant costs to remediate possible injury to the affected persons, and may be subject to sanctions and civil penalties if found to be in violation of federal or state laws or regulations. Any failure to maintain proper functionality and security of information systems could interrupt the Wharves' operations, delay receipt of revenues, damage the Wharves' reputations, subject the Wharves to liability claims or regulatory penalties and could have a material adverse effect on the Wharves' operations, financial condition and results of operations.

Insurance Risks

Currently, the Port has been able to obtain property and casualty insurance in sufficient amounts, however there is no assurance that sufficient insurance will be available to cover the risks to the Port, or that the Port can obtain insurance at cost effective rates. (See "THE WHARVES – Insurance" herein).

Air Quality Standards

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may curtail new industrial, commercial and residential development in the County. Under the Clean Air Act ("CAA") Amendments of 1990, the eight county Houston Galveston-Brazoria Area (the "HGB Area") has been designated by the EPA as a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion ("ppb")) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (the "1997 Ozone Standard"); the more rigorous, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the "2008 Ozone Standard"), and the EPA's most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the "2015 Ozone Standard"). While the State has been able to demonstrate steady progress and improvements in air quality in the HGB Area, the HGB Area remained subject to CAA nonattainment requirements.

In a final rule that became effective on March 16, 2020, the EPA determined that the HGB Area had met the CAA criteria for redesignation to attainment status under the 1997 Ozone Standard and EPA terminated the obligations that had applied in the HGB Area under the 1997 Ozone Standards. However, the HGB Area remains designated as a nonattainment area under the 2008 and 2015 Ozone Standards, and the TCEQ remains obligated to demonstrate attainment with the more-stringent 2008 and 2015 Ozone Standards under the CAA.

The HGB Area is currently designated as a "severe" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2027. EPA issued a final rule determining that the HGB Area failed to meet the attainment deadline under its prior "serious" classification, effective November 7, 2022. The State was required to submit State Implementation Plan ("SIP") revisions to the EPA no later than 18 months after the November 7, 2022 effective date of the final rule reclassifying the HGB Area as a "severe" nonattainment area, and any new emissions controls that the TCEQ determines are needed for attainment must be implemented within 36 months of November 7, 2022. On October 13, 2023, the EPA found that 11 states, including Texas, failed to submit State Implementation Plan (SIP) revisions required by the Clean Air Act (CAA) in a timely manner. Since that date the State has been involved with submittals and negotiations with the EPA regarding adopting and implementing regulatory changes aimed at reducing the HGB Area's status as a "severe" nonattainment area. Some of these regulatory changes were adopted by the State on April 24, 2024 and some have been approved by the EPA. It is possible that additional regulatory changes may be necessary to meet EPA standards. The HGB Area could be subject to more stringent controls on emissions from the industrial sector. In addition, the EPA's authority allows it to impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, denoted as a "highway funding sanctions," if it finds that an area fails to demonstrate progress in reducing ozone levels. The October 13, 2023 Fact Sheet regarding the 11 states with untimely SIP submittals noted that this type of sanction "rarely are imposed."

The HGB Area is currently designated as a "moderate" nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2024. EPA issued a final rule determining that the HGB Area failed to meet the attainment deadline under its prior "marginal" classification, effective November 7, 2022. For purposes of the 2015 Ozone Standard, the HGB Area consists of six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA's ozone standards, the TCEQ has established a SIP for the HGB Area that sets emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB Area. These SIP requirements can impact new and expanded industrial activity due to the additional permitting/regulatory constraints that accompany this designation. It is possible that additional controls will be necessary to allow the HGB Area to attain the ozone standards by the EPA's attainment deadlines. These additional controls could create impediments and costs for new industrial development in the HGB Area.

Other constraints on economic growth and development include lawsuits filed under the CAA by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in other limitations on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could add conditions and costs for activities involving continued growth and development in the HGB Area.

Wetlands

The Wharves' ability to develop, expand, or otherwise improve Port facilities that comprise or are located in, at, upon, or adjacent to wetlands may be limited by federal law. Construction projects affecting wetlands (and waterways), such as new dock construction and Channel slip dredging, cannot proceed without a permit issued by the "U.S. Army Corps of Engineers" ("USACE"). In some cases, issuance of a construction permit is dependent on satisfying mitigation requirements. The permitting process and cost of mitigation could result in or contribute to a decision not to construct one or more of the projects described in this Official Statement, which would have an adverse impact on the City's ability to satisfy its debt service obligations on the Bonds.

In May 2023, the U.S. Supreme Court issued its opinion in *Sackett v. Environmental Protection Agency et al.*, in which it held that the Clean Water Act extends only to those wetlands that are "indistinguishable" from waters of the United States ("WOTUS"), i.e. when a continuous surface connection between them makes it "difficult to determine where the 'water' ends and the 'wetland' begins." Following this decision, the Wharves expects to review the scope of WOTUS and EPA and USACE wetlands jurisdiction as part of its analysis of future improvements to the Wharves' Facilities.

Climate Change and Sea Level Rise

Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events will become more frequent and more intense, as a result of increasing global temperatures attributable to atmospheric pollution. The Wharves' operations and infrastructure are vulnerable to effects of sea level rise, extreme climate conditions, and extreme weather events, and significant capital investments may need to be made to address these vulnerabilities. The Wharves expects to be able to continue to manage its operations and construction activities to minimize the future effects of these occurrences and that it has the necessary capacity to adapt to these occurrences. However, no assurance can be given that the effects of sea level rise will not adversely affect the revenues of the Wharves.

Other Environmental and Related Risks

Any owner or operator of real property may be adversely impacted by legislative, regulatory, administrative, and enforcement action involving environmental laws and regulations. In addition, groups opposing industrial developments and infrastructure projects may seek to delay or prevent the construction of such developments or projects based on claims brought under environmental laws and regulations. Furthermore, users of the Wharves' Facilities may transport hazardous materials through the Wharves' Facilities, the handling of which may pose environmental threats. In recent years environmental regulations have placed greater scrutiny on all owners of property and, in future years, such regulations could be modified to include types of materials not currently identified as hazardous, all of which could result in additional expense to the Wharves.

Operation of the Wharves is also subject to federal, state and local laws and regulations governing, among other things, discharge to waters and the generation, handling, storage, transportation, treatment and disposal of waste and other materials as well as laws relating to occupational health and safety.

The Wharves intends that the Wharves' Facilities comply in all material respects with applicable environmental and health and safety laws and regulations, many of which impose substantial fines and criminal sanctions for violations. However, the ownership and operation of Wharves entails risks in these areas, and there can be no assurance that the Wharves will not incur material costs or liabilities in this regard. In addition, potentially significant expenditures could be required to comply with evolving environmental, health and safety laws, regulations and requirements that may be adopted or imposed in the future. The Wharves may be forced to expend significant resources to comply with state and federal requirements, which expenses, to the extent that they exceed budgeted amounts, would decrease Net Revenues and have an adverse impact on the Wharves' ability to satisfy its debt service obligations on the Bonds or other outstanding obligations.

SECURITY FOR THE BONDS

THE BONDS, TOGETHER WITH THE OUTSTANDING FIRST LIEN OBLIGATIONS, ARE SPECIAL LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM CERTAIN NET REVENUES AND CERTAIN OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE AN INDEBTEDNESS, LIABILITY, GENERAL OR MORAL OBLIGATION OR A LOAN OF THE FAITH AND CREDIT OR A CHARGE OF ANY TAXING POWER OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OF THE STATE AND SHALL NEVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE CITY, OR A CHARGE AGAINST ITS GENERAL CREDIT. NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF NOR THE CITY, SHALL BE

OBLIGATED TO PAY THE PRINCIPAL (OR REDEMPTION PRICE) OF THE BONDS, THE INTEREST THEREON OR OTHER COSTS INCIDENT THERETO EXCEPT FROM THE NET REVENUES AND OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NO OWNER OF ANY BOND SHALL HAVE THE RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWER OF THE CITY, TO PAY THE PRINCIPAL OF THE BONDS OR INTEREST THEREON. THE BONDS INVOLVE A CERTAIN DEGREE OF RISK AND THUS ARE SPECULATIVE IN NATURE. POTENTIAL INVESTORS SHOULD CAREFULLY EVALUATE THE INVESTMENT RISKS RELATING TO THE BONDS. SEE “RISK FACTORS” HEREIN.

Pledge Of Net Revenues

Payment of principal of and interest on the Bonds, together with the outstanding First Lien Obligations, is equally and ratably secured by and payable solely from a first lien on and pledge of the Net Revenues of the Wharves (as defined below). Net Revenues may also be pledged to the payment of the principal of and interest on any Additional First Lien Obligations, Additional Second Lien Obligations, and Inferior Lien Obligations, as authorized from time-to-time under the Trust Indenture and any Supplemental Indenture (the “Additional Obligations”) issued or incurred after the issuance of the Bonds. After delivery of the Bonds, the Bonds, the City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 2021A (Non-AMT)*, the City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 2021B (AMT)*, the City of Galveston Wharves and Terminal First Lien Revenue Bonds Series 2023 (AMT), and any Additional First Lien Obligations issued hereafter (together, the “First Lien Obligations”) will be on a parity and of equal dignity with one another in all respects and the lien on and pledge of Net Revenues securing the First Lien Obligations will be superior to the lien on and pledge of Net Revenues securing any Second Lien Obligations and Inferior Lien Obligations. See “APPENDIX C – Selected Provisions of the Indenture.”

“Net Revenues” are defined in the Indenture as the amount remaining after deducting from Gross Revenues the Operation and Maintenance Expenses and the Annual Issuer Payment (as defined in the Indenture).

“Gross Revenues” are defined as all gross revenue, income, proceeds, tolls, rents, lease money, returns and charges derived from and after the date hereof from the operation of the Wharves’ Facilities, and from the services provided thereby; all proceeds of business interruption insurance maintained in connection with the Wharves’ Facilities; interest earned from the investment of money in the Funds (except the Project Fund and any escrow funds from time to time created pursuant to any Supplemental Indenture or separate indenture, ordinance or other instrument); and all other revenues hereafter pledged to the payment of the Obligations. Gross Revenues expressly exclude Special Project Pledged Revenues.

“Wharves’ Facilities” are defined as all Port and harbor improvements and facilities of the Issuer now or hereafter owned, including all additions, replacements, improvements and extensions thereto which may hereafter be made or acquired but expressly excluding all Special Facilities.

“Special Facilities” are defined as any Port or harbor property, improvement, or facility substantially all of the costs of the acquisition, construction and installation of which was or is to be financed with Special Facilities Obligations, but only to the extent that and for so long as Special Project Pledged Revenues are or will be pledged to secure the payment or repayment of such Special Facilities Obligations.

“Special Project Pledged Revenues” are defined as those rentals, payments and/or other amounts payable to the Issuer in consideration for the use, lease or availability of Special Facilities which are made subject to pledges, liens and/or assignments by the Issuer to secure the payment or repayment of Special Facilities Obligations.

“Operation and Maintenance Expenses” are defined as all reasonable expenses of maintaining and operating the Wharves’ Facilities, including, among other things, expenses necessary for dredging or for the repair, replacement, upkeep, or insurance of the Wharves’ Facilities and any amounts paid under contracts with third parties for the lease or use of properties or facilities reasonably required in the maintenance and operation of the Wharves’ Facilities, but expressly excluding any depreciation expense or extraordinary non-cash expenses or write-downs of the Wharves’ Facilities, any interest expense on obligations issued by the Issuer or the Wharves’ Board, any maintenance and operation expenses borne by lessees or others using Wharves’ Facilities, and any capital expenditures relating to the Wharves’ Facilities other than the ordinary and usual expenses of maintenance, repair, replacement and upkeep of the Wharves’ Facilities.

So long as any of the First Lien Obligations, including the Bonds, are outstanding, the City covenants in the Indenture that it will not (i) sell, dispose of, or encumber any of the Wharves’ Facilities or (ii) further encumber the revenues of the Wharves’ Facilities, except for encumbrances junior and subordinate to the Bonds or to secure Additional First Lien Obligations or refunding bonds. The Indenture permits the Board or the City to make leases, enter agreements or grant franchises and to grant liens or security interests when made or granted in accordance with law, to sell or lease Wharves’ Facilities in connection with certain financing transactions and to dispose of any property, if such property has been declared surplus or is no longer needed for the proper operation of the Wharves’ Facilities. See “APPENDIX C – Selected Provisions of the Indenture” herein.

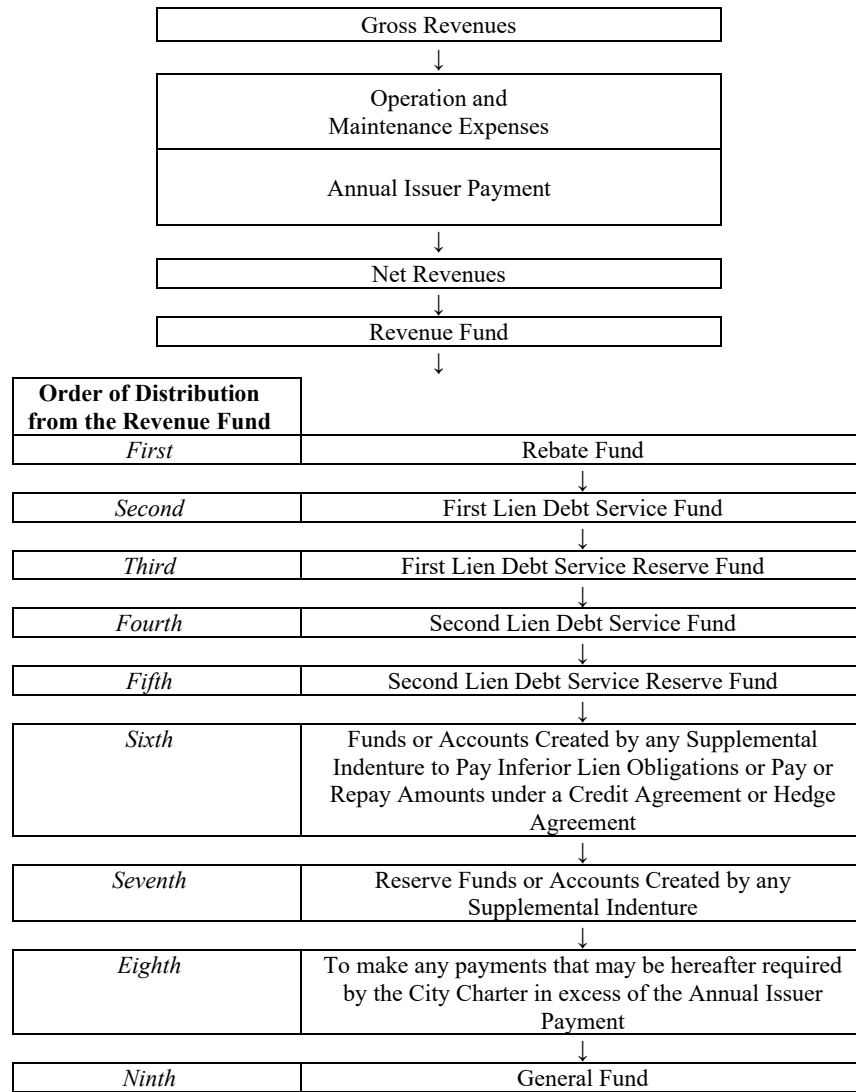
WHEN THE FIRST LIEN OBLIGATIONS HAVE BEEN DULY PAID OR PROVISION FOR SUCH PAYMENT HAS BEEN MADE AS PROVIDED IN THE INDENTURE, OR IN ANY OTHER MANNER PROVIDED BY LAW, THE PLEDGE AND LIEN CREATED ON THE NET REVENUES FOR THE BENEFIT OF THE BONDS SHALL THEREBY AUTOMATICALLY BE TERMINATED AND DISCHARGED.

*The Series 2021A (Non-AMT) and the Series 2021B (AMT) were issued under a prior indenture, and by virtue of consent from the bondholder, are subject to the Indenture and constitute First Lien Obligations.

Revenue Fund and Flow of Funds

After the payment of or reservation or encumbrance for the payment of Operation and Maintenance Expenses and the Annual Issuer Payment due each month from Gross Revenues, all Net Revenues shall be deposited as received by the Wharves’ Board into the Revenue Fund.

The following is a graphic depiction of the flow of funds described below.



Unless modified with respect to a particular Series of Obligations in a Supplemental Indenture, which modifications shall not have an adverse effect with respect to any Outstanding Obligations, moneys on deposit in the Revenue Fund shall be deposited in, or credited to, as appropriate, the following funds and accounts, on or before the last Business Day of each month (each, a “Transfer Date”) beginning on the last Business Day of the calendar month in which any Obligations are issued and Outstanding under the Trust Indenture (or on such other date or dates as may be provided in a Supplemental Indenture with respect to a particular Series of Obligations adopted in accordance therewith and any conditions contained in a Supplemental Indenture or Credit Agreement) in the following amounts and in the following order of priority (provided, however, that if the Galveston Wharves provides a written certification that a fund contains the amount required to be deposited therein for a particular period under the Trust Indenture and any Supplemental Indenture, the Galveston Wharves may suspend transfers to such fund for the period identified in such certification):

- (a) **First**, to the Rebate Fund the amount, if any, necessary to pay the rebate amount required to be paid, pursuant to section 148(f) of the Internal Revenue Code of 1986, as amended, in the month following the Transfer Date; and
- (b) **Second**, to the First Lien Debt Service Fund (or to a fund or account created to pay Credit Agreement Obligations under a Credit Agreement entered into in connection with First Lien Obligations or a Hedge Agreement Payment Obligation under a First Lien Hedge Agreement, if the same are not payable from the First Lien Debt Service Fund and deposits

to such fund or account are ratable with deposits to the First Lien Debt Service Fund), an amount equal to the sum of the following:

- (i) one-sixth (1/6) of the interest becoming due on the next semiannual Interest Payment Date with respect to First Lien Obligations that bear interest at a fixed rate payable semiannually; and
- (ii) one-third (1/3) of the interest becoming due on the next quarterly Interest Payment Date with respect to First Lien Obligations that bear interest at a fixed rate payable quarterly; and
- (iii) the amount of interest next becoming due in the following month on First Lien Obligations that bear interest at a fixed rate payable monthly; and
- (iv) if interest on the First Lien Obligations bears interest payable at a variable rate or a fixed rate on other than a semi-annual, quarterly, or monthly basis, the amount required to provide for the payment of the interest thereon becoming due on the next Interest Payment Date in substantially equal monthly installments based on reasonably foreseeable financial conditions; and
- (v) the amount of interest accruing in such month on First Lien Obligations that bear interest payable on other than a monthly basis (other than Capital Appreciation Bonds), together with the amount of interest that will accrue on such First Lien Obligations through any Interest Payment Dates that will occur prior to the next Transfer Date; and
- (vi) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of First Lien Obligations that will mature and become due and payable on the next annual maturity date therefor; and
- (vii) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of First Lien Obligations subject to mandatory sinking fund redemption on the next annual mandatory sinking fund redemption date; and
- (viii) the Credit Agreement Obligation secured by a pledge of and a lien on Net Revenues on parity with other First Lien Obligations or Hedge Agreement Payment Obligation, if any, payable by the Issuer under a First Lien Hedge Agreement accruing in such month or that will accrue through a payment date that will occur prior to the next Transfer Date; provided, that such amounts shall be included in the calculation of the monthly deposit only to the extent such amounts are required to be paid in addition to the amounts provided for by clauses (i) through (vii) above.

In calculating such monthly deposit to the First Lien Debt Service Fund, the following shall be taken into account and credited against deposits to the First Lien Debt Service Fund otherwise required by the foregoing clauses: (a) any accrued interest deposited into the First Lien Debt Service Fund from the proceeds of a Series of First Lien Obligations, and any amounts credited to the First Lien Debt Service Fund and dedicated to pay capitalized interest on a Series of First Lien Obligations, in either case on or before the Transfer Date and anticipated to be available to pay interest on such First Lien Obligations on the next Interest Payment Date, (b) any other amounts deposited to the First Lien Debt Service Fund prior to the Transfer Date, (c) any investment income realized by the Issuer from the investment of amounts on deposit in the First Lien Debt Service Fund and credited to the First Lien Debt Service Fund, and (d) any payments received by the Issuer from a Counterparty under a First Lien Hedge Agreement and deposited to the First Lien Debt Service Fund (which amounts shall be deposited to the First Lien Debt Service Fund as described in Section 203 of the Trust Indenture).

No deposits shall be required under clauses (vi) or (vii), above, for the payment of the principal amount or Maturity Amount as applicable on a First Lien Obligation to the extent there is in effect a third party agreement (e.g. bond purchase agreement) to refund or refinance the principal amount or Maturity Amount coming due or the First Lien Obligation is a Short-Term Obligation that will be refinanced, refunded or rolled under a commercial paper program or a direct purchase note program.

Further, such monthly deposits shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to each Series of First Lien Obligations and the frequency of payments under any First Lien Hedge Agreements so as to assure ratable monthly accrual of all Obligations of the Issuer payable thereunder. On or before each Transfer Date, the Issuer shall make up any deficiencies in deposits on prior Transfer Dates from and to the extent moneys remain on deposit in the Revenue Fund.

(c) **Third**, to the First Lien Debt Service Reserve Fund, all amounts, if any, which, together with amounts on deposit therein and amounts available under a First Lien DSRF Security, may be required by any Supplemental Indenture, including transfers to pay all Credit Agreement Obligations under a First Lien DSRF Security.

(d) **Fourth**, to the Second Lien Debt Service Fund (or to a fund or account created to pay or Credit Agreement Obligations under a Credit Agreement entered into in connection with Second Lien Obligations or a Hedge Agreement Payment Obligation under a Second Lien Hedge Agreement), an amount equal to the sum of the following:

- (i) one-sixth (1/6) of the interest becoming due on the next semiannual Interest Payment Date with respect to Second Lien Obligations that bear interest at a fixed rate payable semiannually; and
- (ii) one-third (1/3) of the interest becoming due on the next quarterly Interest Payment Date with respect to Second Lien Obligations that bear interest at a fixed rate payable quarterly; and
- (iii) the amount of interest next becoming due in the following month on Second Lien Obligations that bear interest at a fixed rate payable monthly; and
- (iv) if interest on the Second Lien Obligations bears interest payable at a variable rate or fixed rate on other than a semi-annual, quarterly, or monthly basis, the amount required to provide for the payment of the interest thereon becoming due on the next Interest Payment Date in substantially equal monthly installments under reasonably foreseeable financial conditions; and
- (v) the amount of interest accruing in such month on Second Lien Obligations that bear interest payable on other than a monthly basis (other than Capital Appreciation Obligations), together with the amount of interest that will accrue on such Second Lien Obligations through any Interest Payment Dates that will occur prior to the next Transfer Date; and
- (vi) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Second Lien Obligations that will mature and become due and payable on the next annual maturity date therefor; and
- (vii) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Second Lien Obligations subject to mandatory sinking fund redemption on the next annual mandatory sinking fund redemption date; and
- (viii) the Credit Agreement Obligation secured by a pledge of and a lien on the Net Revenues on parity with other Second Lien Obligations or Hedge Agreement Payment Obligations the amount, if any, payable by the Issuer under a Second Lien Hedge Agreement accruing in such month or that will accrue through a payment date that will occur prior to the next Transfer Date; provided, that such amounts shall be included in the calculation of the monthly deposit only to the extent such amounts are required to be paid in addition to the amounts provided for by clauses (i) through (vii) above.

In calculating such monthly deposit to the Second Lien Debt Service Fund, the following shall be taken into account and credited against deposits to the Second Lien Debt Service Fund otherwise required by the foregoing clauses: (a) any accrued interest deposited into the Second Lien Debt Service Fund from the proceeds of a Series of Second Lien Obligations, and any amounts credited to the Second Lien Debt Service Fund and dedicated to pay capitalized interest on a Series of Second Lien Obligations, in either case before the Transfer Date and anticipated to be available to pay interest on such Second Lien Obligations on the next Interest Payment Date, (b) any amounts deposited to the Second Lien Debt Service Fund prior to the Transfer Date, (c) any investment income realized by the Issuer from the investment of amounts on deposit in the Second Lien Debt Service Fund and credited to the Second Lien Debt Service Fund, and (d) any payments received by the Issuer from a Counterparty under a Second Lien Hedge Agreement and deposited to the Second Lien Debt Service Fund (which amounts shall be deposited to the Second Lien Debt Service Fund as described in Section 203 of the Trust Indenture).

No deposits shall be required under clauses (vi) or (vii), above, for the payment of the principal amount or Maturity Amount as applicable on a Second Lien Obligation to the extent there is in effect a third party agreement (e.g. bond purchase agreement) to refund or refinance the principal amount or Maturity Amount coming due or the Second Lien Obligation is a Short-Term Obligation that will be refinanced, refunded or rolled under a commercial paper program or a direct purchase note program.

Further, such monthly deposits shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to each Series of Second Lien Obligations and the frequency of payments under any Second Lien Hedge Agreements so as to assure ratable monthly accrual of all Obligations of the Issuer payable thereunder. On or before each Transfer Date, the Issuer shall make up any deficiencies in deposits on prior Transfer Dates from and to the extent monies remain on deposit in the Revenue Fund.

(e) **Fifth**, to the Second Lien Debt Service Reserve Fund, all amounts, if any, which, together with amounts on deposit therein and amounts available under a Second Lien DSRF Security, may be required by any Supplemental Indenture, including transfers to pay all Credit Agreement Obligations under a Second Lien DSRF Security.

(f) **Sixth**, to any funds or accounts created by any Supplemental Indenture to pay Inferior Lien Obligations or pay or repay amounts under a Credit Agreement or Hedge Agreement secured by a pledge of and lien on Net Revenues that is junior and subordinate to the liens and pledges securing payment of the First Lien Obligations and Second Lien Obligations. Supplemental Indentures establishing such funds or accounts shall establish the application of such deposits.

(g) **Seventh**, to any reserve funds or accounts created by any Supplemental Indenture to provide a reserve for any lawful purpose. Supplemental Indentures establishing such reserve funds or accounts shall establish the application of such deposits.

(h) **Eighth**, to make all required deposits into any funds created in order to provide for payments to the Issuer as may hereafter be required by Article XII of the Issuer's Home Rule Charter in excess of the Annual Issuer Payment.

(i) **Ninth**, to the General Fund all amounts remaining on deposit in the Revenue Fund for any lawful purpose approved by the Wharves' Board related to ports and harbors of the Issuer, or any facilities, channels, or properties incident thereto.

It shall be the duty of the authorized representatives of the Galveston Wharves or designee to cause all Gross Revenues to be accounted for, deposited, invested, transferred and applied in accordance with the provisions of the Trust Indenture and any Supplemental Indenture. For additional information, see "APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE."

Rebate Fund

Amounts on deposit in the Rebate Fund may be used solely to make payments due to the United States of America under Section 148(f) of the Code (or any successor provision). For additional information, see "APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE."

First Lien Debt Service Fund

The Issuer may create such additional accounts in the First Lien Debt Service Fund pursuant to a Supplemental Indenture as it deems necessary or appropriate, including, but not limited to, (i) an account into which drawings on a Credit Agreement are to be deposited and from which principal or Maturity Amount, as applicable (including redemption price), of and interest on the Series of First Lien Obligations secured by such Credit Agreement are to be paid (and upon such payment, amounts on deposit in the First Lien Debt Service Fund shall be used to repay the provider of the Credit Agreement for such payments as and to the extent provided in Section 602 of the Trust Indenture), and (ii) an account into which payments to the Issuer from any First Lien Hedge Agreement Counterparty are to be deposited and from which payments from the Issuer to any such First Lien Hedge Agreement Counterparty are to be paid as and to the extent provided in Section 602 of the Trust Indenture.

The moneys in the First Lien Debt Service Fund shall be held for the benefit of the First Lien Obligations. The Issuer shall pay out of the First Lien Debt Service Fund to the respective Paying Agents, if any, for First Lien Obligations or other payees thereof (a) on or before each Interest Payment Date and each date fixed for the redemption or other payment of First Lien Obligations, the amount required for the payment of the interest becoming due on such date and (b) on or before each date on which First Lien Obligations or other payments secured by the First Lien Debt Service Fund mature or become subject to scheduled mandatory sinking fund redemption or optional redemption or otherwise become due, the amount required for payment of the principal amount or Maturity Amount, as applicable, of the First Lien Obligations maturing or otherwise becoming due, the redemption price of First Lien Obligations becoming subject to redemption on such date (or to purchase First Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), and any other payments secured by moneys in the First Lien Debt Service Fund becoming due, except, in each case, to the extent such interest, principal amount or Maturity Amount, as applicable, or redemption price is paid from a fund or account other than the First Lien Debt Service Fund, as provided in the Supplemental Indenture authorizing such First Lien Obligation.

Except as may be otherwise provided in any Supplemental Indenture authorizing any First Lien Obligations, whenever the total amounts on deposit to the credit of the First Lien Debt Service Fund and the First Lien Debt Service Reserve Fund, if applicable, shall be equivalent to the sum of the aggregate principal amount of all Outstanding First Lien Obligations plus the aggregate amount of all interest and other payments secured by the First Lien Debt Service Fund accrued and to accrue thereon, no further transfers need be made into the First Lien Debt Service Fund or the First Lien Debt Service Reserve Fund, if applicable, and such First Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. For additional information, see "APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE."

First Lien Debt Service Reserve Fund

The Series 2024A Bonds and Series 2024B Bonds, together with City of Galveston Wharves and Terminal First Lien Revenue Bonds Series 2023 (AMT), constitute the First Lien Obligations, respectively, designated as First Lien Debt Service Reserve Fund Participants, issued under the Indenture. The Issuer shall establish and maintain as hereinafter provided a balance in the applicable account of the First Lien Debt Service Reserve Fund equal to the First Lien Debt Service Reserve Fund Requirement (as defined and provided in the Supplemental Indenture authorizing such First Lien Obligations) for the First Lien Obligations that are secured thereby as established in the Supplemental Indenture authorizing such First Lien Obligations. In addition, subaccounts may be established pursuant to Supplemental

Indentures for First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants being issued under the Supplemental Indenture.

The First Lien Debt Service Reserve Fund Requirement shall, as provided in any Supplemental Indenture authorizing such First Lien Obligations, be satisfied by depositing to the credit of the First Lien Debt Service Reserve Fund Participant Account (in the case of First Lien Obligations that are First Lien Debt Service Reserve Fund Participants) or such other designated accounts, as applicable, (in the case of First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants) of the First Lien Debt Service Reserve Fund (i) after providing for the payment of Operating and Maintenance Expenses and making required transfers to the First Lien Debt Service Fund, transfers into the First Lien Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to accumulate within sixty (60) months the First Lien Debt Service Reserve Fund Requirement; (ii) proceeds of such First Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the Issuer, will be sufficient to fund fully the First Lien Debt Service Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such First Lien Obligations has been provided out of proceeds of such Additional First Lien Obligations or investment earnings thereon as estimated by the Issuer or from other lawfully available funds other than Net Revenues; or (iii) a surety bond, insurance policy or letter of credit or similar financial instrument; provided that, at the time of deposit, either the rating for the long-term unsecured debt of the issuer of such surety bond, insurance policy or letter of credit or similar financial instrument, or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the three highest letter categories by at least one nationally recognized securities rating agency (each, a "First Lien DSRF Security") and which First Lien DSRF Security is in an amount equal to the amount required to be funded. The First Lien DSRF Security shall be payable (upon the giving of any notice as may be required thereunder) on any Interest Payment Date, principal payment date or redemption date on which moneys will be required to be withdrawn from the First Lien Debt Service Reserve Fund and applied to the payment of the principal amount, Maturity Amount or redemption price of or interest on any First Lien Obligations secured thereby, unless otherwise provided in a Supplemental Indenture. Any downgrade of an issuer of a First Lien DSRF Security shall have no effect on the value of such instrument for the purposes of meeting the First Lien Debt Service Reserve Fund Requirement and the Issuer shall have no obligation to supplement or replace such First Lien DSRF Security or make additional cash contributions to the First Lien Debt Service Reserve Fund as a result of such downgrade. The Issuer further expressly reserves the right to substitute at any time a First Lien DSRF Security for any funded amounts in the First Lien Debt Service Reserve Fund and to apply the funds thereby released for any lawful purpose, including without limitation any purpose for which First Lien Obligations may be issued or in order to pay debt service on First Lien Obligations. The Issuer also reserves the right to provide for the use of a DSRF Security in relationship to a Series-specific debt service reserve requirement as may be required under any Supplemental Indenture.

In any month in which any account of the First Lien Debt Service Reserve Fund contains less than the applicable First Lien Debt Service Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the Issuer has elected to accumulate the First Lien Debt Service Reserve Fund Requirement for any Series of First Lien Obligations as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses and all required transfers to the First Lien Debt Service Fund, the Issuer shall transfer to the Trustee for deposit on a pro rata basis into the First Lien Debt Service Reserve Fund Participant Account (in the case of First Lien Obligations that are Debt Service Reserve Fund Participants) and such other designated accounts, as applicable, (in the case of First Lien Obligations that are not Debt Service Reserve Fund Participants) of the First Lien Debt Service Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the Issuer to pay all Credit Agreement Obligations under First Lien DSRF Security allocable to the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the Issuer within a twelve (12) month period to reestablish in the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Fund, as applicable, the First Lien Debt Service Reserve Fund Requirement for the First Lien Obligations secured thereby. After such amounts have been accumulated in the First Lien Debt Service Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain the First Lien Debt Service Reserve Fund Requirement, no further transfers shall be required to be made into the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Reserve Fund, and any excess amounts in such accounts shall be transferred to the First Lien Debt Service Fund to the extent the excess is attributable to the First Lien Debt Service Reserve Fund for any tax-exempt First Lien Obligations, and otherwise, shall be transferred to the Revenue Fund or such other Funds as may be permitted by federal tax law. But if and whenever the balance in the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts is reduced below the applicable First Lien Debt Service Reserve Fund Requirement, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Fund, as applicable, to such amount within a twelve (12) month period.

The First Lien Debt Service Reserve Fund Participant Account shall be used to pay the principal of and interest on the First Lien Obligations that are Debt Service Reserve Fund Participants at any time when there is not sufficient money available in the First Lien Debt Service Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any First Lien DSRF Security, unless provided otherwise in each of the First Lien DSRF Securities allocable to the First Lien Debt Service Reserve Fund Participant Account) and to repay amounts drawn under any First Lien DSRF Security allocable to such First Lien Debt Service Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the Issuer's Credit Agreement Obligations incurred in connection with such First Lien DSRF Security. The First Lien Debt Service Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all First Lien Obligations then Outstanding that are secured thereby.

With respect to any Series of First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants, any account created within the First Lien Debt Service Reserve Fund for the benefit of such Series of First Lien Obligations shall be used to pay the principal and interest on such Series of First Lien Obligations at any time when there is not sufficient money available if the First Lien Debt Service Fund for such purpose and to repay amounts drawn under any First Lien DSRF Security allocable to such account for such purpose, in accordance with the terms of the Supplemental Indenture establishing such account.

The Trustee will be directed to make a claim or draw upon the applicable First Lien DSRF Security, in accordance with its terms, as may be necessary to provide for the timely payment of principal of and interest on the First Lien Obligations to which it pertains. For additional information, see “APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE.”

First Lien Debt Service Reserve Fund Requirement

Pursuant to the Second Supplemental Amended and Restated Trust Indenture, the Trustee established the Series 2024A Bonds DSRF Account and the Series 2024B Bonds DSRF Account for each series of the Bonds within the First Lien Debt Service Reserve Fund and such accounts shall constitute funds for the benefit of Owners of each respective series of Bonds. On the Delivery Date of the Bonds the balance of the Series 2024A Bonds DSRF Account shall be \$ _____, and the balance of the Series 2024B Bonds DSRF Account shall be \$ _____. Only the Series 2024A Bonds are secured by the Series 2024A Bonds DSRF Account and the Series 2024B Bonds are secured by the Series 2024B Bonds DSRF Account. For additional information, see “APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE.”

Second Lien Debt Service Fund

Under the Trust Indenture, the Issuer may create such additional accounts in the Second Lien Debt Service Fund pursuant to a Supplemental Indenture as it deems necessary or appropriate. The moneys in the Second Lien Debt Service Fund shall be held for the benefit of the Second Lien Obligations. The Issuer does not currently have any Second Lien Obligations Outstanding. For additional information on the Second Lien Debt Service Fund, see “APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE.”

Second Lien Debt Service Reserve Fund

Under the Trust Indenture, the Issuer is obligated to establish and maintain a balance in the Second Lien Debt Service Reserve Fund equal to the Second Lien Debt Service Reserve Fund Requirement for any Second Lien Obligations that are secured thereby as established in the Supplemental Indenture authorizing such Second Lien Obligations. The Issuer does not currently have any Second Lien Obligations Outstanding. For additional information on the Second Lien Debt Service Reserve Fund, see “APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE.”

General Fund

After making all payments, credits and transfers described heretofore, amounts credited to the General Fund may be used for any purpose permitted by law approved by the Wharves’ Board related to the ports and harbors of the Issuer, or any facilities, channels, or properties incident thereto. The General Fund may contain such other funds or accounts as may be established by the policies of the Wharves’ Board from time to time. The Wharves’ Board or the Issuer (in the event the management and control of the Wharves’ Facilities is placed in the hands of the Issuer as authorized by Section 702 of the Trust Indenture) reserves the right to pledge the funds on deposit in the General Fund to any lawful obligation, including those entered into outside of the Trust Indenture. For additional information, see “APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE.”

Perfection of Security Interest

Pursuant to Chapter 1208, Texas Government Code, the liens created under the Trust Indenture are valid, effective and perfected. If State law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the security granted by the Issuer under the Trust Indenture is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the Registered Owners of the Obligations the perfection of the security interest in said pledge, the Issuer has agreed to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and maintain the perfection and priority of such security under such code. For additional information, see “APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE.”

Investment of Funds; Transfer of Investment Income

Money in the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund, and any debt service funds or debt service reserve funds established for Inferior Lien Obligations shall, at the option of the Issuer, be invested by the Trustee at the written direction of the Wharves’ Board in Permitted Investments or in any other investments authorized by State law; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any such funds will be available at the proper time or times. In the absence of written instructions from the Wharves’ Board or the Issuer, the Trustee shall hold moneys held by it hereunder uninvested. All such investments shall be valued no less frequently than the last Business Day of the Issuer’s Fiscal Year at their market value, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held at an official depository of the Issuer, except as otherwise permitted by the laws

applicable to the Issuer. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the Issuer, in common investments of the kind described above, or in a common pool of such investments maintained by the Issuer or its designated agent, which shall not be deemed to be a loss of the segregation of such money or Funds, provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

The Trustee shall have no investment discretion. The Trustee and any Paying Agent may make investments in or through its own bank or any of its affiliates to the same extent it could if it were not the Trustee or Paying Agent under the Trust Indenture. The Trustee, such Paying Agent, its bank or its affiliates may receive compensation in connection with investments made pursuant to the Trust Indenture. The Trustee and any Paying Agent may rely on the investment directions of the Issuer and the Wharves' Board as to the suitability and the legality of the directed investments. Although the Issuer recognizes that it may obtain a broker confirmation with respect to the investment of moneys in any fund or account (or a written statement containing comparable information) at no additional cost, the Issuer agrees that confirmations of transactions related to Permitted Investments are not required to be issued by the Trustee or any Paying Agent for any month in which a monthly statement is rendered. No statement need be rendered for any fund or account for any month if no activity occurred in such fund or account during such month.

All interest and income derived from deposits and investments credited to any account of the First Lien Debt Service Reserve Fund, and the Second Lien Debt Service Reserve Fund, shall remain in such funds to the extent necessary to accumulate the respective Debt Service Reserve Fund Requirement therefor other required balance therein.

All interest and income derived from deposits and investments of any amounts held in any construction fund, including amounts held therein as capitalized interest, created by any Supplemental Indenture authorizing the issuance of First Lien Obligations, or Second Lien Obligations shall remain in such construction fund for application in the manner provided in such applicable Supplemental Indenture.

To the extent not otherwise provided for in the Trust Indenture or specifically excluded from the definition of Gross Revenues, all interest and income derived from deposits and investments credited to the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, and the Second Lien Debt Service Reserve Fund, shall remain on deposit in such funds and be credited against future transfers to such funds, be transferred or credited semiannually to the Revenue Fund, or be transferred to such other Funds as may be required under federal tax law. Earnings on investments of money in the Annual Issuer Payment Fund shall be transferred to the Revenue Fund.

Notwithstanding anything to the contrary contained in the Trust Indenture, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be paid to the federal government if such payment is required in order to prevent interest on any Obligations issued as tax-exempt Obligations from being includable in the gross income for federal income tax purposes. For additional information, see "APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE."

Rate Covenant

The Issuer covenants that the Wharves' Board or the Issuer will at all times fix, charge, impose and collect tariffs, rentals, tolls, rates, fees and other charges for the use and services of Wharves' Facilities, and revise the same as may be necessary or appropriate, in order that in each Fiscal Year, after the payment of all Operating and Maintenance Expenses and Annual Issuer Payment for such Fiscal Year paid or to be paid from Gross Revenues, Net Revenues are at least equal to the greater of (a) or (b) below:

- (a) All amounts required to be deposited in such Fiscal Year to the credit of the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, and the Second Lien Debt Service Reserve Fund; or
- (b) An amount not less than one hundred ten percent (110%) of the Annual Debt Service in such Fiscal Year on all Outstanding First Lien Obligations and Second Lien Obligations.

In making the calculations in (a) and (b) above, the Issuer may take into consideration as a credit against Annual Debt Service any amounts received, or reasonably expected to be received, in the Fiscal Year from or as a result of any Supplemental Security the Issuer has pledged for the benefit of Obligations to the extent the Issuer is not under an obligation to repay the amounts received; provided, however, that if the pledge is not for the benefit of all Obligations, the amounts expected to be received may only be taken into account when making the calculation for the affected Obligations. Except as provided below, if the Net Revenues in any Fiscal Year are less than the amounts specified above, the Issuer, promptly upon receipt of the annual audit for such Fiscal Year, shall undertake revisions of the Issuer's tariffs, rentals, tolls, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Wharves' Facilities in order to satisfy as quickly as practicable, subject to commercial, contractual, statutory and regulatory constraints, the foregoing requirements for each succeeding Fiscal Year subject to commercial, contractual, statutory and regulatory constraints. So long as the Issuer can demonstrate compliance with such foregoing requirements within twenty-four (24) months of its receipt of the annual audit specifying that the Net Revenues in any Fiscal Year are less than those specified above, the Issuer will not be deemed to have defaulted in the performance of its duties under the Trust Indenture, so long as there is no other default thereunder. Notwithstanding the above, the Issuer must at all times fix, charge, impose and collect tariffs, rentals, tolls, rates, fees and other changes sufficient to produce Net Revenues in each Fiscal Year in an amount not less than one hundred percent (100%) of the Annual Debt Service for such Fiscal Year on all Outstanding First Lien Obligations and Second Lien Obligations. The Issuer may make additions to the rate covenant established in the

Trust Indenture in order to accommodate the authorization of Inferior Lien Obligations. For additional information, see “APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE.”

Additional Obligations

Pursuant to the Trust Indenture, the Issuer may issue additional Obligations, which may be secured by and made payable equally and ratably on a parity with all Outstanding First Lien Obligations, provided the Issuer meets the following conditions:

(i) **No Default.** The Issuer and the Galveston Wharves shall each certify that upon the issuance of such Series of Obligations and the delivery of such Credit Agreement (and any related Reimbursement Agreement), the Issuer and the Galveston Wharves, respectively, will not be in default under any term or provision of the Trust Indenture, any Obligations then Outstanding, any Supplemental Indenture pursuant to which any of such Outstanding Obligations were issued, or any Credit Agreement or Hedge Agreement;

(ii) **Proper Fund Balances.** The Issuer and the Galveston Wharves shall each certify that, upon the issuance of such Series of Obligations, the First Lien Debt Service Fund, the Second Lien Debt Service Fund, and any debt service funds established for any Inferior Lien Obligations will have the amounts required by the Trust Indenture and any Supplemental Indenture to be on deposit therein, if any, and the First Lien Debt Service Reserve Fund, Second Lien Debt Service Reserve Fund, and any debt service reserve fund established for any Inferior Lien Obligations will contain the applicable Debt Service Reserve Fund Requirement, if any, or so much thereof as is required to be funded at such time;

(iii) **Historical Coverage on Outstanding Obligations.** The Issuer shall certify that for any consecutive 12 months out of the most recent 18 months (for the purposes of this subsection, such a period is an “Annual Period”) the Net Revenues were equal to at least:

(A) 125% of the Annual Debt Service for such Annual Period on all Outstanding First Lien Obligations; and

(B) 110% of the Annual Debt Service for such Annual Period on all Outstanding First Lien Obligations and Second Lien Obligations.

provided that the provisions described in this subsection shall not apply to (a) the issuance of Obligations for the purpose of refunding Short Term Obligations or Balloon Obligations or Obligations issued under a commercial paper program or a direct purchase note program, or (b) the issuance of Completion Obligations in accordance with Section 205 of the Trust Indenture; and provided further that additional coverage requirements for Inferior Lien Obligations may be added in a Supplemental Indenture;

(iv) **Coverage for Additional Obligations.** Either historical coverage or projected coverage.

(A) **Historical Coverage.** The Issuer shall certify that for any consecutive 12 months out of the most recent 18 months (for the purposes of this subsection, such a period is an “Annual Period”) that the Net Revenues were equal to at least:

(I) 125% of the maximum Projected Annual Debt Service on all First Lien Obligations for all future Fiscal Years in which both the Additional Obligations to be issued or delivered and all Outstanding Obligations are due to remain Outstanding, and

(II) 110% of the maximum Projected Annual Debt Service on all First Lien Obligations and Second Lien Obligations for all future Fiscal Years in which both the Additional Obligations to be issued or delivered and all Outstanding Obligations are due to remain Outstanding.

In making such calculation, Net Revenues may be adjusted to give effect to any increase of tariffs, rentals, fees, rates, tolls and charges placed into effect at least 60 days prior to the adoption of the Supplemental Indenture authorizing the Additional Obligations to the same extent as if such increase of tariffs, rentals, fees, rates, tolls and charges had been placed into effect prior to the commencement of the consecutive 12 month period that is the basis of the calculation; provided, however, that the result of the calculation utilizing such an adjustment must be certified by an independent certified public accountant or firm of independent certified public accountants using the Accounting Principles; or

(B) **Projected Coverage.** A Galveston Wharves Management Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues for each of the three consecutive Fiscal Years beginning with the earlier of:

(I) the first Fiscal Year following the estimated date of completion and initial use of all revenue-producing facilities to be financed with such Additional Obligations, based upon a certified written estimate of such completion date by the consulting engineer for such facility or facilities, or

(II) the first Fiscal Year in which the Issuer will have scheduled payments of interest on or principal of the Additional Obligations to be issued for the payment of which provision has not been made as indicated in the report of such Galveston Wharves Management Consultant from proceeds of such Additional Obligations, investment income thereon or other appropriated sources (other than Net Revenues),

are equal to at least 125% of the maximum Projected Annual Debt Service on all First Lien Obligations, 110% of the maximum Projected Annual Debt Service on all First Lien Obligations and Second Lien Obligations, in each case for all Fiscal Years described in subsection (iv)(A) above;

(C) **Refunding Obligations:** if the Additional Obligations are being issued for the purpose of refunding previously issued Obligations which are then Outstanding, none of the certifications described in (iii) or (iv)(A) or (B), above, are required (except in the event First Lien Obligations are issued to refund Obligations other than First Lien Obligations, Second Lien Obligations are issued to refund Inferior Lien Obligations), so long as the Projected Annual Debt Service in no Fiscal Year after the issuance of such Obligations (after taking into account the redemption or defeasance of the Obligations being refunded) will exceed the scheduled Annual Debt Service in the same Fiscal Year prior to the issuance of such Obligations;

provided, however, that the provisions in this subsection shall not apply to (a) the issuance of Obligations for the purpose of refunding Short Term Obligations or Balloon Obligations or Obligations issued under a commercial paper program or a direct purchase note program or (b) the issuance of Completion Obligations in accordance with Section 205 of the Trust Indenture; and provided further that additional coverage requirements for Inferior Lien Obligations may be added in a Supplemental Indenture; and

(v) **Supplemental Indenture Requirements.** Provision is made in the Supplemental Indenture authorizing the Series of Obligations proposed to be issued for:

(A) additional payments into the First Lien Debt Service Fund, Second Lien Debt Service Fund, or debt service funds established for Inferior Lien Obligations (as the case may be) sufficient to provide for any principal and interest requirements resulting from the issuance of the Obligations, including, in the event that interest on the additional series of Obligations is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the First Lien Debt Service Fund, Second Lien Debt Service Fund, or debt service funds established for Inferior Lien Obligations (as the case may be) of amounts fully sufficient to pay interest on such series of Obligations during the period specified in the Supplemental Indenture; and

(B) satisfaction of any First Lien Debt Service Reserve Fund Requirement, the Second Lien Debt Service Reserve Fund Requirement, or debt service reserve fund requirements established for Inferior Lien Obligations (as the case may be) by not later than the date required by any Supplemental Indenture authorizing Obligations then Outstanding.

(vi) **Special Provisions for Credit Agreements.** The Issuer may enter into Credit Agreements with respect to any Obligations if (i) prior to entering into such Credit Agreement, the Issuer, to the extent required by law, shall cause the proceedings authorizing the Credit Agreement and any contracts or Reimbursement Agreements relating thereto to be submitted to and approved by the Attorney General and (ii) the conditions described in subsection (b) of Section 202 of the Trust Indenture are satisfied for the Obligations to be incurred under the Credit Agreement. A Credit Provider may be entitled to be subrogated to the rights of the Owners of the Obligations to payments thereon made by advances under such Credit Agreement, and to the extent so provided in a Supplemental Indenture authorizing such Credit Agreement, the Issuer's Credit Agreement Obligations may be secured by Net Revenues at the same lien priority as or a lien priority inferior to the Obligations to which the Credit Agreement relates.

For additional information, see "APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE."

Short-Term Obligations

In the Trust Indenture the Issuer reserves the right to issue, from time to time, one or more series of Obligations as "Short-Term Obligations;" provided, however, that no such Short-Term Obligations (other than those issued under a Supplemental Indenture adopted concurrently with the Trust Indenture) may be issued without satisfying the applicable provisions of Section 202 of the Trust Indenture. For additional information, see "APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE."

Completion Obligations

In the Trust Indenture the Issuer reserves the right to issue Completion Obligations. Such Completion Obligations may be issued on parity with or subordinate to the Obligations that financed the costs of the Financed Project.

Prior to the issuance of any series of Completion Obligations the Issuer must provide, in addition to satisfying all of the conditions of Section 202 of the Trust Indenture (other than subsections 202(b)(iii) and (iv) of the Trust Indenture, which shall not apply to Completion Obligations), the following documents:

(i) a certificate of the consulting engineer engaged by the Issuer to design the Financed Project for which the Completion Obligations are to be issued stating that such Financed Project has not materially changed in scope since the issuance of the most recent series of Obligations for such purpose (except as permitted in the applicable Supplemental Indenture authorizing such Obligations) and setting forth the aggregate cost of the Financed Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(ii) a certificate of the Port Director/CEO or Chairman of the Wharves' Board (A) stating that all amounts allocated to pay costs of the Financed Project from the proceeds of the most recent series of Obligations issued in connection with the Financed Project for which the Completion Obligations are being issued were used or are still available within a construction fund therefor to be used to pay costs of such Financed Project; (B) containing a calculation of the amount by which the aggregate cost of that Financed Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Financed Project paid to such date plus the moneys available at such date within any construction fund established therefor or other like account applicable to the Financed Project plus any other moneys which the Issuer has determined are available to pay such costs in any other fund; (C) certifying that, in the opinion of the Issuer, the issuance of the Completion Obligations is necessary to provide funds for the completion of the Financed Project; and (D) certifying that at the time the most recent Series of Obligations were issued in connection with the Financed Project (other than pursuant to Section 205 of the Trust Indenture), the Issuer reasonably believed that such Series of Obligations would be sufficient, together with funds on hand dedicated to such purpose, to pay the costs of the Financed Project. For additional information, see "APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE."

Inferior Lien Obligations

The Issuer reserves the right to issue or incur, bonds, notes, commercial paper program notes or other obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the First Lien Obligations and the Second Lien Obligations. Such Inferior Lien Obligations may be further secured by any other source of payment lawfully available for such purposes and may be issued under the Trust Indenture and a Supplemental Indenture of the Issuer or a separate trust indenture pertaining to the Inferior Lien Obligations. The Issuer may establish additional funds accounts, and sub accounts within the flow of funds to provide for the issuance or incurrence of Inferior Lien Obligations. For additional information, see "APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE."

Capital Leases

The Issuer reserves the right to finance or acquire Wharves' Facilities through capital leases or other similar lease/purchase arrangements in accordance with Section 207 of the Trust Indenture. Unless such capital leases or lease purchase arrangements are entered into under a Supplemental Indenture designating the Issuer's payment obligations thereunder as First Lien Obligations, Second Lien Obligations, or Inferior Lien Obligations, any payment obligations of the Wharves' Board under such capital leases or other similar lease/purchase arrangements will be payable from Net Revenues available after making all deposits required in connection with Outstanding First Lien Obligations, Second Lien Obligations, or Inferior Lien Obligations, under the Trust Indenture and the Supplemental Indenture authorizing such Obligations, or other lawfully available funds of the Issuer that are not Gross Revenues, including without limitations from revenues on deposit in the General Fund. Capital leases or other similar lease/purchase arrangements may be secured by the mortgage or encumbrance of the Wharves' Facilities being financed under such arrangement, subject to Section 704 of the Trust Indenture, and a pledge of any other source of payment lawfully available for such purposes, subject to Section 708 of the Trust Indenture. Capital leases or other similar lease/purchase arrangements may be entered into by the Wharves' Board pursuant to resolution adopted by the Wharves' Board. If the payment obligations of the Issuer under a capital lease or other similar lease/purchase arrangement will be First Lien Obligations, Second Lien Obligations, or Inferior Lien Obligations, the Issuer must comply with the provisions of Section 202 of the Trust Indenture. The Issuer reserves the right to establish such other funds and accounts as may be necessary in connection with such capital lease or other similar lease/purchase arrangements in a Supplemental Indenture; provided, however, that no such funds or accounts shall be earlier in priority than the First Lien Debt Service Fund and any First Lien Debt Service Reserve Fund. For additional information, see "APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE."

Special Facilities Obligations

The Issuer reserves the right to issue, from time to time, in one or more series, Special Facilities Obligations as provided in the Trust Indenture to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Obligations shall be payable solely from payments by any Special Facilities Lease and/or other security not provided by the Issuer. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the Issuer as security for the Obligations or for the construction, operation, maintenance or repair of Wharves' Facilities be pledged to the payment of Special Facilities Obligations or to the payment of any expenses of maintenance and operation of Special Facilities. For additional information, see "APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE."

Excluded Fee and Charge Revenue Obligations

In the Trust Indenture, the Issuer reserves the right to issue or incur, for any lawful Issuer purpose, bonds, notes, commercial paper program notes or other obligations secured in whole or in part by a lien on all or any designated portion of Excluded Fee and Charge Revenues. Such obligations may be further secured by any other source of payment lawfully available for such purposes, other than Gross Revenues (unless issued in accordance with other provisions of Article II of the Trust Indenture). The Issuer shall document Excluded Fee and

Charge Revenues via ordinance, resolution or order. For additional information, see “APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE.”

Credit Agreements and Hedge Agreements

In the Trust Indenture, the Issuer reserves the right to enter into Credit Agreements and Hedge Agreements. For additional information, see “APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE.”

Amendments of the Trust Indenture

The rights, duties, and obligations of the Issuer and the Owners of Outstanding Obligations are subject in all respects to all applicable federal and State laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended. The Issuer may, with and without the consent of or notice to any of the Owners of the Obligations, amend the Trust Indenture for certain purposes.

The rights, if any, of a Credit Provider, the provider of a municipal bond insurance policy or the provider of a DSRF Security to make any consents under Article XI of the Trust Indenture, except those under Sections 1102(1), (2) and (3) of the Trust Indenture, may be specified in the Supplemental Indenture authorizing the Credit Agreement, municipal bond insurance policy or DSRF Security.

Unless otherwise provided in a Supplemental Indenture authorizing an Obligation, Counterparties to Hedge Agreements shall not be treated as Owners of the Obligations to which the Hedge Agreement relates for purposes of any voting rights to approve any amendments, unless such Counterparty is in fact the Owner of such Obligations. For additional information, see “APPENDIX C – SELECTED PROVISIONS OF THE INDENTURE.”

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds or redemption, 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 redemption 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 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 certificate will be issued for each stated maturity of the Bonds, each in the aggregate principal amount thereof, and will be deposited with DTC.

DTC, the world’s largest securities 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 a S&P Global Ratings rating of “AA+”. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 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 DTC 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.

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

Principal, interest and redemption 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 City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond 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 City, the Financial Advisor and the Underwriters believe to be reliable, but the City, the Financial Advisor and the Underwriters take no responsibility for the accuracy thereof.

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 Book-Entry-Only form, 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, payment or notices that are to be given to Registered Owners under the Ordinance will be given only to DTC.

REGISTRATION, TRANSFER AND EXCHANGE

Trustee

The initial Trustee is The Bank of New York Mellon Trust Company, National Association. In the Ordinance, the City retains the right to replace the Trustee for the Bonds. If the Trustee is replaced by the City, the Trustee, promptly upon the appointment of its successor, is required to deliver the registration records to the successor Trustee. Any successor Trustee selected by the City shall be a commercial bank, trust company or other entity duly qualified and legally authorized to serve as and perform the duties of Trustee. Upon any change in the Trustee for the Bonds, the City shall promptly cause a written notice of such change to be sent to each registered owner of the Bonds affected by the change, by United States mail, first class postage prepaid, which notice shall give the address for the new Trustee.

The Bank of New York Mellon Trust Company, National Association, in each of its capacities (including but not limited to the Trustee, Paying Agent and Registrar) has not participated in the preparation of this Official Statement and assumes no responsibility for its content.

Future Registration

In the event the use of the "Book-Entry-Only System" for the Bonds should be discontinued, printed security certificates will be delivered to the registered owners of the Bonds affected thereby and thereafter such Bonds may be transferred, registered and assigned on the

registration books only upon presentation and surrender of such printed security certificates to the Trustee, and such registration and transfer shall be without expense or service charge to the registered owner except for any tax or other governmental charges required to be paid with respect to such registration and transfer. The Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Trustee. New Bonds will be delivered by the Trustee in lieu of the Bonds being transferred or exchanged at the designated office of the Trustee, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. To the extent possible, new security certificates issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the owner or his duly authorized agent, in form satisfactory to the Trustee. New security certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 of principal amount for any one maturity or any integral multiple thereof and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

Mutilated, Destroyed, Lost, or Stolen Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the City and the Trustee evidence satisfactory to them that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the City and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Trustee may incur in connection therewith.

THE WHARVES

General

The Wharves comprises a large portion of the Port, which is located at the entrance to Galveston Bay along the Galveston Channel (the "Channel") access waterway lying between Galveston and Pelican Islands, and leading from Galveston Bay to the open sea, which is 9.3 miles away or approximately thirty minutes steaming time for most vessels. The Wharves' Facilities are built along the Channel on the north side of the City of Galveston and across the Channel on the south side of Pelican Island. The Channel has a controlling depth of 45 feet and, at its narrowest point, is 1,075 feet wide. The Gulf Intracoastal Waterway Bypass runs through the Port of Galveston.

The Wharves owns and operates for hire cruise terminal facilities, public parking facilities servicing cruise passengers, public wharves, transit sheds, open and covered storage facilities, warehouses, and various freight handling facilities. Additionally, the Wharves leases land and certain other facilities to other private sector entities who, in turn, use or provide a variety of services to users of the Wharves' Facilities. See "THE WHARVES – Operations and Facilities" for more complete descriptions of such operations and facilities.

The Wharves is primarily a landlord port entity, as opposed to an operating port entity. Most of the operating functions of the Wharves' Facilities are performed by lessees or third party operators thus reducing the number of the Wharves' direct employees and the labor costs. The Wharves generates revenues from lease and operating agreements that often include negotiated cost and revenue sharing arrangements between the Wharves and its lessees or third party operators.

Redevelopment and Future Operations – Piers 16-18 and Cruise Terminal No. 16

A. Converting the existing Fresh Produce Terminal into a Cruise Terminal Facility and Parking Garage

Piers 16-18 are located on the eastern portion of the Port's property. Historically, Del Monte Fresh Produce N.A., Inc. ("Del Monte"), has leased warehouse structures and land from the Wharves used to import fresh produce, including bananas. Del Monte's current lease began in 2009 and expired on April 30, 2024. Del Monte's operation generated \$1,623,320 in revenues in 2023.

- Immediately following the termination of Del Monte's lease, Wharves will commence construction to convert Del Monte's facility into a new Cruise Terminal No. 16, in which additional square footage will be added to connect the two existing warehouse buildings for use as a cruise terminal. The berth and docks at Piers 16-18 will be strengthened so as to accommodate cruise ships with capacities of approximately 6,000 passengers. Two mobile elevating passenger boarding bridges will be installed connecting the terminal to cruise ships. Improvements will also include access-controlled staging areas for shuttle buses, coach buses, taxis, transportation network vehicles, and other vehicles transporting cruise passengers, as well as staging and loading areas for commercial trucks delivering provisions to the cruise ships. These improvements will be funded by the proceeds from the Series 2024A Bonds and also by Wharves' operating funds.
- The Wharves will also construct a new multistory parking garage in the area immediately south of the Cruise Terminal No. 16 building. The garage will have a capacity of approximately 1,600 vehicles, which will be parked above the ground floor; the ground floor will be used for commercial and other vehicles accessing the terminal facility, similar to the "departure" and "arrival" areas outside of commercial airports. While the garage is intended primarily to park vehicles for passengers cruising from Cruise Terminal No. 16, any excess capacity may also be used to park vehicles for passengers cruising from other terminals, utilizing the Wharves' existing shuttle system. These parking garage improvements will be funded by the proceeds from the Series 2024B Bonds and also by Wharves' operating funds.

B. New Operating Agreement with MSC Cruises, S.A. to Operate Out of Cruise Terminal No. 16

The Wharves entered into a long-term Operating Agreement dated February 7, 2024 with MSC Cruises, S.A. (“MSC”) to conduct homeport cruise operations out of Cruise Terminal No.16. MSC plans to deploy the *MSC Seascape* to Galveston, with the first cruise scheduled for November 9, 2025. The Operating Agreement grants MSC certain preferential berthing rights to conduct cruise operations at Cruise Terminal No. 16 during a Primary Term commencing November 9, 2025 and ending November 8, 2045, with five optional 5-year Renewal Terms thereafter. During its first Operating Year commencing on November 9, 2025, MSC will pay passenger fees of \$12.00 per passenger embarkation and passenger disembarkation (each such embarkation and disembarkation is referred to hereafter as a “passenger movement”). Additionally, MSC will pay the City a passenger fee of \$0.25 per passenger movement commencing in that first Operating year. Commencing November 9, 2026, passenger fees increase annually at the lesser of 3% or the CPI-U for the Houston-The Woodlands – Sugar Land (Texas) area. Additionally, in 2030, 2035 and 2040, the Wharves can request an increase in passenger fees up to 5% (i.e., more than the limits on annual increases), if the Wharves determines that market conditions so warrant. MSC guarantees a minimum of \$6,000,000 in passenger fees during the first Operating Year, and a minimum of \$7,200,000 in each subsequent Operating Year.

The Wharves’ Operating Agreement with MSC also provides that MSC will repay a portion of the cost to construct Cruise Terminal No. 16, which is currently estimated to be \$73,350,000.00, using a “Capital Cost Recovery Charge” (“CCRC”) paid on a per-passenger movement basis by MSC passengers. (The cost of Cruise Terminal No. 16 is currently estimated to be \$82,336,497. This cost is for the construction of the terminal only and does not include the cost for two passenger boarding bridges or the cost to improve the marine components of the berth.) The CCRC is paid in addition to passenger fees. The CCRC is calculated by:

1. Amortizing a portion of the cost to construct Cruise Terminal No. 16, which is currently estimated to be \$73,350,000.00, over the Operating Agreement’s 20-year term at the interest rate applicable to the Series 2024A Bonds, to yield a total amount of principal and interest payable during the 20-year term (the “Total Amortized Debt Amount”).
2. The Total Amortized Debt Amount is then divided by 11,900,000 [the guaranteed minimum number of passenger movements during the primary term] to yield the CCRC to be charged for each passenger movement. The Actual CCRC will be calculated once the final cost to construction Cruise Terminal No. 16 is known.

During the first Operating Year, MSC guarantees payment to the Wharves annually of an amount calculated by multiplying the CCRC by 500,000. During the next nineteen Operating Years, MSC guarantees payment to the Wharves annually of an amount calculated by multiplying the CCRC by 600,000.

The Wharves’ Operating Agreement with MSC also provides that during the first ten Operating Years, the Wharves has the right to offer preferential berthing rights at Cruise Terminal No. 16 to other cruise lines on specific days of the week. The Wharves is currently engaged in negotiations with several cruise lines concerning those berthing rights. The Wharves expects that any Operating Agreements entered with other cruise lines will include passenger fees equal to or exceeding those paid by MSC, and will also include CCRC payments. After the first ten Operating Years, MSC may receive preferential berthing rights for all days of the week, if MSC agrees to deploy one or more additional cruise ships to conduct homeport cruise operations at Cruise Terminal No. 16 on a full-time basis during each two-year period during the rest of the Primary Term and any exercised Renewal Term. To exercise its right to deploy one or more additional cruise ships to conduct homeport cruise operations at Cruise Terminal No. 16, MSC must provide Wharves with 3-years advance written notice of its intent to do so by the following date, for each remaining two-year period during the Primary Term and for each renewal term, as follows:

| Time Period | MSC Notice Deadline to Bring Additional Vessel(s) |
|--|--|
| 11/9/2035 – 11/8/2037 | 11/9/2032 |
| 11/9/2037 – 11/8/2039 | 11/9/2034 |
| 11/9/2039 – 11/8/2041 | 11/9/2036 |
| 11/9/2041 – 11/8/2043 | 11/9/2038 |
| 11/9/2023 – 11/9/2045 | 11/9/2040 |
| 11/9/2045 – 11/8/2050 (1st Renewal Term) | 11/9/2042 |
| 11/9/2050 – 11/8/2055 (2nd Renewal Term) | 11/9/2047 |
| 11/9/2055 – 11/8/2060 (3rd Renewal Term) | 11/9/2052 |
| 11/9/2060 – 11/8/2065 (4th Renewal Term) | 11/9/2057 |
| 11/9/2065 – 11/8/2070 (5th Renewal Term) | 11/9/2062 |

If MSC does not provide written notice of its intent to conduct cruise operations for each Time Period set out above, the Wharves may continue to market the terminal for use by other cruise lines as described above. Once MSC gives notice of its intent to bring one or more additional vessels to conduct homeport cruise operations at Cruise Terminal No. 16, it is not required to give such notice for subsequent periods. Proceeds from the Bonds are being used to fund this project.

Operations and Facilities

Cruise Operations

Since the inception of the Cruise Industry business at the Port in September 2000, its cruise passenger operations have increased steadily. The Port is now the fourth largest cruise passenger port in North America, and the tenth largest cruise passenger port in the world, in terms of passenger volume. [Shamsheer Mambra, “10 Largest Cruise Ports in the World,” *Marine Insight*, May 16, 2022]. The Port’s 2023 cruise

passenger volume rebounded following the resumption of cruise operations in July 2021, with 1,490,532 passengers cruising from the City – surpassing 2019’s prior record volume of 1,091,622 passengers.

On September 30, 2000 Carnival Cruise Lines (“CCL”) began cruise ship service from the Port’s Cruise Terminal No. 25 (formerly known as Cruise Terminal No. 1) with one of its oldest ships, the *CELEBRATION*. That first year produced 33,900 passengers embarking on 20 cruises and generated approximately \$436,000 total revenue for the Port. Over the twenty-two years since that first year CCL has substantially expanded its operations and has developed a long-term relationship with the Port. The strength and quality of that relationship, and of the cruise market at the Port in general, was highlighted by CCL’s decision to deploy its newest ship, and the third vessel that is part of CCL’s Excel-class, *CARNIVAL JUBILEE* to the Port as a Home Port vessel beginning December 23, 2023. *CARNIVAL JUBILEE* was built and launched from the Meyer Werft shipyard in Papenburg, Germany in 2023. In addition to *CARNIVAL JUBILEE*, CCL vessels *CARNIVAL BREEZE* and *CARNIVAL DREAM* also sail from Cruise Terminals Nos. 25 and 28. They were joined in 2023 by *REGAL PRINCESS*, which is part of CCL’s Princess Cruise Line brand, and *NORWEGIAN PRIMA*, one of Norwegian Cruise Line’s newest cruise ships. Disney Cruise Line’s *DISNEY MAGIC* sails from Cruise Terminal No. 28 on a seasonal basis, generally cruising between November and April of each year.

Royal Caribbean Cruises Ltd. brand Royal Caribbean International (“RCI”) started year-round cruise line home port service from the Port on April 14, 2002. Thereafter, RCI moved from Cruise Terminal No. 1 to a new cruise terminal, Cruise Terminal No. 28 (formerly known as Cruise Terminal No. 2), located immediately to the west of Cruise Terminal No. 25 in 2003. The number of cruises increased to 203 in 2003, with 231,965 passengers embarking and generating approximately \$5.2 million in revenues. More recently, RCI partnered with Ceres Terminals, Inc. and entered into a public-private partnership with Wharves to develop the new Cruise Terminal No. 10 located on the Port’s far east end. This new terminal opened in November 2022, and is the homeport to RCI’s *HARMONY OF THE SEAS*, an *OASIS*-class vessel with a reported capacity of over 6,700 passengers. Cruise Terminal No. 10 also serves as the homeport to RCI’s *MARINER OF THE SEAS*, which has a reported passenger capacity of over 3,200 passengers.

Galveston Wharves has the following relationships with its customer cruise lines:

Carnival Corporation. The Wharves’ relationship with CCL is governed by an Operating Agreement dated June 1, 2014, which was recently amended by a Second Amendment to that Operating Agreement, dated February 1, 2023. The Operating Agreement grants CCL preferential berthing rights to conduct cruise operations at Cruise Terminals Nos. 25 and 28 during a Primary Term ending December 31, 2040, with one optional 5-year Renewal Term thereafter. CCL pays passenger fees of \$8.60 per passenger embarkation and disembarkation. (Each such embarkation is referred to hereafter as a “passenger movement.”) These passenger fees will increase to \$10.10 per passenger movement in December 2024. The Wharves will pay the City a portion of these increased fees (\$0.25 per passenger movement) in order to help offset the City’s cost of providing public services relating to cruise operations. Commencing January 1, 2026, passenger fees (including the portion thereof paid by the Wharves to the City) increase annually at the lesser of 3% or the CPI-U for the Houston-The Woodlands – Sugar Land (Texas) area. Additionally, in 2028, 2033, 2038 and 2043, the Wharves can increase passenger fees (including the portion thereof paid by the Wharves to the City) up to 5% (i.e., more than the limits on annual increases), if Wharves determines that market conditions so warrant. CCL guarantees a minimum of \$6,060,000 in passenger fees annually. This annual minimum will increase to \$7,070,000 in December 2024.

The Wharves is completing a project to expand and improve Cruise Terminal No. 25 at an estimated cost of approximately \$57 million, in order to accommodate the *CARNIVAL JUBILEE* and similarly-sized cruise ships. Approximately 83.33% of this cost will be repaid using a “Capital Cost Recovery Charge” (“CCRC”) paid on a per-passenger movement basis by CCL passengers. The CCRC is paid in addition to passenger fees. The CCRC is calculated by amortizing 83.33% of the project cost over a 17-year term at 5% interest, to yield an annual recovery amount. The annual recovery amount is then divided by the estimated number of passenger movements for each upcoming each year, to yield the CCRC. CCL passengers currently pay a CCRC \$2.00 per passenger movement. The CCRC will be adjusted when Wharves and CCL agree on a final cost for this project. Wharves will then continue to charge the CCRC until the entire recoverable amount is recovered with interest during the 17-year term. CCL guarantees payment of the annual recovery amount.

Specifically, the Second Amendment referred to above provides that the “Capital Recovery Cost” is 83.33% of the total cost of the project. The Capital Recovery Cost is amortized over a 17-year period at 5% interest, to yield an “Annual CCRC Guaranteed Payment.” There is a true-up at the end of each year if actual CCRC payments are less than, or exceed, the Annual CCRC Guaranteed Payment, and the CCRC is adjusted accordingly for subsequent years. If the final cost of the project is different from the estimated amount of \$53 million provided in the Second Amendment, the Capital Recovery Cost, the Annual CCRC Guaranteed Payment, and the CCRC will be adjusted accordingly.

In 2023, the Wharves’ revenues received from CCL totaled \$13,541,710. The Wharves also received \$1,108,955 in revenues in 2023 from CCL’s sister brand, Princess Cruise Lines. (See “APENDIX A - Table 4 - Ten Largest Revenue Generating Customers (Calendar Year 2023)” herein).

Royal Caribbean Cruises, Ltd. On December 12, 2019, the Wharves entered into a Ground Lease with Galveston Cruise Terminal, LLC (“GCT”). GCT is jointly owned by Royal Caribbean Cruises, Ltd. (“RCL”) and Ceres Terminals Holdings, LLC. Under the Ground Lease, GCT leased 10 acres adjacent to Pier 10 on the Port’s east end and constructed a 160,000 square foot cruise terminal and related facilities thereon (“Cruise Terminal No. 10”). RCL commenced cruise operations at this new terminal in November 2022, at which time, a 20-year Primary Term of the Ground Lease also commenced, which will be followed by four optional 10-year Extension Terms, exercisable at GCT’s election. GCT pays Wharves Base Rent of \$4,000,000 per year, which increases annually by 1.5%, commencing in November 2028. Wharves also shares in Passenger Charges that GCT charges RCL, as follows:

November 2022 – November 2032 – Wharves receives 5% of GCT Passenger Fees

November 2032 – November 2042 – Wharves receives 15% of GCT Passenger Fees

November 2042 – November 2052 – Wharves receives 25% of GCT Passenger Fees (if Extension Term is exercised)

November 2052 – November 2062 – Wharves receives 35% of GCT Passenger Fees (if Extension Term is exercised)

November 2062 – November 2082 – Wharves receives 45% of GCT Passenger Fees (if Extension Terms are exercised)

The Ground Lease also provides that RCL will receive 5% of the parking revenues generated by the Wharves' parking facility servicing Cruise Terminal No. 10 during the first 10 years of the Primary Term, and 10% of those same parking revenues thereafter.

Additionally, GCT agreed to pay the City a passenger fee of \$0.25 per passenger movement, to offset the City's costs relating to the cruise industry, which commenced in November 2022.

In 2023, the Wharves' revenues received from RCL and GCT totaled \$7,031,737, after deducting Wharves' payment of parking revenues to GCT in 2023, which totaled \$146,448.

Disney Cruise Line. The Wharves entered its current Operating Agreement on November 1, 2018, which was amended by a First Amendment dated September 30, 2022. Disney operates seasonal cruises from the Port, generally between November and January. This Operating Agreement has a ten year Primary Term, followed by two optional 5-year Renewal Terms, exercisable at Disney's option. For the November 1, 2023 – October 31, 2024 Operating Year, Disney has scheduled 26 cruises from the Port. Disney has agreed to conduct at least 26 cruises from the Port during each subsequent Operating Year for the balance of the Primary and Renewal Terms. For the November 1, 2023 – October 31, 2024 Operating Year, Disney is paying passenger fees totaling \$17.91 per passenger movement. Additionally, Disney pays the City a passenger fee of \$0.25 per passenger movement commencing in that Operating year. These passenger fees will increase annually by 3.5% in subsequent operating years; provided, however, that on November 1, 2028 and every fifth year thereafter, the annual increase can be up to 5%. Disney guaranteed a minimum of 96,000 passenger movements for the November 1, 2022 – October 31, 2023 Operating year, and a minimum of 104,000 passenger movements for subsequent operating years. In 2023, the Wharves' revenues received from Disney totaled \$2,311,872.

Parking. Parking revenues are some of the most significant Wharves revenues related to cruise operations. The Wharves owns and operates parking lots (1) at Harborside and 29th Street, (2) on the north side of Harborside at 33rd Street, (3) in the "Shearn Moody Parking Garage" on the southeast corner of 25th Street and Harborside Drive, (4) "VIP Parking" immediately south of Cruise Terminal No. 28, and (5) between Cruise Terminal No. 10 and Harborside Drive. Additionally, the Wharves leases land from Burlington Northern Santa Fe Railroad and operates a parking lot on the south side of Harborside at 33rd Street. The Wharves has been actively studying the development of more parking lots or structures. These parking lots serve cruise ship passengers. The Wharves provides transportation from the remote parking lots to the cruise ship terminals. The Series 2024B Bonds will fund a new multistory parking garage with a capacity of approximately 1,600 vehicles, adjacent to the new Cruise Terminal No. 16 being funded by the Series 2024A (AMT) Bonds.

In 2023, the Wharves provided parking for 210,665 vehicles, which generated \$22,758,272, which included revenue generated by the parking facility servicing Cruise Terminal No. 10. The Wharves reasonably expects parking revenues to reach approximately \$27,000,000 in 2024, during which this new parking facility will have been in operation for a full year.

Cruise Terminal Access Fees. The Wharves also derives revenue in the form of "Access Fees" paid by commercial shuttle vans, buses, limousines, transportation network vehicles and other commercial passenger vehicles which access Port property while transporting cruise passengers. In 2023, Wharves revenues from these Access fees \$1,823,513.

Planned Demolition of Grain Elevator

Prior to January 31, 2024, one grain elevator operated at the Wharves. The elevator was leased to and operated by Archer-Daniels-Midland Company ("ADM"). However, due to factors such as changes in global grain demand, activity at the grain elevator slowly diminished over time. ADM's lease term was shortened by mutual agreement and formally terminated on January 31, 2024, The Wharves is developing plans to remove the grain elevator and develop up to 20 more acres of land for other cargos, generating additional revenues.

Shipyards Facilities

Gulf Copper. In 1993 the Wharves purchased the shipyard facilities on Pelican Island from Todd Shipyards Corporation. In May 1995 a five year lease of the facility was executed with PMB Engineering Inc., a division of Bechtel Corporation. Effective November 1, 1997 PMB Engineering assigned their lease to First Wave Marine / Newport Marine Fabricators, Inc. ("Newpark"). As part of the assignment the lease was extended for fifteen years with 28 three-year options. Newport parent corporation First Wave Marine declared Chapter 7 bankruptcy in 2004 and was released from the lease by the Port. A new tenant, Gulf Copper and Manufacturing Corporation ("Gulf Copper"), entered into a 35 year lease with the Port in May 2005. Gulf Copper pays annual base rent of \$500,000, adjusted annually for inflation, with provision for additional payment of percentage rent based on a formula indexed to Gross Revenue. For large or multiple projects, Gulf Copper employs approximately 250-300 contractors.

Bulk Cargo Terminal- Pier 35

CHS Inc. (“CHS”) has leased warehouse and certain other property adjacent to Piers 35 and 36 from the Wharves for a dry bulk cargo unloading facility.

The Bulk Cargo Terminal at Pier 35 was previously leased to Imperial Holly Corporation (“Imperial”). Imperial discontinued its sugar import operations at the Wharves in 2002 as a result of cessation of sugar refining operations at its Sugar Land, Texas refinery. Although the company continued to make base rent payments, the import cargo warehouse and other assets at the terminal were unused and the Port did not have the benefit of vessel dockage and cargo wharfage fees. The chief source of revenue from the Bulk Cargo Terminal was not the payment of rent, but the collection of wharfage and dockage fees from its operation. The Wharves negotiated a termination of the Imperial lease, which involved the payment of a termination fee. Thereafter, River Materials, LLC (“River Materials”) leased the Bulk Cargo Terminal. The River Materials lease, which was effective August 1, 2003, was for fifteen years with seven three-year renewal options. Concurrent with the termination of the Imperial lease, River Materials purchased the cargo rail gantry cranes on Pier 35 and other trade fixtures from Imperial. River Materials was obligated to pay \$30,000 annual rent, subject to inflationary adjustment beginning on the sixth anniversary of the effective date. River Materials also paid, in addition to rent, a “Cargo Throughput Fee” on each ton of cargo moved through the terminal. The Cargo Throughput Fee was developed from a combination of vessel Dockage and Cargo Wharfage and replaced both fees. A mechanism was negotiated for Cargo Throughput Fees to be increased annually by agreement of the Port and the tenant. Failing agreement of the parties, the fee is adjusted in a manner similar to that in which annual rental fees are adjusted. River Materials used the facility as a general agri-bulk facility, handling a variety of dry bulk materials, including fertilizer products. The River Materials lease was assigned to one of its primary customers, a company called Agriliance LLC (“Agriliance”, a JV between CHS and Land O’Lakes, Inc.), and the lease was amended effective August 3, 2004. Agriliance agreed to invest a minimum of \$6,000,000 in development and construction of a new bulk materials warehouse on Pier 36 and in upgrading assets at the terminal. Agriliance also purchased from River Materials the cargo gantry cranes on Pier 35 and the other trade fixtures that River Materials had purchased from Imperial. Agriliance built a new dry bulk materials warehouse, specifically designed to receive urea and other fertilizer products, on Pier 36. The warehouse was built to new building code standards and, significantly, did not sustain any ingress of water or flood damage resulting from the storm surge that impacted Galveston Island during Hurricane Ike in September 2008. The Agriliance lease was again assigned, effective September 1, 2007, to CHS Inc. when the JV between CHS and Land O’Lakes was terminated and Agriliance ceased operating. CHS continues to pay, in addition to monthly rent, the terminal cargo throughput charges for bulk materials handled during each month. The lease contains a “Minimum Annual Guarantee” (“MAG”) for payment of Cargo Throughput Fees. The rates for throughput charges range from \$0.51 to \$0.71 based upon the quantity of the cargo in short tons (2,000 pounds) and are subject to inflationary adjustments in the same manner as rent. The CHS lease, including the exercise of extensions for all renewal terms, runs through the end of July 2039. CHS has had recent discussions with the Port and with the Port’s terminal switching railroad, Galveston Railroad, L.P., about construction of additional rail track dedicated for use of the CHS Terminal. The additional track would allow for the staging of an additional 150 rail hopper cars to increase throughput and efficiency at the terminal. Discussions are also ongoing between the Port and CHS regarding CHS interest in leasing additional property from the Port to allow for construction of additional cargo storage facilities. These facilities would allow for increased throughput of cargo at the terminal and also diversification of fertilizer products handled at the terminal. Additional track construction was completed in 2012, and berth improvements were completed in 2022. In 2023, the facility generated approximately \$710,000 in revenues to the Wharves.

Wallenius Wilhelmsen Lines

Effective October 1, 2009, Wallenius Wilhelmsen Logistics Americas (“WWL”) entered into a ten year agreement containing one five year extension to utilize uplands now located generally between Piers 37 and 40, on the Port’s west end. The agreement, which is not a lease, but an agreement called a “Terminal Services and Rate Agreement”, contains an escalation clause which will increase revenue to the Port by the CPI with the first escalation occurring in 2014. WWL utilizes the Port as its Gulf of Mexico Hub Operation to export Roll-On/Roll-Off cargo comprising of heavy equipment, trucks, and automobiles, High and Heavy and Project shipments. Caterpillar utilizes this operation as one of its major export and import locations and ocean carriers. The Port derives its revenue from WWL through vessel Dockage and cargo Wharfage fees. The Terminal Services and Rate Agreement provides a “Minimum Annual Guarantee” (MAG) of revenue from the agreement of \$600,000 beginning in the third year of the agreement, escalating to \$675,000 in the fourth year of the agreement, then to \$750,000 in the fifth year of the agreement. After that the MAG is escalated by a formula defined in the agreement. WWL is the world’s largest Roll-On/Roll-Off ship operating company. For 2023, this operation generated approximately \$2,080,000 in total revenues.

Additionally, the Wharves entered into a separate agreement with a subsidiary of WWL to operate in an area immediately east of Cruise Terminal No. 10. In this area, WWL imports Roll-On/Roll-Off cargo – namely BMW and other automobiles, and operates a Vehicle Processing Center in which computer software is loaded and the automobiles are made ready for transport to inland destinations in Texas and surrounding states. This operation is governed by an Operating Agreement dated October 13, 2015. The Operating Agreement has a ten year Primary Term, followed by two 5-year Renewal Terms, exercisable at WWL’s option. In addition to wharfage and dockage, WWL pays rent – currently \$39,214 per month, with an annual increase based on CPI-U. WWL also pays the Wharves \$30,000 per month to reimburse the Wharves for capital costs incurred in developing the facility. These payments will continue until November 2025. For 2023, this operation generated approximately \$1,263,892 in total revenues.

Pelican Island Fuel Terminal

Pelican Island Storage Terminals Inc. (“PISTI”), also known and marketed as Galveston Terminals, Inc. (“GTI”), operates a bulk liquid terminal on Pelican Island that originally supplied bunker fuel to a variety of vessels, but which has evolved into a bulk liquid storage and

transshipment facility. Primary products handled are Carbon Black Feedstock and Heavy Fuel Oils. With the increased depth of the Channel to 45 feet along with the increased depth at these facilities, larger ships are utilizing PISTI. The Wharves presently leases the former Seabee Dock facilities and approximately 54 acres of land to PISTI pursuant to the terms of a lease initially entered into in February 1991. Pursuant to a second amendment to the lease, PISTI is not required to pay minimum rent, provided that PISTI makes certain maintenance, repairs and replacements to the leased premises. Operating revenues are generated for the Wharves in the form of dockage fees and cargo throughput fees. In addition to the facilities that are presently leased from the Wharves, PISTI currently owns other property on Pelican Island. The terminal in total covers 97 acres. This property has 22 storage tanks with total capacity of approximately more than 1,600,000 barrels. PISTI's facilities have been operational since May 1981 and produced approximately \$1.1MM of operating revenues and rents for the Wharves in 2010. With cost of living adjustments this is expected to increase in future periods. The first of five 10-year renewal terms was executed in 2011, followed by the second in 2021. The last renewal term expires on January 31, 2061. PISTI continues to market the facility and anticipates future growth, including construction of additional storage capacity and possible addition of a second tanker berth.

For 2023, PISTI's liquid bulk operations generated \$568,566 in revenues.

General Dock Operations and Lay Dockage

The Wharves has approximately 18 berths, consisting of 12,280 linear feet, which are not otherwise committed for other operations discussed herein. These areas are generally used to dock oil drilling rigs, seismic vessels, lay vessels that are in port for repairs or inspection, or vessels transporting cargo other than grain, containers, cane sugar, bananas or railcars. These facilities are generally located in the areas of Piers 33-34 and Piers 36-41.

A growing source of revenues for the Wharves is "Lay Dockage." Lay Dockage charges apply to vessels that dock at Port facilities but do not load or unload cargo or passengers. Rather, such vessels may come into Port for crew changes, repair work, certifications, bunkering, or similar needs. In 2023, the Wharves' Lay Dockage revenues totaled \$5,677,538.

Rental Operations

The Pier 21 Project. The Wharves has entered into a lease and development agreement with MBP Corporation ("MBP") for the lease of 10 acres adjacent to Pier 21. The term of the agreement is for 25 years, expiring in the year 2015, with five 10-year renewal options. MBP assigned its interest in this lease to Landry's, LLC on February 28, 2022. Landry's, LLC pays rent equal to the greater of (1) 2.5% of Gross Sales or (2) Minimum Rent. The Minimum Rent is currently \$225,000; however, Landry's, LLC is obligated to commence construction of additional improvements of a cost of at least \$1,000,000 by February 28, 2026, or the Minimum Rent will increase to \$500,000. Current improvements include a 42-room Harbor House Hotel and two restaurants – Fisherman's Wharf and Willie G's. A small marina is located immediately north of the restaurants.

The Historic 1877 Iron Barque ELISSA, a national historic landmark, is docked in the slip at Pier 22. The Texas Seaport Museum, also located at Pier 22, examines the working of the City's 19th century port and its role in local and national history and the "Ocean Star" Offshore Energy Center and Rig Museum offers a look at what it's like on an offshore drilling rig.

Other Operations

Pier 34 Terminal. The Pier 34 Terminal is a General Cargo, Break Bulk and Project Cargo terminal located in the Port's "West End." The terminal area extends along the Port's waterfront in the area of a former warehouse/transit shed that was demolished in 2003 extending from Pier 30 to Pier 33 and then along the wharf at Pier 34 to the area where the cargo conveyors for the CHS Inc. Bulk Terminal are sited at Pier 35. Current overall size of the Pier 34 Terminal and its uplands is approximately 18 acres. There is a small transit shed of approximately 45,000 square feet in area located on the middle-eastern side of the terminal which is referred to as "Plant 14". All of the remaining area is mostly paved in either concrete or asphalt. The Pier 34 Terminal resides within the Port's Foreign-Trade Zone No. 36. The terminal and its Plant 14 building has also recently been used in the latter half of 2011 for the export of livestock, mostly pregnant dairy cattle, to Russia. This terminal is served primarily by one of the Port's licensed stevedores, which company has several large mobile cranes capable of heavy lifts, and one crane capable of lifting up to 300 short tons. The terminal is also served by the Port's switching railroad, Galveston Railroad, L.P. The Pier 34 Terminal is one of only two remaining public terminals not specifically dedicated or controlled by only one customer. The terminal is considered to be a "throughput" terminal and is not used for long-term storage of cargoes. It continues to be used for wind energy imports, livestock exports, general bulk mineral commodity imports and other ocean shipping and domestic barge activity.

Pier 37 Terminal. The Pier 37 Terminal is also located in the Port "West End" and is located on a finger pier just to the west of the CHS Inc. Dry Bulk Cargo Terminal on Pier 35-36. This terminal is approximately five acres in size and has a 75,000 square foot warehouse/transit shed located on the pier. The pier is accessible only on its eastern side and is also rail served. The slip on that side of the pier has an approximate water depth of 25 feet. Smaller vessels are worked at that terminal due to the water depth restrictions in the slip.

Pier 39-40 Roll-On/Roll-Off Terminal. The Pier 39-40 Terminal is located on a large triangular-shaped finger pier located immediately west of the Pier 37 Terminal. Its size is approximately 12 acres. This terminal has been primarily used as a Roll-On/Roll-Off cargo terminal since 2007. Current shipping line customers utilizing this terminal are WWL (discussed above), K-Line Ro-Ro and ARRC Ro-Ro. The terminal is served by an "upland" area to the south of the terminal comprised of approximately 6 acres, as well as a 20 acre area located to

the west of Pier 41, which the Port leases from the Union Pacific Railroad. The Port derives revenue from this facility primarily through ship Dockage Fees and cargo Wharfage Charges.

Terminal Railway. By agreement dated October 20, 1987, the Wharves sold its terminal railroad to Galveston Railroad, Inc. (“GRI”), a new switching railroad owned by Rail Management, Inc., a short line railroad holding company based in Florida. The company name was later changed to Galveston Railroad, L.P. (“GRLP”). The Wharves continues to own track and other rail property which is leased to GRLP. Pursuant to the terms of the lease, GRLP is obligated to maintain the Wharves’ property and to provide rail services to users of the Wharves’ facilities. In mid-2005, Rail Management, Inc. was acquired by the railroad holding company, Genessee & Wyoming “G&W”), based in Jacksonville, Florida, as part of a larger acquisition of 14 short line and switching railroads around the United States. GRLP was placed under the auspices of a G&W subsidiary called Rail Link. While GRLP belonged to Rail Management, Inc., the lease payments consisted of an initial fixed annual payment of \$88,359, plus additional per car payments that increased as the level of business increased. The lease provided for certain events of default and cures for such events of default. The term of the lease was indefinite, subject to voluntary termination provisions, and was renegotiable after 40 years. As a result of the change of ownership and other issues that were brought to light by litigation with Rail Management in 2005 and 2006, a new lease between the Wharves and GRLP was negotiated and made effective on August 1, 2006. A new “Base Rent” amount of \$100,000 per Lease Year was put in place, such annual rental to be subject to adjustment each year in accordance with a formula in the lease. Annual Base Rent may fluctuate from time to time but may never be less than the amount of \$100,000. In addition to Base Rent, the Wharves receives at the end of each Lease Year from GRLP an additional payment of “Percentage Rent”, which is 20% of all Gross Revenues of GRLP in that preceding Lease Year. The term of the lease with all renewal term extensions is 20 years.

Railroad business revenues at the Wharves’ Facilities is for the most part directly related to the level of bulk commodity export shipments (including grain, plastic pellets and other bulk cargo) conducted by the Port. In years when bulk commodity export tonnage is down, railroad business revenues will be lower. In years when grain shipments are up, the railroad business will be up. Net income from the railroad operation is allocated to the various profit centers based on the railcars generated by each profit center. Thus, the net income of the railroad operation is reflected in the net profits of the various profit centers.

GRLP provides terminal connections to the rail systems of both U.S. Western Class One Line-Haul railroad companies BNSF Railway Company (formerly known as Burlington Northern Santa Fe Railroad) and the Union Pacific Railroad.

Pier 19. The Wharves currently generates dockage revenues from approximately 40 shrimp boats and various day fishing vessels. It also receives rentals from the lease of space to three seafood processing plants and a Katie’s Seafood restaurant in the Pier 19 area.

T&T Marine Salvage, Incorporated. T&T Marine Salvage, Incorporated (“T&T”) is a company that initially had assumed small leased premises on Pier 10 in 2007. When WWL moved to the Pier 10 Terminal and the Terminal Services and Rate Agreement gave exclusive use of the Pier 10 Terminal to WWL, a new lease was negotiated for a property on Pelican Island called “The Old Navy Dock”. The new lease for the Old Navy Dock and its upland area was effective September 1, 2008. A subsequent amendment to the lease required that T&T invest a minimum of \$1.4 million in improvements to the property, which investment has been made to date. T&T has an initial lease term of 10 years, with three ten-year renewal term extensions. T&T pays rent of \$10,000 per month over the first 5 years of the lease, \$18,000 per month over the second five years of the lease and then an escalated rent based on a formula in the lease using increases of the CPI each year after that.

Employees

As of March 31, 2024, the Wharves employed 119 full-time persons. None of the Wharves’ employees are presently covered by collective bargaining agreements. At the present time, there are no employee law suits or arbitration cases that are threatened or pending, except as may be noted in the litigation section below. See “– Litigation”. Additionally, the Wharves has not been subject to any labor grievances in the last ten (10) years.

Pension Plan

Substantially all of the Wharves’ employees are covered by a defined benefit pension plan and a defined contribution plan (as an alternative to social security). Full-time regular employees, dependents and eligible retirees and dependents are covered by the health benefit plan.

The defined benefit plan was closed to new employees as of December 31, 2009. Effective for employees hired after December 31, 2009 the Wharves provides those employees participation in a defined contribution plan.

Descriptions of these plans are included in the footnotes to the audited financial statements. See APPENDIX D – Annual Comprehensive Financial Report of the Wharves for the Fiscal Year Ended December 31, 2023.

Insurance

The Wharves, or its lessees, presently carries insurance upon substantially all of the Wharves’ Facilities in operation. Such insurance coverage generally insures the Wharves against physical loss or damage in such amounts, with such deductibles, with such exclusions or portions of facilities, and against such hazards as it deems appropriate. Current coverage includes all risk for physical loss or damage to property of the Wharves (including all docks, buildings, and movable equipment). The Wharves current combined limit is \$50,000,000 subject to a deductible of \$100,000 for each occurrence (except \$10,000 for office contents, accounts receivable, transit, mobile equipment,

and conveying facilities) with a 5% of the value per unit of insurance at the time the loss occurs for the peril of a named windstorm, subject to a minimum of \$1,000,000 and a maximum of \$5,000,000 in total for all units per occurrence. Business interruption is included in the total amount up to \$25,000,000.

The property insurance limit is \$50,000,000 per occurrence (\$75,000,000 in case of terrorism). The Wharves carried these limits in 2023 and 2022 as well.

The Wharves carries commercial general liability, public official's liability, police professional liability, business automobile liability and umbrella liability insurance in conjunction with the operation of risks of whatever nature, including worker's compensation.

The independent auditor for the Wharves reviews insurance coverage annually and reports to the Board on the adequacy of such coverage.

Litigation

The Wharves is subject to claims and lawsuits arising from the normal course of business. The Wharves' legal counsel routinely evaluates such claims and management may make provision for probable losses if deemed appropriate. There were no provisions recorded as of December 31, 2021, December 31, 2022 and December 31, 2023.

With respect to litigation, it is the opinion of management and Wharves' legal counsel that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Wharves.

Regulation

There are various regulatory agencies that may affect the operations of the Wharves. The Wharves' port tariffs are required to be publicly filed and accessible by the Federal Maritime Commission (the "FMC") for information purposes, but the FMC does not normally act to approve or disapprove such tariffs upon filing. The FMC can institute an investigation, upon its own motion or upon complaint by an aggrieved party, of any tariff provision that has the appearance of unreasonableness or unlawfulness and, after completion of the investigation, can order the tariff provision canceled or modified.

All leases and agreements with steamship lines or their agents and with all terminal operators serving ocean carriers were in the past filed with the FMC and generally required official approval, if falling under Section 15 of the Shipping Act, before they could become effective. This has changed due to subsequent amendment of the Shipping Act.

In addition, regulations of the Army Corps of Engineers, the Environmental Protection Agency, the Department of Interior, the Department of Commerce, the National Oceanographic & Atmospheric Administration, the Department of Transportation, Department of Homeland Security (U.S. Coast Guard), and the Occupational Safety & Health Administration ("OSHA") as well as regulations of local and state governmental bodies, may affect the operations of the Wharves.

Additional Projects Funded with Grants

On September 28, 2023, the Wharves received a grant of \$42.3 million from the Texas Department of Transportation for three separate projects, including a major project designed to improve cargo area bulkheads, wharves and slip fills for the West End. Each project includes a 25% local match which is being funded by Wharves from operating funds. These three projects are described as follows:

1. The "West End Cargo Expansion Project" includes the construction of a new 1,340-foot berth, with the installation of closure walls, existing bulkhead replacement, dredging, concrete paving between the existing bulkhead and new bulkhead walls, fenders, bollards and utilities. The estimated cost of this project is \$50,112,659.00.
2. The "Old Port Industrial Internal Roadway Project" includes Phase 3 of the Port's Cruise Corridor Project, which includes improvements to Old Port Industrial Road between 33rd and 37th Streets. The estimated cost of this project is \$3,150,000.00.
3. The "Cruise Terminal Walkway Circulation Improvements Project" includes improvements to the existing elevated walkway from the Shearn Moody Plaza Garage to Cruise Terminal No. 25 at the Port, including air conditioning, elevators, escalators, structural repairs and pedestrian improvements at both ends of the walkway, so that the walkway may be used by cruise passengers and members of the public. The estimated cost of this project is \$4,850,000.00.

The grant and local match portions are summarized as follows, based on the estimated project costs:

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| <u>Project Name</u> | <u>Total Project Cost</u> | <u>Grant Amount (from TXDOT)</u> | <u>25% Local Match (plus overruns) (To Be Paid by Wharves)</u> |
|--|---------------------------|--------------------------------------|--|
| West End Cargo Expansion Project | \$50,112,659 | \$35,981,933 | \$14,130,726 |
| Old Port Industrial Internal Roadway Project | \$3,150,000 | \$2,495,187 | \$654,813 |
| Cruise Terminal Walkway Circulation Improvements Project | <u>\$4,850,000</u> | <u>\$3,847,592</u> | <u>\$1,002,408</u> |
| Total Project Costs | \$58,112,659 | \$42,324,712 | \$15,787,947 |

INVESTMENTS

The Wharves invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City and the Wharves' Board. Both State law and the Wharves' investment policies are subject to change.

Legal Investments

If consistent with Federal and State laws and with any depository services contract between the Wharves and a designated depository the Wharves may purchase, sell or invest its funds or funds under its control in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (4) 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 "AAA" or its equivalent; (5) a certificate of deposit or share certificate issued by a depository institution that has its main office or a branch office in the State of Texas that is (i) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, (ii) secured by obligations that are described by the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "PFIA"), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by the PFIA; or (iii) secured in any other manner and amount provided by law for deposits of the Wharves; (6) certificates of deposit invested under the following conditions: (i) the funds are invested by the Wharves through a depository institution that has its main office or a branch office in Texas and that is selected by the Wharves; (ii) the depository institution selected by the Wharves arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Wharves; (iii) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (iv) the depository institution selected by the Wharves acts as custodian for the Wharves with respect to the certificates of deposit issued for the account of the Wharves; and (v) at the same time that the funds are deposited and the certificates of deposit are issued for the account of the Wharves, the depository institution selected by the Wharves receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the Wharves through the depository institution selected under the Wharves; (7) fully collateralized repurchase agreements, if the repurchase agreement (i) has a defined termination date, (ii) is secured by obligations described by the PFIA, and (iii) requires the securities being purchased by the Wharves to be pledged to the Wharves, held in the Wharves' name, and deposited at the time the investment is made with the Wharves or with a third party selected and approved by the Wharves, and (iv) is placed through a primary government security dealer, as defined by the Federal Reserve, or a financial institution doing business in State; (8) certain bankers' acceptance, if the bankers' acceptance has a stated maturity of 270 days or fewer from the date of its issuance, will be, in accordance with its terms, liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank, and is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency; (9) commercial paper, if the commercial paper has a stated maturity of 270 days or fewer from the date of its issuance, and is rated not less than "A-1" or "P-1" or an equivalent rating by at least two nationally recognized credit rating agencies or one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; (10) a no-load money market mutual fund that (i) is registered with and regulated by the Securities and Exchange Commission (the "SEC"), (ii) provides the Wharves with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a, et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1, et. seq.), (iii) has a dollar-weighted average stated maturity of 90 days or fewer, and (iv) includes in its investment objectives the maintenance of a stable net asset value of \$1.00 per share; (11) a no-load mutual fund registered with the SEC, with an average weighted maturity of less than two years invested exclusively in obligations listed in Subchapter A of the Act, continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent, and which conforms to the requirements of the PFIA relating to the eligibility of investment pools to receive and invest funds of investing entities; (12) a guaranteed investment contract, if the guaranteed investment contract has a defined termination date, is secured by obligations described by the PFIA, excluding those obligations described by the PFIA, in an amount at least equal to the amount of bond proceeds invested under the contract, and is pledged to the Wharves and deposited with the Wharves or with a

third party selected and approved by the Wharves; and (13) investment pools if so authorized by specific resolution of the governing body of the Wharves, which must strictly comply with all applicable provisions of the PFIA.

The Wharves may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than “AAA” or “AAAm” or an equivalent by at least one nationally recognized rating service. The Wharves may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the Wharves retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Wharves must do so by order, ordinance, or resolution.

The Wharves is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the Wharves is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for Wharves funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with Wharves funds, and a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All Wharves funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each funds’ investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, Wharves 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.” At least quarterly, the investment officers of the Wharves shall submit an investment report: (1) detailing the investment position of the Wharves on the date of the report, (2) prepared by the investment officer of the Wharves, (3) signed by the investment officer of the Wharves, (4) containing a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the: (a) beginning market value for the reporting period, (b) additions and changes to the market value during the period, (c) ending market value for the period, and (d) fully accrued interest for the reporting period, (5) stating the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested, (6) stating the maturity date of each separately invested asset that has a maturity date, (7) stating the account or fund or pooled group fund of the Wharves for which each individual investment was acquired, and (8) stating the compliance of the investment portfolio of the Wharves as it relates to (a) the investment strategy expressed in the Wharves’ investment policy, and (b) Texas law. No person may invest Wharves funds without express written authority from the Wharves’ Board.

Additional Provisions

Under Texas law, the Wharves is additionally required to (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Wharves’ Board ; (4) require the qualified representative of firms offering to engage in an investment transaction with the Wharves to: (a) receive and review the Wharves’ investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Wharves and the business organization that are not authorized by the Wharves’ investment policy (except to the extent that this authorization (i) is dependent on an analysis of the makeup of the Wharves’ entire portfolio, (ii) requires an interpretation of subjective investment standards, or (iii) relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the Wharves and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Wharves’ investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the Wharves’ monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Wharves.

Annual Comprehensive Financial Report

In response to the Annual Comprehensive Financial Report for Fiscal Year ended December 31, 2021, the Board received correspondence from its auditors at the time, RSM US LLP (the “2021 Auditor”), that it received certain additional information after they delivered their audit letter on June 23, 2022. In particular, the supplemental information related to a letter received by the Texas Department of Emergency Management relating to certain Hurricane Ike grants, and the disallowance of certain costs under such grants. The Wharves’ initial position determined that Hurricane Ike-related liability did not currently exist due to pending appeals filed with FEMA. As a result, a contingent liability as of December 31, 2020, related to Hurricane Ike was not recorded. Once identified, Wharves’ management agreed that the amount in question was known and recorded the liability as of December 31, 2021. As a result of the supplemental information, the 2021 Auditor reissued its report and noted a material weakness associated with internal communication within the administration of the Wharves. In response to this material weakness, the administration of the Wharves implemented internal controls related to the recognition of a liability related to Hurricane Ike. All Hurricane Ike related correspondence must include a copy to the Chief Financial Officer or his designee for review, in addition to the Wharves’ Risk Management Department.

The 2021 Auditor’s initial agreement with the Wharves was for a three-year term. After extending the agreement for one year, the Wharves requested proposals from various firms. The Board ultimately selected FORVIS LLP to serve as the Wharves’ independent auditor. FORVIS, LLP has not been engaged to perform, and has not performed, since the date of its report included herein any procedures on the financial statements addressed in that report. FORVIS, LLP also has not performed any procedures relating to this Official Statement.

See “Appendix D – Annual Comprehensive Financial Report of the Wharves for the Fiscal Year Ended December 31, 2023” for a description of the Wharves’ current investments.

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

Tax Exemption

In the opinion of Bracewell LLP, Houston, Texas, Bond Counsel, under existing law, interest on the Series 2024A Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) except for any period during which a Bond is held by a person who is a “substantial user” of the facilities financed with the proceeds of the Bonds or a “related person” of such a “substantial user,” each within the meaning of section 147(a) of the Code, and (ii) is an item of tax preference for purposes of the alternative minimum tax on individuals. Further, in the opinion of Bond Counsel, under existing law, interest on the 2024B Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Code and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The City has covenanted in the Indenture that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Indenture pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the City and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the City and such parties, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Indenture or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code imposes an alternative minimum tax on the “alternative minimum taxable income” of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual’s regular income tax. Generally, the alternative minimum taxable income of an individual will include items of tax preference under the Code, such as the amount of interest received on “private activity bonds” issued after August 7, 1986. Accordingly, Bond Counsel’s opinion will state that interest on the Series 2024A Bonds is an item of tax preference for purposes of the alternative minimum tax on individuals.

Bond Counsel will express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Indenture upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel’s ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or

circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer, and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds, regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

Collateral Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

An "applicable corporation" (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its "adjusted financial statement income" (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted financial statement income," ownership of the Bonds could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds.

Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

If the issue price of a maturity of the Bonds exceeds the stated redemption price payable at maturity of such Bonds, such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. 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 that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Accounting Treatment of Original Issue Discount

If the issue price of a maturity of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the "OID Bonds"), the difference between (i) the amount payable at the maturity of each OID Bond, and (ii) the initial offering price to the public of such OID Bond constitutes original issue discount with respect to such OID Bond in the hands of any owner who has purchased such OID Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such OID Bond equal to that portion of the amount of such original issue discount allocable to the period that such OID Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX MATTERS – Tax Exemption", "TAX MATTERS – Additional Federal Income Tax Considerations – Collateral Tax Consequences" and "TAX MATTERS – Tax Legislative Changes" generally apply and should be considered in connection with the discussion in this portion of this Official Statement.

In the event of the redemption, sale or other taxable disposition of such OID Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such OID Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such OID Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (ii) all of the OID Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the OID Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each OID Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such OID Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of OID Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of OID Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such OID Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such OID Bonds.

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Underwriters' written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the City shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Texas Public Funds Investment Act, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the City and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix E.

Though it represents the Underwriters and the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Bonds. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions “THE BONDS” (except under the subcaptions “Payment Record” and “Sources and Uses of Proceeds”) and “CONTINUING DISCLOSURE OF INFORMATION” (except under the subcaption “Compliance With Prior Undertakings”) and such firm is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Indenture; further, Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and subcaptions “REGISTRATION, TRANSFER AND EXCHANGE”, “TAX MATTERS”, “REGISTRATION AND QUALIFICATION OF BONDS FOR SALE”, “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS”, “LEGAL MATTERS” (excluding the last sentence of the second paragraph thereof) and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately describe the laws and legal issues addressed therein. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Cantu Harden Montoya LLP and Greenberg Traurig, LLP, both of Houston, Texas. Bond Counsel may represent one or more of the Underwriters from time to time on matters not related to the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

RATINGS

The Bonds have been assigned a rating of “A” by S&P Global Ratings (“S&P”) and “A-” by Fitch Ratings, Inc. (“Fitch”). An explanation of the significance of such ratings may be obtained from S&P and Fitch, respectively.

Each rating of the Bonds reflects only the view of said company at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that each rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P or Fitch, as applicable, if, in the judgment of S&P or Fitch, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

CONTINUING DISCLOSURE OF INFORMATION

In the Indenture, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement while it remains obligated to advance funds to pay the Bonds. Under the agreement, the City, acting on behalf of the Wharves, will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”) via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org, as further described below under “Availability of Information.”

Annual Reports

The City, acting on behalf of the Wharves, will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Wharves of the general type included in Appendix A of this Official Statement under Tables 1 through 5, and in Appendix D. The City, acting on behalf of the Wharves, will update and provide this information within twelve months after the end of each fiscal year ending in and after 2024.

The City, acting on behalf of the Wharves, may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by United States Securities and Exchange Commission Rule 15c2-12 (the “Rule”). The updated information will include the Wharves’ audited financial statements, if the Wharves commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City, acting on behalf of the Wharves, will provide unaudited financial statements by the required time, and will provide audited financial statements when and if an audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the Wharves may be required to employ from time to time pursuant to State law.

The Wharves’ current fiscal year end is December 31. Accordingly, the City, acting on behalf of the Wharves, must provide updated information by the last day of December in each year, unless the Wharves changes its fiscal year. If the Wharves changes its fiscal year, the City, acting on behalf of the Wharves, will notify the MSRB of the change.

Notice of Occurrence of Certain Events

The City, acting on behalf of the Wharves, also will provide timely notices of certain events to the MSRB. The City, acting on behalf of the Wharves, will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten (10) business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (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 the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS

Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City or the Wharves; (13) the consummation of a merger, consolidation, or acquisition involving the City or the Wharves, or the sale of all or substantially all of the assets of the City or the Wharves, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional paying agent/registrant or change of name of the paying agent/registrant, if material; (15) incurrence of a financial obligation of the City or the Wharves, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the City or the Wharves, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the City or the Wharves, any of which reflect financial difficulties.

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City or the Wharves in a proceeding under the United States Bankruptcy Code or in any other proceeding under the state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City or the Wharves, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City or the Wharves. For the purposes of the above describe event notices (15) and (16), the term “financial obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

Notice of Failure to Timely File

The City, acting on behalf of the Wharves, also will notify the MSRB through EMMA, in a timely manner, of any failure by the City or the Wharves to provide financial information or operating data in accordance with the provisions described above.

Availability of Information

All information and documentation filings required to be made by the City, acting on behalf of the Wharves, will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings is provided, without charge to the general public, by the MSRB through its EMMA system at www.emma.msrb.org.

Limitations and Amendments

The City, acting on behalf of the Wharves, has agreed to update information and to provide notices of significant events only as described above. The City 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 is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. The City 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 the Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The continuing disclosure agreement may be amended by the City from time to time 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 City or the Wharves, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreement if the United States Securities and Exchange Commission amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds. If the City so amends the provisions of either of the agreements described above, it shall include with any financial information or operating data next provided in accordance with such agreement an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Compliance with Prior Undertakings

The City has entered into prior undertakings pursuant to which it has agreed to provide certain continuing disclosure information. The City's Annual Comprehensive Financial Report and Continuing Disclosure Report for the fiscal year ended September 30, 2020 were not properly associated with all outstanding CUSIP numbers for certain outstanding debt. The City has since rectified the omission of the

associated CUSIP numbers. Additionally, the City's Annual Comprehensive Financial Report for the fiscal year ended September 30, 2019 was not timely filed.

For additional information, please refer to EMMA's website and www.emma.msrb.org. The City has implemented continuing disclosure procedures to ensure the timely compliance with its annual disclosure and event notice obligations in the future.

UNDERWRITERS

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2024A Bonds from the City at the yields shown on page ii of this Official Statement less an underwriting discount of \$ _____. The Underwriters have agreed, subject to certain conditions, to purchase the Series 2024B Bonds from the City at the yields shown on page iii of this Official Statement less an underwriting discount of \$ _____. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing the Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

Piper Sandler & Co., an underwriter of the Bonds, has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from Piper at the original issue price less a negotiated portion of the selling concession applicable to any Obligations that CS&Co. sells.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the City and to persons and entities with relationships with the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

FINANCIAL ADVISOR

Huntington Securities, Inc. dba Huntington Capital Markets is employed as Financial Advisor to the City. RBC Capital Markets, LLC is employed as the financial advisor to the Wharves in connection with the issuance of the Bonds. The fees for each financial advisor are contingent upon the issuance, sale and delivery of the Bonds. Each financial advisor (collectively, referred to herein as the "Financial Advisor") is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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 City's and the Wharves' records and from other sources which are believed to be reliable, including financial records of the City and the Wharves and other entities which 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 City, that are not purely historical, are forward-looking statements, including statements regarding the City's 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 City on the date thereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein 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 City. 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.

AUTHENTICITY OF FINANCIAL INFORMATION

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

USE OF INFORMATION IN OFFICIAL STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

MISCELLANEOUS

The Ordinance approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the re-offering of the Bonds by the Underwriters.

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APPENDIX A

FINANCIAL INFORMATION REGARDING THE WHARVES

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Table 1 - Statement of Net Position

| | Fiscal Years Ended December 31 ⁽¹⁾ : | | | | |
|---|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
| Assets | | | | | |
| Unrestricted Current Assets | \$ 49,097,161 | \$ 44,360,293 | \$ 34,652,944 | \$ 30,012,668 | \$ 31,810,238 |
| Restricted Current Assets | 15,308,509 | 691,398 | 8,358,880 | 15,327,609 | 17,400,813 |
| Properties and Facilities, Net | 223,823,165 | 172,742,900 | 145,554,303 | 142,291,681 | 145,631,402 |
| Other Assets | 247,232,390 | 202,394,458 | 838,008 | 1,062,113 | 1,261,259 |
| Total Assets | <u>\$ 535,461,225</u> | <u>\$ 420,189,049</u> | <u>\$ 189,404,135</u> | <u>\$ 188,694,071</u> | <u>\$ 196,103,712</u> |
| Deferred outflow of resources | <u>2,152,040</u> | <u>399,996</u> | <u>258,202</u> | <u>363,085</u> | <u>1,177,383</u> |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| (payable from non-restricted assets) | \$ 36,640,261 | \$ 31,860,033 | \$ 21,796,198 ⁽²⁾ | \$ 8,859,598 | \$ 10,219,523 |
| Current Liabilities (payable from restricted assets) | 9,011,623 | 4,555,664 | 5,896,515 | 3,885,000 | 6,773,387 |
| Long Term Debt (net of current position) | 60,502,615 | 16,967,729 | 18,597,202 | 26,597,547 | 28,948,200 |
| Unearned revenues | - | - | 1,079,635 | 1,282,067 | 1,484,498 |
| Net Pension Liability | 3,399,295 | - | 1,460,796 | 1,711,050 | 3,906,450 |
| Total Liabilities | <u>\$ 109,553,794</u> | <u>\$ 53,383,426</u> | <u>\$ 48,830,346</u> | <u>\$ 42,335,262</u> | <u>\$ 51,332,058</u> |
| Deferred inflows of resources | <u>\$ 244,401,001</u> | <u>\$ 207,791,054</u> | <u>\$ 1,765,404</u> | <u>\$ 1,427,451</u> | <u>\$ -</u> |
| Net Position | | | | | |
| Net investment in capital assets | \$ 152,289,923 | \$ 145,377,881 | \$ 126,137,940 | \$ 119,342,702 | \$ 117,664,207 |
| Restricted | 5,807,149 | 588,537 | 1,279,821 | 6,487,326 | 8,563,972 |
| Unrestricted | 25,561,398 | 13,448,147 | 11,648,826 | 19,464,415 | 19,720,858 |
| Total Net Position | <u>\$ 183,658,470</u> | <u>\$ 159,414,565</u> | <u>\$ 139,066,587</u> | <u>\$ 145,294,443</u> | <u>\$ 145,949,037</u> |

⁽¹⁾ Effective January 1, 2023, the Wharves implemented GASB Statement No. 96. Prior periods presented above were not restated. Effective January 1, 2022, the Wharves implemented GASB Statement No. 87. Prior periods presented above were not restated.

⁽²⁾ Includes \$10.7 million Demand Notice on Federal Public Assistance Grant 1791 (Hurricane IKE) received from TDEM. This amount has been recorded on the Wharves' financial statements as a liability. It is possible that the amount claimed by TDEM/FEMA could be offset or reduced. In any event, once the amount is finalized, the Wharves expects to pay it out of operating funds. No funds are restricted related to this liability.

Table 2 - Net Revenues⁽¹⁾

| <u>Description</u> | Fiscal Years Ended December 31: | | | | |
|---|--|-----------------------------|-----------------------------|----------------------------|-----------------------------|
| | <u>2023</u> | <u>2022</u> | <u>2021⁽²⁾</u> | <u>2020⁽²⁾</u> | <u>2019</u> |
| Operating Revenues | \$ 67,538,148 | \$ 52,911,432 | \$ 31,172,106 | \$ 27,358,135 | \$ 51,474,109 |
| Operating Expenses | <u>42,928,530</u> | <u>36,954,708</u> | <u>27,936,129</u> | <u>28,182,981</u> | <u>39,298,602</u> |
| Net Operating Income (Loss) | <u>\$ 24,609,618</u> | <u>\$ 15,956,724</u> | <u>\$ 3,235,977</u> | <u>\$ (824,846)</u> | <u>\$ 12,175,507</u> |
| Add | | | | | |
| Miscellaneous Income | \$ 49,050 | \$ 29,330 | \$ 342,142 | \$ 45,917 | \$ 18,011 |
| Interest Income | 1,546,368 | 511,255 | 70,519 | 205,620 | 519,163 |
| Depreciation | 10,691,546 | 7,889,262 | 7,011,940 | 6,677,873 | 6,370,852 |
| Subtract | | | | | |
| Non-Cash portion of GASB 87 and 96 ⁽³⁾ | <u>(7,066,083)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Net Revenues | <u>\$ 29,830,499</u> | <u>\$ 24,386,571</u> | <u>\$ 10,660,578</u> | <u>\$ 6,104,564</u> | <u>\$ 19,083,533</u> |
| Annual Debt Service | \$ 4,719,066 | \$ 6,120,923 | \$ 5,470,772 | \$ 5,397,680 | \$ 6,459,743 |
| Debt Service Coverage | 6.32 | 3.98 | 1.95 | 1.13 | 2.95 |

Source: Galveston Wharves.

⁽¹⁾ Net Revenues calculated in accordance with the Indenture.

⁽²⁾ Cruise Operations were temporarily halted due to the No-Sail Order issued by the CDC in response to the COVID-19 pandemic, between March 2020 and July 2021.

⁽³⁾ Effective January 1, 2023, the Wharves implemented GASB Statement No. 96. Prior periods presented above were not restated. Effective January 1, 2022, the Wharves implemented GASB Statement No. 87. Prior periods presented above were not restated. Per GASB clarifications issued, the Port reduced net revenues for non-cash portions of GASB 87 and 96. The prior period was not restated.

Table 3 - Tonnage Handled Through Wharves Facilities (Cargo in Short Tonnes)

| <u>Description</u> | Fiscal Years Ended December 31: | | | | |
|-----------------------------------|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | <u>2023</u> | <u>2022</u> | <u>2021⁽¹⁾</u> | <u>2020⁽¹⁾</u> | <u>2019</u> |
| Bulk Grain | 261,808 | 729,203 | 1,246,542 | 1,473,271 | 647,328 |
| Bulk Fertilizer | 155,022 | 229,295 | 390,868 | 273,569 | 540,096 |
| Bulk Liquid | 2,015,645 | 1,965,982 | 1,989,260 | 1,393,261 | 1,574,339 |
| Other Bulk Cargoes | 442 | - | - | 39,703 | - |
| Bananas & Other Fruit | 607,615 | 559,084 | 594,012 | 606,624 | 568,860 |
| Other General & Ro Ro Cargo | 601,197 | 533,041 | 622,701 | 479,335 | 687,215 |
| Livestock | 2,901 | 2,392 | 2,937 | 1,859 | - |
| Total Tons Handled | <u>3,644,630</u> | <u>4,018,997</u> | <u>4,846,320</u> | <u>4,267,622</u> | <u>4,017,838</u> |
| Inward | 3,099,005 | 2,995,253 | 3,246,009 | 2,444,617 | 3,043,447 |
| Outward | 545,625 | 1,023,744 | 1,600,311 | 1,823,005 | 974,391 |
| Total Inward & Outward | <u>\$ 3,644,630</u> | <u>\$ 4,018,997</u> | <u>\$ 4,846,320</u> | <u>\$ 4,267,622</u> | <u>\$ 4,017,838</u> |
| Number of Cruise Passengers | 1,490,532 | 1,041,407 | 282,545 | 225,643 | 1,091,622 |
| Number of Ships & Barges | 953 | 925 | 943 | 813 | 1,023 |
| Number of Vehicles Parked | 210,244 | 143,907 | 37,679 | 21,115 | 114,042 |

Source: Galveston Wharves.

⁽¹⁾ Cruise Operations were temporarily halted due to the No-Sail Order issued by the CDC in response to the COVID-19 pandemic, between March 2020 and July 2021.

Table 4 - Ten Largest Revenue Generating Customers (Calendar Year 2023)⁽¹⁾

| <u>Customer Name</u> | <u>Amount</u> | <u>Percent of Total Operating Revenues</u> |
|--|----------------|--|
| Carnival Cruise Lines ⁽²⁾ | \$ 14,650,665 | 21.69% |
| Royal Caribbean, Int'l | 7,031,737 | 10.41% |
| Disney Cruise Line | 2,311,872 | 3.42% |
| Wallenius Wilhelmsen | 2,144,420 | 3.18% |
| Metro Ports Suderman Contracting | 1,457,053 | 2.16% |
| Gulf Copper | 1,393,374 | 2.06% |
| Del Monte Fresh Produce ⁽³⁾ | 1,152,874 | 1.71% |
| ADM Grain Co. ⁽⁴⁾ | 1,033,581 | 1.53% |
| ISS Inchcape | 731,496 | 1.08% |
| Biehl Master | <u>576,292</u> | <u>0.85%</u> |
| | \$ 32,483,364 | 48.10% |

Source: Galveston Wharves.

⁽¹⁾ As shown in the table above, approximately 35% of the operating revenues of the Wharves is comprised of the cruiseline sector. Certain natural and sector related events can have a substantial impact on the operating revenues received from the cruiseline sector which could affect the ability of the City to make timely payment of debt service on the Bonds. See "RISK FACTORS" in the Official Statement.

⁽²⁾ Carnival Cruise Lines includes \$1,108,955 from sister company Princess Cruise Lines.

⁽³⁾ Del Monte Fresh Produce decided not to renew its lease upon expiration on April 30, 2024. The Wharves is in the process of redeveloping this portion of its facilities. See "THE WHARVES - Operations and Facilities - Redevelopment and Future Operations – Piers 16-18 and Cruise Terminal No. 16" for more information.

⁽⁴⁾ The Wharves and ADM Grain Co. have agreed to terminate ADM's lease of a grain elevator at the Wharves. See "THE WHARVES - Operations and Facilities - Planned Demolition of Grain Elevator" for more information.

Table 5 - Annual Pro-Forma Debt Service Requirements

| Fiscal Year Ended <u>12/31</u> | Current Outstanding Debt Service Requirements | The Series 2024A Bonds ⁽¹⁾ | | | The Series 2024B Bonds ⁽¹⁾ | | | Total Debt Service Requirements |
|--------------------------------------|--|---------------------------------------|----------------------|-----------------------|---------------------------------------|----------------------|----------------------|---------------------------------------|
| | | Principal | Interest | Total | Principal | Interest | Total | |
| 2024 | \$ 8,984,980 | | | | | | | \$ 8,984,980 |
| 2025 | 8,986,990 | | \$ 5,874,059 | \$ 5,874,059 | | \$ 2,474,354 | \$ 2,474,354 | 17,335,404 |
| 2026 | 5,041,372 | \$ 3,110,000 | 5,857,788 | 8,967,788 | \$ 1,365,000 | 2,467,500 | 3,832,500 | 17,841,660 |
| 2027 | 4,254,588 | 3,815,000 | 5,702,288 | 9,517,288 | 1,670,000 | 2,399,250 | 4,069,250 | 17,841,125 |
| 2028 | 4,252,975 | 4,010,000 | 5,511,538 | 9,521,538 | 1,755,000 | 2,315,750 | 4,070,750 | 17,845,263 |
| 2029 | 4,256,638 | 4,210,000 | 5,311,038 | 9,521,038 | 1,845,000 | 2,228,000 | 4,073,000 | 17,850,675 |
| 2030 | 4,255,050 | 4,420,000 | 5,100,538 | 9,520,538 | 1,935,000 | 2,135,750 | 4,070,750 | 17,846,338 |
| 2031 | 4,253,213 | 4,640,000 | 4,879,538 | 9,519,538 | 2,030,000 | 2,039,000 | 4,069,000 | 17,841,750 |
| 2032 | 4,255,863 | 4,870,000 | 4,647,538 | 9,517,538 | 2,135,000 | 1,937,500 | 4,072,500 | 17,845,900 |
| 2033 | 4,257,475 | 5,115,000 | 4,404,038 | 9,519,038 | 2,240,000 | 1,830,750 | 4,070,750 | 17,847,263 |
| 2034 | 4,252,788 | 5,370,000 | 4,148,288 | 9,518,288 | 2,350,000 | 1,718,750 | 4,068,750 | 17,839,825 |
| 2035 | 4,253,038 | 5,640,000 | 3,879,788 | 9,519,788 | 2,470,000 | 1,601,250 | 4,071,250 | 17,844,075 |
| 2036 | 4,257,038 | 5,935,000 | 3,583,688 | 9,518,688 | 2,595,000 | 1,477,750 | 4,072,750 | 17,848,475 |
| 2037 | 4,254,288 | 6,245,000 | 3,272,100 | 9,517,100 | 2,725,000 | 1,348,000 | 4,073,000 | 17,844,388 |
| 2038 | 4,257,563 | 6,575,000 | 2,944,238 | 9,519,238 | 2,860,000 | 1,211,750 | 4,071,750 | 17,848,550 |
| 2039 | 4,252,700 | 6,920,000 | 2,599,050 | 9,519,050 | 3,000,000 | 1,068,750 | 4,068,750 | 17,840,500 |
| 2040 | 4,254,700 | 7,285,000 | 2,235,750 | 9,520,750 | 3,150,000 | 918,750 | 4,068,750 | 17,844,200 |
| 2041 | 4,257,500 | 7,685,000 | 1,835,075 | 9,520,075 | 3,315,000 | 753,375 | 4,068,375 | 17,845,950 |
| 2042 | 4,253,000 | 8,105,000 | 1,412,400 | 9,517,400 | 3,490,000 | 579,338 | 4,069,338 | 17,839,738 |
| 2043 | 4,255,900 | 8,550,000 | 966,625 | 9,516,625 | 3,675,000 | 396,113 | 4,071,113 | 17,843,638 |
| 2044 | - | 9,025,000 | 496,375 | 9,521,375 | 3,870,000 | 203,175 | 4,073,175 | 13,594,550 |
| TOTAL | \$ 95,347,655 | \$ 111,525,000 | \$ 74,661,734 | \$ 186,186,734 | \$ 48,475,000 | \$ 31,104,854 | \$ 79,579,854 | \$ 361,114,243 |

⁽¹⁾ Preliminary, subject to change. Interest calculated at an assumed rate for purposes of illustration only.

Coverage

| | |
|--|--------|
| Estimated Average Annual Total Debt Service Coverage | 1.73 x |
| Estimated Maximum Annual Total Debt Service Coverage | 1.67 x |

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APPENDIX B
GENERAL INFORMATION REGARDING THE
CITY OF GALVESTON

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GENERAL INFORMATION REGARDING THE CITY OF GALVESTON, TEXAS

The City

The City is one of Texas' most historic cities and is a popular tourist and convention destination. Major tourist attractions include “the Elissa,” a restored 1877 iron barque, Moody Gardens, Schlitterbahn, the Historic Galveston Island Pleasure Pier, the Strand District, Sea Wolf Park, year-round sport fishing, and miles of beautiful beaches.

Healthcare

The City is home to the University of Texas Medical Branch (“UTMB”). UTMB offers the full range of primary and specialized medical care through a network of Galveston-based hospitals and clinics. The cornerstone to UTMB's future growth in the City is the new Jennie Sealy Hospital, designed to promote a team-based approach to care, offer real-world educational opportunities for students, and provide a state-of-the-art, optimal healing environment for patients and their families. The \$438 million hospital opened for patients in April 2016, and has advanced medical training and patient health for the region. An adjacent Clinical Services Wing, which houses critical support services for the entire inpatient complex on Galveston Island, opened in June 2015. The combined hospital bed count is approximately 600 beds. UTMB has a \$1.7 billion annual budget.

The new hospital was part of a more than \$1 billion plan for the repair, renovation, and new construction of UTMB. UTMB is planning to build a new clinical services wing next to the new Jennie Sealy Hospital and is renovating and modernizing John Sealy Hospital. Over the past 15 years, UTMB has opened 25 clinics in 15 locations on the mainland for a total of 40 clinics on and off the island. The medical school also completed construction on a \$90 million outpatient specialty care and surgical center in League City.

The Galveston-based Sealy & Smith Foundation has contributed \$170 million to the cost of construction that will be combined with \$150 million in tuition revenue bonds approved by the Legislature in its last two sessions. The remaining \$118 million in construction costs came from UTMB, along with a plan to raise \$100 million in donations.

UTMB employees over 11,500 people county-wide with 8,937 working in the City.

Education

Primary Education: Galveston Independent School District covers 94.82 square miles and serves approximately 7,000 students in the City and on Bolivar Peninsula. During the 2021-2022 school year, it operated three high-school programs, three middle school programs and six elementary schools. There are eight private schools in the City.

Higher Education: Texas A&M University at Galveston; Galveston College; UTMB (four schools and three institutes).

Economy

Major employment sectors in the City are education, tourism and health care. Johnson Space Center, 30 minutes from the City, and many support industries provide opportunities in engineering, electronics and aeronautical research. Approximately 60 miles north on Highway 45 is Houston, the fourth largest city in the United States.

The education industry is a major employer in the City. In addition to the educators that support UTMB's four colleges and two institutes, Galveston Independent School District provides the second largest employment opportunity in the City with a total of approximately 1,358 employees, and Texas A&M University at Galveston has approximately 696 employees.

The City is home to various public and private maritime facilities. The port is located on the upper Texas coast at the mouth of Galveston Bay, just 30 minutes steaming time from the open sea.

Trains cross Galveston Bay on a bridge adjacent to the Causeway, the major link to the mainland. The San Luis Pass Bridge on the west end and a public ferry service at the east end provide additional access.

Major air service is available at two Houston airports-Hobby Airport, 45 minutes from the City, and Houston Intercontinental Airport, 1.5 hours from the City. The City has a municipal airport, Scholes Field, used for private flying and helicopter services.

Historical Employment Data, City of Galveston

| <u>Area</u> | <u>2024⁽¹⁾</u> | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|-------------------------|---------------------------|-------------|-------------|-------------|-------------|
| Labor Force | 24,848 | 24,433 | 23,703 | 23,148 | 23,217 |
| Employed | 23,949 | 23,412 | 22,689 | 21,625 | 20,870 |
| Unemployed | 899 | 1,021 | 1,014 | 1,523 | 2,347 |
| Unemployment Percentage | 3.6% | 4.2% | 4.3% | 6.6% | 10.1% |

Source: Texas Labor Market Information.

⁽¹⁾ As of April 2024.

Comparative Unemployment Rates

| | <u>2024⁽¹⁾</u> | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|--------------------------|---------------------------|-------------|-------------|-------------|-------------|
| City of Galveston | 3.6% | 4.2% | 4.3% | 6.6% | 10.1% |
| Galveston County | 3.7% | 4.3% | 4.4% | 8.8% | 6.6% |
| State of Texas | 3.5% | 3.9% | 3.9% | 5.7% | 7.6% |
| United States of America | 3.5% | 3.6% | 3.6% | 5.3% | 8.1% |

Source: Texas Workforce Commission.

⁽¹⁾ As of April 2024.

APPENDIX C
SELECTED PROVISIONS OF THE INDENTURE

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APPENDIX C

SELECTED PROVISIONS OF THE INDENTURE

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 101. Definitions. (a) Except where the context otherwise requires, words imparting the singular number shall include the plural number and vice versa. Reference to any Section means the section in this Trust Indenture unless it is specifically stated otherwise. Reference to any document or instrument means that document or instrument as amended or supplemented from time to time. Reference to any party to a document means that party and its successors and assigns. This Trust Indenture and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Obligations issued hereunder and the validity of the pledge of Net Revenues to pay the principal of and interest on the Obligations issued hereunder.

(b) The following terms have the meanings assigned to them below whenever they are used in this Trust Indenture:

“Accounting Principles” shall mean the “Generally Accepted Accounting Principles” for governmental entities in the United States, which include the enterprise fund accounting and reporting requirements and standards as issued by the Governmental Accounting Standards Wharves’ Board and, when applicable, such other accounting principles as the Issuer or the Wharves’ Board may be required to employ from time to time, or pursuant to State law or regulation.

“Act” means Article XII of the Issuer’s Home Rule Charter, Chapter 54, Texas Transportation Code, as amended, and Chapter 1371, Texas Government Code, as amended.

“Additional First Lien Obligations” shall mean all additional Obligations of any kind or class, including, without limitation, bonds, notes, bond anticipation notes, commercial paper and other obligations, issued or incurred as First Lien Obligations in accordance with this Trust Indenture and any Supplemental Indenture.

“Additional Obligations” shall mean Additional First Lien Obligations, Additional Second Lien Obligations, and Inferior Lien Obligations, as authorized from time-to-time under this Trust Indenture and any Supplemental Indenture.

“Additional Second Lien Obligations” shall mean all additional Obligations of any kind or class, including, without limitation, bonds, notes, bond anticipation notes, commercial paper and other obligations issued or incurred as Second Lien Obligations under and in accordance with this Trust Indenture and any Supplemental Indenture.

“Annual Debt Service” shall mean, for any Annual Period with respect to all or a specific portion of Outstanding Obligations (i) the principal amount and interest paid (except at the option of the Wharves’ Board) or payable or Maturity Amount paid (except at the option of the Wharves’ Board) or payable with respect to such Obligations in such Annual Period, plus (ii) Credit Agreement Obligations paid or payable in such Annual Period, plus (iii) the net amount (which may be negative) of (x) any amounts paid or payable

by the Issuer in such Annual Period as Hedge Agreement Payment Obligations, less (y) amounts paid or payable to the Issuer in such Annual Period with respect to Hedge Agreements (excluding collateral postings, termination payments and similar payments), minus (iv) all amounts that are deposited to the credit of a debt service fund or account for the payment of capitalized interest or the payment of principal and interest or Maturity Amount due in the Annual Period on such Outstanding Obligations from original proceeds from the sale of such Obligations or from any other lawfully available source (other than the Revenue Fund), and that are used or scheduled to be used to pay interest on such Obligations during any Annual Period, and minus (v) any portion or all of the interest on or principal of the Obligations that has been irrevocably committed by the Issuer to be paid from funds on hand other than Gross Revenues, including without limitation, Supplemental Security.

The following shall be used to calculate the Annual Debt Service for any Annual Period:

- a) Except as otherwise provided below, in determining the principal amount or Maturity Amount paid or payable with respect to Obligations or Credit Agreement Obligations in each Annual Period, payment shall be deemed to be made in accordance with any amortization schedule established for such Obligations to which the Issuer is legally committed, including amounts paid or payable pursuant to any mandatory redemption schedule for such Obligations;
- b) If any of the Obligations constitute Balloon Obligations or Short-Term Obligations, then such amounts shall be treated as if such Obligations are refunded through the issuance of Long-Term Obligations on the date of the earliest permitted exercise of the put feature, stepped-up interest rate and call feature or similar obligation or right and incentive to refund as further set forth in the Supplemental Indenture authorizing a series of Balloon Obligations or the final maturity date of such Balloon Obligations, as the case may be, and, in the case of Short-Term Obligations at the maturity thereof, with such Long-Term Obligations assumed to be amortized in such a manner that the Annual Debt Service shall reflect substantially equal installments of principal and interest, or Maturity Amount, over a period of thirty years, and assumed to bear interest at a fixed interest rate estimated by the Financial Advisor or underwriter to be the average rate of interest for a series of Long-Term Obligations issued to accomplish such refunding if issued on such terms on the date of such estimate; provided, however that during the Annual Period preceding the final maturity date of such Balloon Obligations and, in the case of Short-Term Obligations in each Annual Period, all of the principal or Maturity Amount thereof shall be considered to be due on the maturity or due date of such Balloon Obligations or Short-Term Obligations unless the Issuer obtains a certificate from the Financial Advisor, which certificate may be provided by the Financial Advisor at any time prior to the beginning of such Annual Period, certifying that, in its judgment, the Issuer will be able to refund such Balloon Obligations or Short-Term Obligations through the issuance of Long-Term Obligations, in which event the Balloon Obligations or Short-Term Obligations shall be amortized over the term of such proposed refunding Obligations and shall be deemed to bear the interest rate specified in the certificate of the Financial Advisor;
- c) Notwithstanding subsections (b) or (f) of this definition, to the extent required by a Supplemental Indenture, if any of the Obligations are authorized to be issued under a direct purchase note program, Annual Debt Service shall be computed on the assumption that all of the Obligations committed to be purchased under such program are outstanding on the date of calculation and shall be continuously refinanced under such note purchase agreement until the termination date of the commitment to purchase notes under the note purchase agreement unless a shorter period shall be specified in a certificate from the Financial Advisor, at which time it shall be assumed that the commitment shall be amortized in the manner set forth in subsection (b), above;

- d) Notwithstanding subsections (b) or (f) of this definition, to the extent required by a Supplemental Indenture, if any of the Obligations are authorized to be issued pursuant to a commercial paper program, Annual Debt Service shall be computed on the assumption that the principal amount of such Obligations outstanding under such program on the date of calculation shall remain outstanding and continuously be refinanced under such program until the termination date of the Credit Agreement supporting such commercial paper program, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount shall be amortized in the manner provided in subsection (b), above.
- e) As to any Annual Period prior to the date of any calculation, such requirements shall be calculated solely on the basis of Obligations that were Outstanding in such period; and as to any future Annual Period such requirements shall be calculated solely on the basis of Obligations Outstanding as of the date of calculation plus any Obligations then proposed to be issued;
- f) If any of the Obligations or proposed Obligations constitute Variable Rate Obligations, then, if the actual rate of interest borne thereby in any future Annual Period cannot be ascertained at the time of the calculation and subject to subsection (b) of this definition and the following proviso, interest in future Annual Periods shall be assumed to be the Assumed Variable Rate; provided, however, if the Issuer has entered into a Hedge Agreement with respect to a Series of Obligations constituting Variable Rate Obligations that provides for the Issuer to pay a fixed interest rate thereunder and to receive a variable rate that is expected to approximate the rate of such Variable Rate Obligations during any future period, the fixed interest rate payable by the Issuer under the Hedge Agreement during such future period shall be assumed to be the interest rate on such Variable Rate Obligations if the notional amount under the Hedge Agreement is equal to or greater than the Outstanding principal amount or Maturity Amount of the Variable Rate Obligations and reduces in the amounts and on the dates that the Obligations mature; and
- g) Collateral postings and termination or similar payments under a Hedge Agreement shall not be taken into account in any calculation of Annual Debt Service.

“Annual Issuer Payment” shall mean the payment provided for in Article XII of the Issuer’s Home Rule Charter.

“Annual Issuer Payment Fund” shall mean the fund so designated and established in Section 601 and further described in Section 609.

“Annual Period” shall mean a Fiscal Year or any other consecutive twelve-month period, except in the case of Sections 202(b)(3) and 202(b)(4) of this Trust Indenture, where it shall mean the most recently concluded Fiscal Year or any other consecutive 12 months that in either case is or are wholly contained in the most recent 18 months.

“Assumed Variable Rate” shall mean in the case of:

- (a) Outstanding Variable Rate Obligations, the higher of:
 - (i) the average interest rate on such Variable Rate Obligations for the most recently completed 24-month period or the period such Variable Rate Obligations have been Outstanding if it is less than 24 months, or
 - (ii) the rate to be determined pursuant to clause (b) below assuming the Outstanding Variable Rate Obligations were being issued on the date of the calculation;

and

(b) proposed Variable Rate Obligations, the interest rate estimated by the Financial Advisor to be the average rate of interest such Variable Rate Obligations will bear during the period or periods for which Annual Debt Service is being calculated, assuming the Outstanding Variable Rate Obligations were being issued on the date of calculation.

Notwithstanding the foregoing, in no event shall the Assumed Variable Rate be in excess of the lesser of the Maximum Lawful Rate or the highest interest rate allowed by the documents pursuant to which the Variable Rate Obligations were issued.

“Attorney General” shall mean the Attorney General of the State.

“Authorized Denominations” shall mean any amount specified as an authorized denomination in an applicable Supplemental Indenture.

“Balloon Obligations” shall mean Long-Term Obligations of a particular issue or Series of Obligations of which 25% or more of the principal or Maturity Amount of the same issue or Series matures in the same Annual Period and is not required by the applicable Supplemental Indenture to be amortized below such percentage by payment or redemption prior to that Annual Period. A Supplemental Indenture shall designate the Obligations that will constitute Balloon Obligations. Long-Term Obligations that include a put feature, a stepped-up interest rate and call right, or other similar obligation or right and incentive to refund may be treated as Balloon Obligations maturing in the year of the put, stepped interest rate, or other incentive if such Obligations are designated as Balloon Obligations in the Supplemental Indenture authorizing such Long-Term Obligations.

“Bond Counsel” means an attorney or firm of attorneys nationally recognized as experienced in the field of municipal bonds appointed by the Issuer and acceptable to the Trustee.

“Bond Register” means the books of registration maintained by the Trustee in which the ownership of Obligations is registered as described in Section 403.

“Book Entry Form” or “Book Entry System” means, with respect to any series of Obligations, a form or system, as applicable, under which (a) the ownership of beneficial interests in the Obligations may be transferred only through a book entry, and (b) physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Holder, with the physical bond certificates held in the custody of the Depository.

“Business Day” means any day other than (1) a Saturday or a Sunday, (2) a legal holiday or the equivalent on which banking institutions generally are authorized or required to close in a Place of Payment, in the Issuer or in New York, New York, or the city in which it is located (a) the designated corporate trust office of the Trustee, or (b) while any credit or liquidity facility is in effect under any Supplemental Indenture, the office of the provider of such facility or of its agent at which drafts or claims for payment are to be presented, or (c) with respect to any Variable Rate Obligations, the designated office of any tender agent designated under any Supplemental Indenture, (3) a day on which the New York Stock Exchange is closed, or (4) a day on which the payment system of the Federal Reserve System is not operational.

“Capital Appreciation Bonds” shall mean Obligations on which interest accretes from the Issuance Date to the maturity date or prior redemption, but is not payable prior to the maturity date or prior redemption.

“Code” shall mean the Internal Revenue Code of 1986, as amended, and, with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding

provision of any subsequent Internal Revenue Code and (d) the regulations promulgated under the provisions described in (b) and (c).

“Completion Obligations” shall mean bonds, notes or other obligations issued in accordance with this Trust Indenture and any Supplemental Indenture for the purpose of completing any Financed Project.

“Compounded Amount” shall mean, with respect to a Capital Appreciation Bond, as of any particular date, the original principal amount thereof plus all interest accreted and compounded to such date, as determined in the Supplemental Indenture authorizing the Capital Appreciation Bond.

“Consent,” “Order,” and “Request” of any specified Person means, respectively, a written consent, order, or request delivered to the Trustee and signed in the name of such Person by an authorized representative of such Person or designee.

“Counterparty” shall mean a counterparty to a Hedge Agreement.

“Credit Agreement” shall mean any letter of credit, line of credit, standby letter of credit or agreement to purchase a debt obligation or any similar extension of credit, credit enhancement or liquidity support obtained by the Issuer from a Credit Provider or such other agreement as may be described as a “credit agreement” in Chapter 1371, Texas Government Code, as amended, or other applicable law (but excluding agreements defined herein as a Hedge Agreement), obligating the Credit Provider to purchase, to provide for or to secure payment of the principal and purchase price of, and/or interest on or Maturity Amount of, Obligations pursuant to the provisions of a Supplemental Indenture under which such Obligations are issued. The term includes a note purchase agreement or similar agreement between the Issuer and a purchaser of notes under a commercial paper program, direct purchase note program or other similar program, if so specified in the Supplemental Indenture authorizing the same. The use of such definition is not intended to preclude the Issuer from providing the credit or liquidity support with respect to Obligations directly rather than through a Credit Provider.

“Credit Agreement Obligation” shall mean the obligation of the Issuer pursuant to a Reimbursement Agreement to repay any amounts drawn under a Credit Agreement and to pay interest on such drawn amounts pursuant to such Reimbursement Agreement or to pay other amounts owed thereunder as further specified in the Supplemental Indenture approving such Credit Agreement, which Credit Agreement Obligation is secured by the Net Revenues as set forth in the Supplemental Indenture.

“Credit Provider” shall mean any party providing a Credit Agreement with respect to Obligations.

“Debt Service Fund” shall mean the First Lien Debt Service Fund, the Second Lien Debt Service Fund and any debt service funds established for Inferior Lien Obligations.

“Debt Service Reserve Fund” shall mean the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Reserve Fund, and/or a debt service reserve fund established for Inferior Lien Obligations.

“Debt Service Reserve Fund Participants” shall mean (a) any Series of First Lien Obligations designated in a Supplemental Indenture as a “First Lien Debt Service Reserve Fund Participant,” or (b) any Series of Second Lien Obligations designated in a Supplemental Indenture as a “Second Lien Debt Service Reserve Fund Participant.”

“Debt Service Reserve Fund Requirement” shall mean the First Lien Debt Service Reserve Fund Requirement, the Second Lien Debt Service Reserve Fund Requirement, and/or a debt service reserve fund requirement established for Inferior Lien Obligations, as applicable, as established in a Supplemental Indenture authorizing a Series of Obligations.

“Defeasance Obligations” means: (a) direct obligations of the United States, its agencies or instrumentalities, and obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; and (b) any investments permitted under Section 1207.062, Texas Government Code, as amended.

“Depository” means any securities depository that is 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, as amended, operating and maintaining, with its participants or otherwise, a Book Entry System to record ownership of beneficial interests in any series of Obligations, and to effect transfers of the Obligations, in Book Entry Form. Unless otherwise specified in any Supplemental Indenture, the Depository for the Obligations shall be DTC.

“DSRF Security” shall mean a First Lien DSRF Security, a Second Lien DSRF Security, or any DSRF Security relating to Inferior Lien Obligations, as further set forth in the applicable Supplemental Indenture.

“DTC” means The Depository Trust Company, New York, New York, the initial securities depository of the Book Entry System described in Section 412 hereof.

“DTC Participant” means those broker dealers, banks and other financial institutions reflected on the books of DTC.

“Electronic Means” shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder.

“Event of Default” is defined in Article IX of this Trust Indenture.

“Excluded Fee and Charge Revenues” shall mean all income and revenues derived from fees and charges imposed by the Issuer or the Wharves’ Board after the date hereof and declared in the official action of the Issuer or the Wharves’ Board approving such fees and charges to constitute fees and charges of the kind that will generate Excluded Fee and Charge Revenues. Such Excluded Fee and Charge Revenues may be authorized pursuant to any federal, state or local authority and may include, but not be limited to, any charge or fee relating to providing, enhancing or maintaining security for the Wharves’ Facilities or improvement of a channel.

“Federal Payments” shall mean those funds received by the Issuer or the Wharves’ Board from the federal government or any agency thereof as payments for the use of any facilities or services of the Wharves’ Facilities.

“Financed Project” shall mean any Project or portion thereof defined in a Supplemental Indenture authorizing the issuance of First Lien Obligations, Second Lien Obligations, or Inferior Lien Obligations for the purpose of financing such Project or portion thereof. Any such Supplemental Indenture may contain such further provisions as the Wharves’ Board shall deem appropriate with regard to the use, completion, modification or abandonment of such Financed Project.

“Financial Advisor” shall mean the financial advisory firm or firms engaged by Wharves’ Board from time to time.

“Financing System” shall mean the Wharves Board Financing System established herein.

“First Lien Debt Service Fund” shall mean the fund so designated and established in Section 601 and further described in Section 604.

“First Lien Debt Service Reserve Fund” shall mean the fund so designated and established in Section 601 and further described in Section 605.

“First Lien Debt Service Reserve Fund Participant Account” shall mean the account created in Section 601.

“First Lien Debt Service Reserve Requirement” shall mean the amount, if any, specified in any Supplemental Indenture authorizing First Lien Obligations as the First Lien Debt Service Reserve Requirement or, if not so specified in any such Supplemental Indenture, \$0.

“First Lien DSRF Security” shall have the meaning given to such term in Section 605.

“First Lien Hedge Agreement” shall mean a Hedge Agreement, the Hedge Agreement Payment Obligations under which are First Lien Obligations.

“First Lien Obligations” shall mean all Obligations of any kind or class, including bonds, notes, bond anticipation notes, commercial paper and other obligations, issued or incurred and described as First Lien Obligations under and in accordance with this Trust Indenture and any Supplemental Indenture, and includes all obligations of the Issuer on Obligations, including Credit Agreement Obligations and Hedge Agreement Payment Obligations, that are secured by a pledge of and lien on Net Revenues on parity with other First Lien Obligations.

“Fiscal Year” shall mean the Wharves’ Board fiscal year as from time to time designated by the Issuer, which is currently the twelve-month period beginning January 1 of a calendar year and ending December 31 of the same calendar year, and such period may be designated with the number of the calendar year in which such period ends.

“Funds” means the funds of the Issuer established in Section 601 of this Trust Indenture and, with respect to any series of Obligations, the funds established for the benefit of such Obligations under any Supplemental Indenture.

“Galveston Wharves Management Consultant” shall mean a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of development, operation, financing and management of ports of approximately the same size as the properties constituting the Wharves’ Facilities.

“General Fund” shall mean the fund of the Issuer established in Section 601 of this Trust Indenture and further described in Section 610.

“Gross Revenues” shall mean all gross revenue, income, proceeds, tolls, rents, lease money, returns and charges derived from and after the date hereof from the operation of the Wharves’ Facilities, and from the services provided thereby; all proceeds of business interruption insurance maintained in connection with the Wharves’ Facilities; interest earned from the investment of money in the Funds

(except the Project Fund and any escrow funds from time to time created pursuant to any Supplemental Indenture or separate indenture, ordinance or other instrument); and all other revenues hereafter pledged to the payment of the Obligations. Gross Revenues shall expressly exclude Special Project Pledged Revenues.

“Hedge Agreement” shall mean any agreement entered into by the Issuer to manage the Wharves’ Board interest rate exposure.

“Hedge Agreement Payment Obligation” shall mean the obligation of the Issuer pursuant to a Hedge Agreement to make payments to a Counterparty under the Hedge Agreement that are secured by the Net Revenues on a parity with First Lien Obligations or Second Lien Obligations, as appropriate.

“Holder”, “Registered Holder”, “Owner” or “Registered Owner” means, with respect to any series of Obligations, the Person appearing on the Bond Register, respectively, maintained by the Trustee, as the registered holder of such Obligations.

“Inferior Lien Obligations” shall mean all Obligations of any kind or class issued or incurred by the Issuer under and in accordance with this Trust Indenture and any Supplemental Indenture, that are junior and subordinate to the lien on Net Revenues securing the payment of First Lien Obligations and Second Lien Obligations.

“Interest Payment Date” shall mean each date defined as such in any Supplemental Indenture under which the Obligations are issued. However, in each case, if such date specified above is not a Business Day then the Interest Payment Date shall be the Business Day next succeeding such date.

“Issuance Date” shall mean with respect to any Obligations, the date of delivery of such Obligations to the initial purchasers thereof against payment therefor.

“Issuer” means City of Galveston, Texas, and any successor thereto.

“Long-Term Obligations” shall mean all Obligations that are not Short-Term Obligations.

“Maturity” when used with respect to any Debt means the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

“Maturity Amount” shall mean the Compounded Amount of a Capital Appreciation Bond due on its Maturity.

“Maximum Lawful Rate” shall mean the lesser of (a) the maximum rate of interest allowed by Chapter 1204, Texas Government Code, or any successor provision, (b) the maximum non-usurious rate of interest permitted to be charged by applicable federal or Texas law from time to time in effect, or (c) for a particular Series or Credit Agreement, the maximum non-usurious rate of interest designated in the applicable Supplemental Indenture.

“Municipal Bond Insurance Policy” means any credit facility issued by an insurance company which guarantees the payment of principal or interest or both, of or on any Obligations, when due.

“Net Revenues” shall mean the amount remaining after deducting from Gross Revenues the Operation and Maintenance Expenses and the Annual Issuer Payment.

“Obligation” or “Obligations” shall mean the Series 2021 Bonds and all indebtedness of the Issuer payable from Net Revenues incurred or assumed by the Issuer for borrowed money (including Credit Agreement Obligations) and all other financing obligations of the Issuer related to the Issuer the instruments or other documents evidencing or creating which are authenticated and delivered under and pursuant to this Trust Indenture and any Supplemental Indenture. The term does not include any obligations of the Issuer secured by ad valorem taxes or secured by payments from the Issuer’s general fund.

“Operation and Maintenance Expenses” shall mean all reasonable expenses of maintaining and operating the Wharves’ Facilities, including, among other things, expenses necessary for dredging or for the repair, replacement, upkeep, or insurance of the Wharves’ Facilities and any amounts paid under contracts with third parties for the lease or use of properties or facilities reasonably required in the maintenance and operation of the Wharves’ Facilities, but expressly excluding any depreciation expense or extraordinary non-cash expenses or write-downs of the Wharves’ Facilities, any interest expense on obligations issued by the Issuer or the Wharves’ Board, any maintenance and operation expenses borne by lessees or others using Wharves’ Facilities, and any capital expenditures relating to the Wharves’ Facilities

other than the ordinary and usual expenses of maintenance, repair, replacement and upkeep of the Wharves' Facilities.

"Officer's Certificate" of: (i) the Issuer, means a certificate signed in the name of the Issuer by the City Manager (or an officer holding a comparable title) of the Issuer, or any other authorized representative of the Issuer or designee, and delivered to the Trustee; or (ii) the Wharves' Board, means a certificate signed by the Chairman or Vice Chairman of the Wharves' Board, the Port Director/Chief Executive Officer or the Chief Financial Officer (or an officer holding a comparable title) of the Wharves' Board, or any other authorized representative of the Wharves' Board or designee, and delivered to the Trustee.

"Opinion of Bond Counsel" means an Opinion of Counsel rendered by Bond Counsel addressed to the Issuer and the Trustee to the effect that any relevant action proposed to be taken is authorized or permitted by the relevant documents, that all conditions precedent to the relevant action (if any) under such documents have been complied with and, if the affected Obligations were issued as tax-exempt obligations, that such proposed action will not adversely affect the excludability of interest on any affected Obligations from gross income for federal income tax purposes.

"Opinion of Counsel" means a written opinion of counsel who may (except as otherwise expressly provided in this Trust Indenture) be counsel to the Issuer and shall be acceptable to the Trustee.

"Outstanding," when used with reference to any Obligations, shall mean, as of a particular date, all Obligations theretofore and thereupon delivered pursuant to this Trust Indenture except: (a) any Obligations canceled by or on behalf of the Issuer at or before such date in accordance with their terms or the terms of the Supplemental Indenture authorizing such Obligations; (b) any Obligations defeased pursuant to the defeasance provisions of this Trust Indenture or the Supplemental Indenture authorizing such Obligations with the consequence that they are no longer payable from or secured by Net Revenues; and (c) any Obligations in lieu of or in substitution for which a replacement Obligation shall have been delivered pursuant to and in accordance with this Trust Indenture.

"Participant" means, with respect to DTC or another Depository, a member of or participant in DTC or such other Depository, respectfully.

"Paying Agent" means any Person designated by the Issuer in a Supplemental Indenture to pay the principal of (and premium, if any) or interest on any Obligations; in the absence of any such designation by the Issuer, the Paying Agent shall be the Trustee.

"Paying Agent Agreement" means any paying agent agreement entered into in connection with the issuance of any Obligations.

"Permitted Investments" shall mean any security or obligation or combination thereof permitted under the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, or its successor, and the Issuer's duly approved Investment Policy.

"Person" means any individual, corporation, partnership, limited liability company, firm, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof, including, but not limited to the Issuer.

"Place of Payment" for any series of Obligations means the city designated as such in a Supplemental Indenture authorizing a series of Obligations or, if no such designation is made, the designated corporate trust office of the Trustee.

"Principal Office" shall mean, with respect to the Paying Agent, the address identified as its notice address in the Paying Agent Agreement or otherwise notified in writing by the Paying Agent to the Issuer.

“Project” shall mean any project authorized by the Act or other applicable law that is financed or refinanced with Obligations of the Issuer.

“Projected Annual Debt Service” as of any date shall mean, when applied to all or a specific portion of Obligations, as the case may be, for any Annual Period, an amount equal to the sum of (a) the amount of Annual Debt Service in such Annual Period on such Obligations then Outstanding plus (b) the Annual Debt Service in such Annual Period on any additional Obligations at such lien level then proposed to be issued; provided that, in making such calculation, the Issuer may take into consideration any amounts received, or reasonably expected to be received, by the Issuer from or as a result of Supplemental Security that the Issuer has pledged for the benefit of the Obligations for which such calculation is being made.

“Rate Covenant” shall mean the covenant of the Issuer set forth in Section 303 of this Trust Indenture.

“Rating Agency” shall mean any nationally recognized securities rating agency which has assigned, at the request of the Wharves’ Board, a rating on the Obligations.

“Rebate Fund” means rebate fund or account established with the Trustee pursuant to any Supplemental Indenture for the benefit of any series of Obligations.

“Record Date” means the date specified as the record date for a series of Obligations in the Supplemental Indenture pursuant to which such Obligations are issued.

“Registrar” means the registrar designated in any Supplemental Indenture for any series of Obligations or if no such designation is made, the Trustee as registrar pursuant to this Trust Indenture.

“Regulations” shall mean the applicable, proposed, temporary or final Treasury Regulations promulgated under the Code, or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Reimbursement Agreement” shall mean an agreement between the Issuer and one or more Credit Providers pursuant to which, among other things, such Credit Provider issues (or which agreement is a part of) a Credit Agreement with respect to Obligations of one or more Series and pursuant to which the Issuer agrees to reimburse such Credit Provider for any drawings made under such Credit Agreement.

“Representation Letter” means the DTC Blanket Letter of Representation executed by the Issuer and accepted by DTC.

“Responsible Officer” when used with respect to the Trustee means any officer within the corporate trust department of the Trustee (or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject) having direct responsibility for administering the Trust Estate under this Trust Indenture.

“Revenue Fund” means the fund so designated and established in Section 601 and described in Section 602.

“Second Lien Debt Service Fund” shall mean the fund so designated and established in Section 601 and described in Section 606.

“Second Lien Debt Service Reserve Fund” shall mean the fund so designated and established in Section 601 and described in Section 607.

“Second Lien Debt Service Reserve Fund Participant Account” shall mean an account so described in Section 601.

“Second Lien Debt Service Reserve Requirement” shall mean the amount, if any, specified in any Supplemental Indenture authorizing Second Lien Obligations as the Second Lien Debt Service Reserve Requirement or, if not so specified in any such Supplemental Indenture, \$0.

“Second Lien DSRF Security” shall have the meaning given to such term in Section 607.

“Second Lien Hedge Agreement” shall mean a Hedge Agreement, the Hedge Agreement Payment Obligations of which are designated as Second Lien Obligations.

“Second Lien Obligations” shall mean all Obligations of any kind or class, including bonds, notes, bond anticipation notes, commercial paper and other obligations, issued or incurred and described as Second Lien Obligations under and in accordance with this Trust Indenture and any Supplemental Indenture, and includes all obligations of the Issuer on Obligations, including Credit Agreement Obligations and Hedge Agreement Payment Obligations, that are secured by a pledge of and lien on the Net Revenues on parity with the Second Lien Obligations.

“Series” shall mean a separate series of Obligations, including those issued or incurred as part of a commercial paper program, direct purchase note program or other similar program, as specified by or pursuant to the terms of a Supplemental Indenture.

“Series 2021 Bonds” shall have the meaning assigned to such term in the recitals to this Trust Indenture.

“Series 2023 Bonds” shall mean the first Series of Obligations issued under this Trust Indenture.

“Series 2024 Bonds” shall mean the second and third Series of Obligations issued under this Trust Indenture.

“Short-Term Obligations” shall mean all Obligations that mature in less than a year and are issued as Short-Term Obligations pursuant to (i) Sections 202 and 204 of this Trust Indenture or (ii) a Supplemental Indenture. In the event a line of credit has been extended or the Issuer has undertaken a commercial paper program, direct purchase note program, or similar program, unless otherwise provided in the Supplemental Indenture authorizing the Outstanding Short-Term Obligations, only amounts actually borrowed or notes purchased under such line of credit or program and repayable in less than a year shall be considered Short-Term Obligations, and the full amount of such facility, commitment or program shall not be treated as Outstanding Short-Term Obligations to the extent that such facility, commitment or program remains available but undrawn.

“Special Facilities” shall mean any port or harbor property, improvement, or facility substantially all of the costs of the acquisition, construction and installation of which was or is to be financed with Special Facilities Obligations, but only to the extent that and for so long as Special Project Pledged Revenues are or will be pledged to secure the payment or repayment of such Special Facilities Obligations.

“Special Facilities Lease” shall mean any lease or agreement, howsoever denominated, pursuant to which any Special Facilities are leased by the Issuer to the lessee in consideration for which the lessee agrees to pay (a) all debt service on the Special Facilities Obligations issued to finance Special Facilities (which payments are pledged to secure the Special Facilities Obligations) and (b) the operation and maintenance expenses of the Special Facilities.

“Special Facilities Obligations” shall mean any bonds, notes, or other obligations from time to time issued by the Issuer pursuant to Section 208 hereof.

“Special Project Pledged Revenues” shall mean those rentals, payments and/or other amounts payable to the Issuer in consideration for the use, lease or availability of Special Facilities which are made

subject to pledges, liens and/or assignments by the Issuer to secure the payment or repayment of Special Facilities Obligations.

“State” means the State of Texas.

“Stated Maturity” when used with respect to any Debt or any installment of interest thereon means any date specified in the instrument evidencing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

“Supplemental Indenture” shall mean any indenture supplementing this Trust Indenture to provide for the issuance of Obligations or for such other purpose authorized by this Trust Indenture. With respect to the Series 2021 Bonds, Exhibit A to this Trust Indenture shall be considered to be a Supplemental Indenture.

“Supplemental Security” shall mean any one or more of the following: (a) any Credit Agreement or other credit enhancement for specified Obligations, (b) any funds received by or obligations payable to the Issuer, other than Gross Revenues, including but not limited to Excluded Fee and Charge Revenues, and funds received by or payable to the Issuer under a Hedge Agreement, (c) the proceeds from the sale of Obligations issued for the purpose of refinancing, redeeming or refunding then-Outstanding Obligations, or (d) a mortgage or encumbrance of Wharves’ Facilities acquired with the proceeds of the sale of the Obligations and permitted by Section 703; in each case which the Issuer chooses to include as a security for specified First Lien Obligations, Second Lien Obligations, or Inferior Lien Obligations pursuant to a Supplemental Indenture, as provided in Section 304.

“Tender Obligations” shall mean any Obligations the terms of which include (a) an option or an obligation on the part of the Owner to tender all or a portion of such Obligations to the Issuer, the Paying Agent or another fiduciary or agent for payment or purchase prior to maturity and (b) a requirement on the part of the Issuer to purchase or cause to be paid or purchased such Obligation or portion thereof prior to maturity if properly tendered.

“Transfer Date” shall on or before the last Business Day of each month.

“Trust Estate” is defined in the Granting Clauses of this Trust Indenture.

“Trust Indenture” means this Trust Indenture as it may be amended or supplemented from time to time, including by any Supplemental Indenture.

“Trustee” means The Bank of New York Mellon Trust Company, National Association, as trustee pursuant to this Trust Indenture or any successor trustee pursuant to the terms of this Trust Indenture.

“Variable Rate Obligations” shall mean any Obligation the interest rate on which may fluctuate from time to time subsequent to the time of incurrence. Variable Rate Obligations may include, without limitation, (a) Tender Obligations; (b) commercial paper Obligations which are intended to be issued and refunded or refinanced periodically; (c) Obligations under a direct purchase note program which are intended to be issued and refunded or refinanced periodically; (d) Obligations that bear interest at a fixed rate, but with respect to which the Issuer has entered into a Hedge Agreement that provides for the Issuer to pay a variable interest rate thereunder; provided, that the notional amount under the Hedge Agreement is equal to or greater than the Outstanding principal amount of the related Obligations and reduces in amounts and on the dates that the related Obligations mature; or (e) other forms of Obligations on which the rate of interest fluctuates or is subject to being set or reset from time to time.

“Wharves’ Board” shall mean the Board of Trustees of the Galveston Wharves created by the Issuer

as a separate utility to manage, maintain, operate and control all existing port properties and all additions, improvements, or extensions to such properties.

“Wharves’ Facilities” shall mean all port and harbor improvements and facilities of the Issuer now or hereafter owned, including all additions, replacements, improvements and extensions thereto which may hereafter be made or acquired but expressly excluding all Special Facilities.

Section 102. Certifications. Wherever in this Trust Indenture it is provided that any Person shall make any certification or deliver or receive any report as a condition to taking or refraining from taking any action or permitting any condition, or as evidence of compliance by the Issuer or Wharves’ Board with any term hereof, it is intended that the truth and accuracy, at the time of such certification or report, and of the facts stated therein, shall in such case be conditions to the sufficiency of such certification or report, but all action taken hereunder pursuant to any such certification or report shall be final and effective in favor of all Persons who have relied thereon without knowledge of any untruth or inaccuracy of such facts.

Section 103. Form of Documents Delivered to Trustee. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of any officer of a Person may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of a specified Person stating that the information with respect to such factual matters is in the possession of such Person, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Trust Indenture, they may, but need not, be consolidated and form one instrument.

Section 104. Acts of Owners of Obligations. (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Trust Indenture to be given or taken by Owners of Obligations may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Owners of Obligations in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Action” of the Owners of the Obligations signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of Obligations, shall be sufficient for any purpose of this Trust Indenture and (subject to Section 1001) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.

The Issuer or the Trustee may at its option at any time fix in advance a record date for the determination of Owners of Obligations entitled to be given any such request, demand, authorization, direction, notice, consent, waiver or other action, but neither the Issuer nor the Trustee shall have any obligation to do so. If such a record date is fixed, such Action may be given before or after the record date, but only the Owners of Obligations shown on the Bond Register, respectively, at the close of business on

such record date shall be deemed to be Owners for the purpose of determining whether the Owners of the requisite percentage of Obligations have authorized or agreed to such Action; provided, however, that no Action shall be deemed to become effective any later than six months after the record date.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership, on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his authority.

(c) The ownership of Obligations shall be proved by the Bond Register of the Trustee.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Action by the Owner of any Obligations shall bind every future Owner of the same Obligations and the Owner of every Obligation issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Obligation.

(e) In determining the principal amount of any Obligations Outstanding hereunder from time to time, the Trustee shall be entitled to conclusively rely on a certification of the Issuer. Notwithstanding any provision of this Trust Indenture to the contrary, Holders of Obligations evidencing rights to be paid or reimbursed under Reimbursement Agreements or standby bond purchase agreements, Credit Agreements, or liquidity facilities shall not be entitled to vote or be considered Outstanding for any purpose except to the extent that payments are due and unpaid thereunder; and provided further that only one Person shall be entitled to vote or take any action with regard to any amount of debt if it be represented by the Obligations, and subrogation rights (if any) set forth in the relevant Supplemental Indenture shall govern.

Section 105. Notices. Any request, demand, authorization, direction, notice, consent, waiver or Action of Owners of Obligations or any other document provided or permitted by this Trust Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee, shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with and actually received by the Trustee at its corporate trust office located at The Bank of New York Mellon Trust Company, National Association, 601 Travis Street, 16th Floor, Houston, Texas 77002, Attention: Global Corporate Trust – Galveston Wharves; and by e-mail to Kathlyn.shen@bnymellon.com, or at any other address furnished in writing to the Issuer by the Trustee,

(2) the Issuer, shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Issuer addressed to it at City of Galveston, Texas, 823 Rosenberg, Suite 300, Galveston, TX 77550, or at any other address furnished in writing to the Trustee by the Issuer,

(3) the Wharves' Board, shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Wharves' Board addressed to it at the Port of Galveston, 123 25th Street, 8th Floor, Galveston, TX 77550 or at any other address furnished in writing to the Trustee by the Wharves' Board, and

(4) any Rating Agency, shall be sufficient for every purpose hereunder if made, given, furnished, or filed in writing to or with such Rating Agency at the address supplied to the Trustee and the Issuer.

Section 106. Notices to Owners of Obligations; Waiver. Where this Trust Indenture provides for notice to Holders of Obligations of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first class postage prepaid, to each Holder of Obligations affected by such event, at his address as it appears on the Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Holders of Obligations is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Holder of Obligations shall affect the sufficiency of such notice with respect to other Holders of Obligations. Where this Trust Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Obligations shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 107. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 108. Successors and Assigns. All covenants and agreements in this Trust Indenture by the Issuer and the Trustee shall bind their respective successors and assigns, whether so expressed or not.

Section 109. Severability Clause. In case any provision in this Trust Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

ARTICLE II

ESTABLISHMENT OF THE FINANCING SYSTEM AND ISSUANCE OF OBLIGATIONS

Section 201. Establishment of the Financing System.

(a) Pursuant to the authority conferred by and in accordance with the provisions of the Constitution and laws of the State, including the Act and other applicable law, the Issuer hereby establishes the "Galveston Wharves Financing System" to (i) pay the cost of any Project, (ii) fund any reserve or other fund established in connection with the issuance of Obligations, (iii) refund and refinance Outstanding Obligations and any other obligations of the Issuer, (iv) pay the costs of issuance of such Obligations, and (v) provide funds for any other lawful purpose.

(b) The Obligations may, if and when authorized by the Issuer pursuant to one or more Supplemental Indentures, be issued or incurred in one or more Series, and the designation thereof, in addition to describing the priority of the security therefor as "First Lien," "Second Lien," or such other lien level as shall be designated for Inferior Lien Obligations, shall include such further appropriate particular designation added to or incorporated in such title for the Obligations of any particular Series as the Issuer may determine, including, without limitation, the designation of such Obligations as "Bonds," "Notes," "Certificates," "Commercial Paper," "Program Notes" or other appropriate designation.

(c) A Supplemental Indenture may authorize one or more Series to be established as a program for the issuance of commercial paper, direct purchase notes or other similar forms of indebtedness from time to time as First Lien Obligations, Second Lien Obligations, or Inferior Lien Obligations. Such Obligations may be issued as Long-Term Obligations, Short-Term Obligations or Balloon Obligations.

(d) Each Supplemental Indenture shall provide for the authorization, issuance, sale, delivery, form, characteristics, interest rate(s) (which may be fixed, variable, adjustable or computed by any other method), provisions for payment and redemption and any other matters related to the Obligations authorized thereby (including without limitation, matters related to the delegation to an authorized representative of the Issuer or designee of the sale of any such Obligations and the execution and delivery of Credit

Agreements and Reimbursement Agreements, if any). A Supplemental Indenture may, to the extent consistent with or not prohibited by this Trust Indenture, provide for different or additional terms for, and delegations in connection with, Obligations issued under such Supplemental Indenture and may further provide for different or additional terms for, and delegations in connection with, Obligations issued under a Series established as a commercial paper program, direct purchase note program or other similar program.

(e) Subject to the Issuer's compliance with the provisions of this Article II, no limit is imposed as to the principal amount of Obligations of any lien level that may be issued under the provisions of this Trust Indenture. In a Supplemental Indenture, the Issuer may establish additional funds, accounts and subaccounts as permitted under this Trust Indenture. In addition, a Supplemental Indenture may establish additional lien levels for Inferior Lien Obligations, provided that such liens are inferior to the lien securing Second Lien Obligations.

(f) This Trust Indenture, as supplemented by certain terms of the Sixth Supplement to the Original Trust Indenture (attached hereto and incorporated herein as Exhibit A), shall govern the Series 2021 Bonds.

Section 202. Issuance of Obligations and Credit Agreements.

(a) The Issuer reserves and shall have the right and authority to issue Obligations and to execute and deliver Credit Agreements, Reimbursement Agreements and Hedge Agreements (subject to Section 203 below) with respect to any or all of the Obligations for any purpose authorized by law pursuant to the provisions of this Trust Indenture and any Supplemental Indenture on the conditions set forth in Article II of this Trust Indenture. The Obligations and Credit Agreement Obligations, when executed and delivered in accordance with this Trust Indenture, may be (i) secured by and made payable equally and ratably on a parity with, or subordinate to, all Outstanding First Lien Obligations, Outstanding Second Lien Obligations, or Outstanding Inferior Lien Obligations as the case may be, from a lien on and pledge of the Net Revenues, or (ii) secured by and made payable from any combination of liens on and pledges of Net Revenues that are on parity with or subordinate to the pledge and lien securing First Lien Obligations, senior to, on parity with, or subordinate to the pledge and lien securing Second Lien Obligations, or senior to, on parity with, or subordinate to the pledge and lien securing Inferior Lien Obligations.

(b) The Obligations of each Series (or collection of Series issued under the same plan of finance), together with any Credit Agreement(s) related thereto, shall be delivered in accordance with terms to be set forth in the Supplemental Indenture authorizing such Series. In addition, except in connection with the Obligations authorized by a Supplemental Indenture approved at the same meeting as this Trust Indenture (which shall not have to comply with this subsection), no Series of Obligations (or any Credit Agreement) shall be issued or delivered unless:

(1) No Default. The Issuer and the Wharves' Board shall each certify that upon the issuance of such Series of Obligations and the delivery of such Credit Agreement (and any related Reimbursement Agreement), the Issuer and the Galveston Wharves, respectively, will not be in default under any term or provision of this Trust Indenture, any Obligations then Outstanding, any Supplemental Indenture pursuant to which any of such Outstanding Obligations were issued, or any Credit Agreement or Hedge Agreement;

(2) Proper Fund Balances. The Issuer and the Wharves' Board shall each certify that, upon the issuance of such Series of Obligations, the First Lien Debt Service Fund, the Second Lien Debt Service Fund, and any debt service funds established for any Inferior Lien Obligations will have the amounts required by the Trust Indenture and any Supplemental Indenture to be on deposit therein, if any, and the First Lien Debt Service Reserve Fund, Second Lien Debt Service Reserve Fund, and any debt service reserve fund established for any Inferior Lien Obligations will contain the applicable Debt Service Reserve Fund Requirement, if any, or so much thereof as is required to be funded at such time;

(3) Historical Coverage on Outstanding Obligations. The Issuer shall certify that for any consecutive 12 months out of the most recent 18 months (for the purposes of this Section, such a period is an “Annual Period”) the Net Revenues were equal to at least:

(A) 125% of the Annual Debt Service for such Annual Period on all Outstanding First Lien Obligations; and

(B) 110% of the Annual Debt Service for such Annual Period on all Outstanding First Lien Obligations and Second Lien Obligations;

provided that the provisions of this subsection shall not apply to (a) the issuance of Obligations for the purpose of refunding Short-Term Obligations or Balloon Obligations or Obligations issued under a commercial paper program or a direct purchase note program, or (b) the issuance of Completion Obligations in accordance with Section 205 hereof; and provided further that additional coverage requirements for Inferior Lien Obligations may be added in a Supplemental Indenture;

(4) Coverage for Additional Obligations. Either historical coverage or projected coverage.

(A) Historical Coverage. The Issuer shall certify that for any consecutive 12 months out of the most recent 18 months (for the purposes of this subsection, such a period is an “Annual Period”) the Net Revenues were equal to at least:

(i) 125% of the maximum Projected Annual Debt Service on all First Lien Obligations for all future Fiscal Years in which both the Additional Obligations to be issued or delivered and all Outstanding Obligations are due to remain Outstanding, and

(ii) 110% of the maximum Projected Annual Debt Service on all First Lien Obligations and Second Lien Obligations for all future Fiscal Years in which both the Additional Obligations to be issued or delivered and all Outstanding Obligations are due to remain Outstanding.

In making such calculation, Net Revenues may be adjusted to give effect to any increase of tariffs, rentals, fees, rates, tolls and charges placed into effect at least 60 days prior to the adoption of the Supplemental Indenture authorizing the Additional Obligations to the same extent as if such increase of tariffs, rentals, fees, rates, tolls and charges had been placed into effect prior to the commencement of the consecutive 12-month period that is the basis of the calculation; provided, however, that the result of the calculation utilizing such an adjustment must be certified by an independent certified public accountant or firm of independent certified public accountants using the Accounting Principles; or

(B) Projected Coverage: A Galveston Wharves Management Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues for each of the three consecutive Fiscal Years beginning with the earlier of:

(i) the first Fiscal Year following the estimated date of completion and initial use of all revenue-producing facilities to be financed with such Additional Obligations, based upon a certified written estimate of such completion date by the consulting engineer for such facility or facilities, or

(ii) the first Fiscal Year in which the Issuer will have scheduled payments of interest on, or principal of, the Additional Obligations to be issued the payment of which provision has not been made as indicated in the report of such Galveston Wharves Management Consultant from proceeds of such Additional Obligations, investment income thereon or other appropriated sources (other than Net Revenues), are equal to at least 125% of the maximum Projected Annual Debt Service on all First Lien Obligations, 110% of the maximum Projected Annual Debt Service on all First Lien Obligations and Second Lien Obligations, in each case for all Fiscal Years described in subsection (b)(4)(A) of this Section;

(C) Refunding Obligations: If the additional Obligations are being issued for the purpose of refunding previously issued Obligations which are then Outstanding, none of the certifications described in (b)(3) or (b)(4)(A) or (B) of this Section are required (except in the event First Lien Obligations are issued to refund Obligations other than First Lien Obligations or Second Lien Obligations are issued to refund Inferior Lien Obligations), so long as the Projected Annual Debt Service in no Fiscal Year after the issuance of such Obligations (after taking into account the redemption or defeasance of the Obligations being refunded) will exceed the scheduled Annual Debt Service in the same Fiscal Year prior to the issuance of such Obligations; provided, however, that the provisions of this subsection (b)(4) shall not apply to (a) the issuance of Obligations for the purpose of refunding Short-Term Obligations or Balloon Obligations or Obligations issued under a commercial paper program or a direct purchase note program or (b) the issuance of Completion Obligations in accordance with Section 205 hereof; and provided further that additional coverage requirements for Inferior Lien Obligations may be added in a Supplemental Indenture; and

(5) Supplemental Indenture Requirements: Provision is made in the Supplemental Indenture authorizing the Series of Obligations proposed to be issued for:

(A) additional payments into the First Lien Debt Service Fund, Second Lien Debt Service Fund, or debt service funds established for Inferior Lien Obligations (as the case may be) sufficient to provide for any principal and interest requirements resulting from the issuance of the Obligations, including, in the event that interest on the additional series of Obligations is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the First Lien Debt Service Fund, Second Lien Debt Service Fund, or debt service funds established for Inferior Lien Obligations (as the case may be) of amounts fully sufficient to pay interest on such series of Obligations during the period specified in the Supplemental Indenture; and

(B) satisfaction of any First Lien Debt Service Reserve Fund Requirement, the Second Lien Debt Service Reserve Fund Requirement, or debt service reserve fund requirements established for Inferior Lien Obligations (as the case may be) by not later than the date required by any Supplemental Indenture authorizing Obligations then Outstanding.

(c) Special Provisions for Credit Agreements. The Issuer may enter into Credit Agreements with respect to any Obligations if (i) prior to entering into such Credit Agreement, the Issuer, to the extent required by law, shall cause the proceedings authorizing the Credit Agreement and any contracts or Reimbursement Agreements relating thereto to be submitted to and approved by the Attorney General and (ii) the conditions described in subsection (b) of this Section are satisfied for the Obligations to be incurred under the Credit Agreement. A Credit Provider may be entitled to be subrogated to the rights of the Owners of the Obligations to payments thereon made by advances under such Credit Agreement, and to the extent

so provided in a Supplemental Indenture authorizing such Credit Agreement, the Issuer's Credit Agreement Obligations may be secured by Net Revenues at the same lien priority as or a lien priority inferior to the Obligations to which the Credit Agreement relates.

Section 203. Hedge Agreements. The Issuer may enter into one or more Hedge Agreements with respect to any Obligations if prior to entering into such Hedge Agreement:

(a) the Issuer authorizes the execution and delivery of the Hedge Agreement and specifies therein whether the Hedge Agreement Payment Obligations shall be secured by a pledge of and lien on the Net Revenues on a parity with the First Lien Obligations, Second Lien Obligations, or Inferior Lien Obligations to which such Hedge Agreement relates;

(b) the Issuer obtains an Opinion of Bond Counsel addressed to the Issuer with respect to the Hedge Agreement;

(c) the Issuer shall certify that the Issuer is not in default under this Trust Indenture, any Supplemental Indenture or Obligations then Outstanding, or any existing Credit Agreement or Hedge Agreement, and that the Hedge Agreement is in compliance with the Issuer's then current policies;

(d) the Issuer, to the extent required by law, shall cause the proceedings authorizing the Hedge Agreement to be submitted to and approved by the Attorney General and, to the extent applicable, comply with the provisions of Section 1371.056(j) of the Texas Government Code, as amended; and

(e) the Issuer shall certify that the calculation of Annual Debt Service takes into account the expected Hedge Agreement Payment Obligations to be made by the Issuer and amounts to be received by the Issuer from the Counterparty pursuant to such Hedge Agreement as set forth in this Trust Indenture or applicable Supplemental Indenture or, in the case of a Hedge Agreement entered into in anticipation of or after the issuance of the Obligations to which it relates, the Issuer makes the certifications required to demonstrate that it may then issue an equal amount of such Obligations of the same lien priority (in lieu of such Obligations if then Outstanding) in accordance with Section 202(b).

The Issuer may elect to either (i) secure its Hedge Agreement Payment Obligations thereunder (but no other obligations with respect to any such Hedge Agreement) on parity with the First Lien Obligations or (ii) not secure such Hedge Agreement Payment Obligations thereunder issued on parity with the First Lien Obligations. In the event the Issuer wishes to secure its Hedge Agreement Payment Obligations on parity with the First Lien Obligations, the Supplemental Indenture by which it is authorized shall grant such parity lien (in which event, such Hedge Agreement shall constitute a "First Lien Hedge Agreement"). Upon entering into a First Lien Hedge Agreement, amounts equal to the Hedge Agreement Payment Obligations under the First Lien Hedge Agreement (net of any amounts owed by the Counterparty to the Wharves' Board) shall be deposited into the First Lien Debt Service Fund as if such amounts were additional amounts of interest due in order to pay (when due) such Hedge Agreement Payment Obligations payable under the First Lien Hedge Agreement from amounts on deposit in the First Lien Debt Service Fund. Net amounts received by the Issuer from the Counterparty pursuant to First Lien Hedge Agreement shall be deposited to the credit of the First Lien Debt Service Fund or, in the case of collateral postings and amounts due on termination, to such other Fund or account as designated by an authorized representative of the Issuer or designee. Notwithstanding the foregoing, any amounts payable by the Issuer as termination payments under a First Lien Hedge Agreement shall, if secured by a pledge of and lien on the Net Revenues, be secured by a pledge of and lien on the Net Revenues subordinate to the lien benefitting the First Lien Obligations.

The Issuer may elect to either (i) secure its Hedge Agreement Payment Obligations thereunder (but no other obligations with respect to any such Hedge Agreement) on parity with the Second Lien Obligations or (ii) not secure such Hedge Agreement Payment Obligations thereunder on parity with the Second Lien

Obligations. In the event the Issuer wishes to secure its obligations on parity with the Second Lien Obligations, the Supplemental Indenture by which it is authorized shall grant such parity lien position (in which event, such Hedge Agreement shall constitute a “Second Lien Hedge Agreement”). Upon entering into a Second Lien Hedge Agreement, amounts equal to the Hedge Agreement Payment Obligations received under the Second Lien Hedge Agreement (net of any amounts owed by the Counterparty to the Issuer) shall be deposited into the Second Lien Debt Service Fund as if such amounts were additional amounts of interest due in order to pay (when due) such Hedge Agreement Payment Obligations payable under the Second Lien Hedge Agreement from amounts on deposit in the Second Lien Debt Service Fund. Net amounts received by the Issuer from the Counterparty pursuant to a Second Lien Hedge Agreement shall be deposited to the credit of the Second Lien Debt Service Fund or in the case of collateral postings and amounts on termination, to such other Fund or account as designated by an authorized representative of the Issuer or designee. Notwithstanding the foregoing, any amounts payable by the Issuer as termination payments under a Second Lien Hedge Agreement shall, if secured by a pledge and lien on the Net Revenues, be secured by a pledge of and lien on the Net Revenues, subordinate to the lien benefitting the Second Lien Obligations.

Section 204. Short-Term Obligations. The Issuer reserves the right to issue, from time to time, one or more series of Obligations as Short-Term Obligations; provided, however, that no such Short-Term Obligations (other than those issued under a Supplemental Indenture adopted concurrently with this Trust Indenture) may be issued without satisfying the applicable provisions of Section 202 above.

Section 205. Completion Obligations.

(a) The Issuer reserves the right to issue Completion Obligations. Such Completion Obligations may be issued on parity with or subordinate to the Obligations that financed the costs of the Financed Project.

(b) Prior to the issuance of any series of Completion Obligations the Issuer must provide, in addition to satisfying all of the conditions of Section 202 (other than subsections 202(b)(3) and (4)), which shall not apply to Completion Obligations), the following documents:

(1) a certificate of the consulting engineer engaged by the Issuer to design the Financed Project for which the Completion Obligations are to be issued stating that such Financed Project has not materially changed in scope since the issuance of the most recent series of Obligations for such purpose (except as permitted in the applicable Supplemental Indenture authorizing such Obligations) and setting forth the aggregate cost of the Financed Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(2) a certificate of the Port Director/CEO or Chairman of the Wharves’ Board (A) stating that all amounts allocated to pay costs of the Financed Project from the proceeds of the most recent Series of Obligations issued in connection with the Financed Project for which the Completion Obligations are being issued were used or are still available within a construction fund therefor to be used to pay costs of such Financed Project; (B) containing a calculation of the amount by which the aggregate cost of that Financed Project (furnished in the consulting engineer’s certificate described above) exceeds the sum of the costs of the Financed Project paid to such date plus the moneys available at such date within any construction fund established therefor or other like account applicable to the Financed Project plus any other moneys which the Issuer has determined are available to pay such costs in any other fund; (C) certifying that, in the opinion of the Issuer, the issuance of the Completion Obligations is necessary to provide funds for the completion of the Financed Project; and (D) certifying that at the time the most recent Series of Obligations were issued in connection with the Financed Project (other than pursuant to this Section), the Issuer reasonably believed that such Series of Obligations would be sufficient, together with funds on hand dedicated to such purpose, to pay the costs of the Financed Project.

Section 206. Inferior Lien Obligations. The Issuer reserves the right to issue or incur, bonds, notes, commercial paper program notes or other obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the First Lien Obligations and the Second Lien Obligations. Such Inferior Lien Obligations may be further secured by any other source of payment lawfully available for such purposes and may be issued under this Trust Indenture and a Supplemental Indenture of the Issuer or a separate Trust Indenture pertaining to the Inferior Lien Obligations. The Issuer may establish additional funds accounts, and sub-accounts within the flow of funds to provide for the issuance or incurrence of Inferior Lien Obligations.

Section 207. Capital Leases. The Issuer reserves the right to finance or acquire Wharves' Facilities through capital leases or other similar lease/purchase arrangements in accordance with this Section. Unless such capital leases or lease purchase arrangements are entered into under a Supplemental Indenture designating the Issuer's payment obligations thereunder as First Lien Obligations, Second Lien Obligations, or Inferior Lien Obligations, any payment obligations of the Wharves' Board under such capital leases or other similar lease/purchase arrangements will be payable from Net Revenues available after making all deposits required in connection with Outstanding First Lien Obligations, Second Lien Obligations, or Inferior Lien Obligations, under this Trust Indenture and the Supplemental Indenture authorizing such Obligations, or other lawfully available funds of the Issuer that are not Gross Revenues, including without limitations from revenues on deposit in the General Fund. Capital leases or other similar lease/purchase arrangements may be secured by the mortgage or encumbrance of the Wharves' Facilities being financed under such arrangement, subject to Section 704, and a pledge of any other source of payment lawfully available for such purposes, subject to Section 708. Capital leases or other similar lease/purchase arrangements may be entered into by Wharves' Board pursuant to a separate resolution adopted by the Wharves' Board. If the payment obligations of the Issuer under a capital lease or other similar lease/purchase arrangement will be First Lien Obligations, Second Lien Obligations, or Inferior Lien Obligations, the Issuer must comply with the provisions of Section 202 of this Trust Indenture. The Issuer reserves the right to establish such other funds and accounts as may be necessary in connection with such capital lease or other similar lease/purchase arrangements in a Supplemental Indenture; provided, however, that no such funds or accounts shall be earlier in priority than the First Lien Debt Service Fund and any First Lien Debt Service Reserve Fund.

Section 208. Special Facilities Obligations. The Issuer reserves the right to issue, from time to time, in one or more series, Special Facilities Obligations as herein provided to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Obligations shall be payable solely from payments by any Special Facilities Lease and/or other security not provided by the Issuer. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the Issuer as security for the Obligations or for the construction, operation, maintenance or repair of Wharves' Facilities be pledged to the payment of Special Facilities Obligations or to the payment of any expenses of maintenance and operation of Special Facilities.

Section 209. Excluded Fee and Charge Revenue Obligations. The Issuer reserves the right to issue or incur, for any lawful Issuer purpose, bonds, notes, commercial paper program notes or other obligations secured in whole or in part by a lien on all or any designated portion of Excluded Fee and Charge Revenues. Such obligations may be further secured by any other source of payment lawfully available for such purposes, other than Gross Revenues (unless issued in accordance with other provisions of this Article II). The Issuer shall document Excluded Fee and Charge Revenues via ordinance, resolution or order.

ARTICLE III

SECURITY AND SOURCE OF PAYMENT

Section 301. Security; Source of Payment for All Obligations. The Issuer hereby covenants and agrees that all Gross Revenues shall be deposited and paid into the special funds established in this Trust Indenture and shall be applied in the manner set out herein. The Obligations shall constitute special obligations of the Issuer that shall be payable solely from a lien on and pledge of, the Net Revenues, which Net Revenues shall, in the manner herein provided, be set aside for and pledged to the payment of principal of, interest on and redemption premiums, if any, on the Obligations, and to provide for the disposition of the remaining Net Revenues in accordance with this Trust Indenture.

(a) First Lien Obligations. The First Lien Obligations shall constitute special obligations of the Issuer that shall be payable solely from, and equally and ratably secured by a first lien on, the Net Revenues. The Issuer hereby grants a lien on such Net Revenues in the Revenue Fund and further grants a lien on the money and investments held in the First Lien Debt Service Fund and any other fund so designated in any Supplemental Indenture to secure the payment of the principal of and interest on, Maturity Amount, and, redemption premium, if any, on all First Lien Obligations and all expenses of providing for their full and timely payment in accordance with their terms. For the additional benefit of the owners of the First Lien Obligations that are Debt Service Reserve Fund Participants, the Issuer hereby further grants a lien on the First Lien Debt Service Reserve Fund Participant Account of the First Lien Debt Service Reserve Fund, as and to the extent provided in the Supplemental Indenture authorizing such First Lien Obligations. For the additional benefit of the owners of the First Lien Obligations that are not Debt Service Reserve Fund Participants, the Issuer may create one or more additional separate accounts within the First Lien Debt Service Reserve Fund and grant a lien on such accounts for the benefit of the Owners of such Series of First Lien Obligations all as more particularly described in Article II of this Trust Indenture. Except with respect to the First Lien Debt Service Reserve Fund Participant Account or the other separate accounts of the First Lien Debt Service Reserve Fund described in this Section or applicable Supplemental Indenture and except to the extent a Supplemental Security has been provided in the manner described in Section 304, all First Lien Obligations shall be in all respects on a parity with and of equal dignity with one another.

(b) Second Lien Obligations. The Second Lien Obligations shall constitute special obligations of the Issuer that shall, subject to the prior and superior lien of the First Lien Obligations, be payable solely from and equally and ratably secured by a lien on the Net Revenues. The Issuer hereby grants a lien, subject only to the prior and superior lien of the First Lien Obligations, on such Net Revenues in the Revenue Fund and on the Second Lien Debt Service Fund to secure the payment of the principal of and interest on, Maturity Amount, and premium, if any, on all Second Lien Obligations and all expenses of providing their full and timely payment in accordance with their terms. For the additional benefit of the owners of the Second Lien Obligations that are Debt Service Reserve Fund Participants, the

Issuer hereby further grants a lien on the Second Lien Debt Service Reserve Fund Participant Account of the Second Lien Debt Service Reserve Fund to secure the payment of principal of, premium, if any, and interest on all Second Lien Obligations, as and to the extent provided in the Supplemental Indenture authorizing such Second Lien Obligations. For the additional benefit of the owners of the Second Lien Obligations that are not Debt Service Reserve Fund Participants, the Issuer may, but is not obligated to, create one or more additional, and such separate accounts within the Second Lien Debt Service Reserve Fund and grant a lien on such accounts for the benefit of the Owners of such Series of Second Lien Obligations, all as more fully described in Article II of this Trust Indenture. Except with respect to the Second Lien Debt Service Fund Participant Account or the other separate accounts of the Second Lien Debt Service Reserve Fund described in this Section or applicable Supplemental Indenture and except to the extent a Supplemental Security has been provided in the manner described in Section 304, all Second Lien Obligations shall be in all respects on a parity with and of equal dignity with one another.

(c) Perfection of Security Interests. Pursuant to Chapter 1208, Texas Government Code, the liens created hereunder are valid, effective and perfected. To the extent that the First Lien Obligations and Second Lien Obligations are issued with a Credit Agreement, the Issuer authorizes the inclusion of additional provisions, as needed to provide security for the payment of principal and interest when due on bank bonds. If State law is amended at any time while the Obligations are outstanding and unpaid such that

the pledge of the security granted by the Issuer under this Trust Indenture is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the owners of the Obligations the perfection of the security interest in said pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and maintain the perfection and priority of such security under the Code.

Section 302. Obligations Not Payable from Taxes. The owners of the Obligations shall never have the right to demand payment of either the principal of, or interest on, Maturity Amount of, or any redemption premium on, any Obligations, any Credit Agreement Obligations or any amounts due and owing under any Credit Agreement or Hedge Agreement out of any funds raised or to be raised by taxation.

Section 303. Rate Covenant. The Issuer covenants that the Board or the Issuer (in the event management and control of the Wharves' Facilities is placed in the hands of the Issuer as authorized by Section 702) shall at all times fix, charge impose and collect tariffs, rentals, tolls, rates, fees and other charges for the use and services of Wharves' Facilities, and revise the same as may be necessary or appropriate, in order that in each Fiscal Year, after the payment of all Operating and Maintenance Expenses and Annual Issuer Payment for such Fiscal Year paid or to be paid from Gross Revenues, Net Revenues are at least equal to the greater of (a) or (b) below:

(a) All amounts required to be deposited in such Fiscal Year to the credit of the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, and the Second Lien Debt Service Reserve Fund; or

(b) An amount not less than 110% of the Annual Debt Service in such Fiscal Year on all Outstanding First Lien Obligations and Second Lien Obligations.

In making the calculations in (a) and (b) above, the Issuer may take into consideration as a credit against Annual Debt Service any amounts received, or reasonably expected to be received, in the Fiscal Year from or as a result of any Supplemental Security the Issuer has pledged for the benefit of Obligations to the extent the Issuer is not under an obligation to repay the amounts received; provided, however, that if the pledge is not for the benefit of all Obligations, the amounts expected to be received

may only be taken into account when making the calculation for the affected Obligations. Except as provided below, if the Net Revenues in any Fiscal Year are less than the amounts specified above, the Issuer, promptly upon receipt of the annual audit for such Fiscal Year, shall undertake revisions of the Issuer's tariffs, rentals, tolls, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Wharves' Facilities in order to satisfy as quickly as practicable, subject to commercial, contractual, statutory and regulatory constraints, the foregoing requirements for each succeeding Fiscal Year. So long as the Issuer can demonstrate compliance with such foregoing requirements within 24 months of its receipt of the annual audit specifying that the Net Revenues in any Fiscal Year are less than those specified above, the Issuer will not be deemed to have defaulted in the performance of its duties under this Section of the Trust Indenture, so long as there is no other default hereunder. Notwithstanding the above, the Issuer must at all times fix, change, impose and collect tariffs, rentals, tolls, rates, fees and other changes sufficient to produce Net Revenues in each Fiscal Year in an amount not less than 100% of the Annual Debt Service for such Fiscal Year on all Outstanding First Lien Obligations and Second Lien Obligations. The Issuer may make additions to the rate covenant established in this Section 303 in order to accommodate the authorization of Inferior Lien Obligations.

Section 304. Supplemental Security. The Issuer may, in its discretion, provide Supplemental Security (a) for specified Obligations, but shall have no obligation to provide such additional security or credit enhancement to any other Obligations, or (b) for deposit into one or more specified Funds or accounts created under this Trust Indenture or any Supplemental Indenture, except that no Supplemental Security shall be provided unless there shall have been first delivered an Opinion of Bond Counsel. The Issuer

reserves the right to establish, pursuant to a Supplemental Indenture, one or more Funds or accounts for the purpose of securing, investing and disbursing Supplemental Security.

ARTICLE IV
EXECUTION AND DELIVERY OF OBLIGATIONS

Section 401. Execution, Authentication and Delivery. The Obligations shall be executed on behalf of the Issuer by its Mayor or designee and attested to by its Secretary or designee and may be sealed with the seal of the Issuer. The signature of any of these officers on the Obligations may be manual or facsimile and a facsimile of the seal may be imprinted thereon. Obligations bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Issuer shall bind the Issuer, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Obligations or did not hold such offices at the date of such Obligations.

At any time and from time to time after the execution and delivery of this Trust Indenture, the Issuer may deliver Obligations executed by the Issuer to the Trustee together with an Order of the Issuer for the authentication and delivery of such Obligations; and the Trustee in accordance with such Order shall register such Obligations and (subject to the provisions of Section 409 of this Trust Indenture) authenticate and deliver such Obligations as in this Trust Indenture provided.

No Obligations shall be entitled to any benefit under this Trust Indenture or be valid or obligatory for any purpose, unless there appears on or attached to such Obligations a certificate of authentication of the Trustee, or a certificate of registration executed by the Comptroller of Public Accounts of the State of Texas or one of its authorized deputies and either of such certificates upon any Obligation shall be conclusive evidence, and the only evidence, that such Obligation has been duly authenticated and delivered hereunder.

Prior to the delivery by the Trustee of any of the Obligations, the provisions of Section 409 of this Trust Indenture must be satisfied.

Section 402. Form of Obligations. Obligations of each series shall be in substantially the form set forth in the Supplemental Indenture creating such series, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Trust Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange, or as may, consistently herewith, be determined by the officers executing such Obligations, as evidenced by their signing of the Obligations. Any portion of the text of any Obligations may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Obligations.

The Supplemental Indenture authorizing a series of Obligations and/or the form thereof shall set forth the terms of such Obligations.

Section 403. Registration, Transfer and Exchange. Unless otherwise provided in the Supplemental Indenture authorizing a series of Obligations, the provisions of this Section shall apply to all series of Obligations.

The Issuer shall cause to be kept at the corporate trust office of the Trustee, a register (sometimes herein referred to as the "Bond Register") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Obligations and of transfers of Obligations. The Trustee is hereby appointed Registrar for the purpose of registering Obligations and transfers of Obligations as provided in this Article.

Upon surrender for transfer of any Obligation, the Issuer shall execute and the Trustee shall authenticate and deliver, in the name of the designated transferee, one or more new Obligations of a like

aggregate principal amount, series, maturity and interest rate.

At the option of the Owner, Obligations may be exchanged for Obligations of any Authorized Denominations, of a like aggregate principal amount, series, maturity and interest rate, upon the surrender of the Obligations to the Trustee. Whenever any Obligations are so surrendered for exchange, the Issuer shall execute, and the Trustee shall authenticate and deliver, the Obligations which the Owner making the exchange is entitled to receive.

All Obligations surrendered upon any exchange or transfer provided for in this Trust Indenture shall be promptly cancelled by the Trustee and thereafter treated in accordance with the Trustee's document retention policy.

All Obligations issued in exchange for or upon transfer of Obligations shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Trust Indenture, as the Obligations surrendered for such exchange or transfer.

Every Obligation presented or surrendered for transfer or exchange shall (if so required by the Issuer or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Trustee duly executed, by the Owner thereof or his attorney duly authorized in writing.

The Issuer and the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Obligations, other than exchanges expressly provided in this Trust Indenture to be made without expense or without charge to Owners.

The Issuer and the Trustee shall not be required to issue, transfer or exchange: (1) any Obligations during a period beginning at the opening of business 15 days before any selection of Obligations to be redeemed and ending at the close of business on the day of the first publication of the notice of redemption, or (2) any Obligation selected for redemption; provided that the Issuer and the Trustee shall, at the option of the Owner of Obligations, be required to transfer or exchange any such Obligation which has been selected in whole or in part for redemption upon surrender thereof, if the Trustee makes such arrangements as it deems appropriate for notation on each new Obligation issued in exchange for or upon the transfer of the Obligation so selected for redemption of an appropriate legend to the effect that such new Obligation has been so selected for redemption.

Section 404. Mutilated, Destroyed, Lost and Stolen Obligations. Unless otherwise provided in a Supplemental Indenture authorizing a series of Obligations, the provisions of this Section shall apply to all series of Obligations.

A mutilated Obligation may be surrendered and thereupon the Issuer shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Obligation of like tenor, series, interest rate and principal amount, bearing a number not contemporaneously outstanding.

If there shall be delivered to the Trustee

- (i) evidence to its satisfaction of the destruction, loss or theft of any Obligation, and
- (ii) such security or indemnity as may be required by it to save the Trustee and the Issuer harmless,

then, in the absence of notice to the Issuer or the Trustee that such Obligation has been acquired by a bona fide purchaser, the Issuer shall execute and upon its request the Trustee shall authenticate and deliver in lieu of any such destroyed, lost or stolen Obligation, a new Obligation of like tenor, series, interest rate and

principal amount, bearing a number not contemporaneously outstanding. If the Obligation in lieu of which a replacement Obligation was issued is subsequently presented for payment by a bona fide purchaser, the Issuer and the Trustee shall be entitled to recover such replacement Obligation, except from a bona fide purchaser thereof and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Issuer or the Trustee in connection therewith.

In case any such mutilated, destroyed or stolen Obligation has become or is about to become due and payable, the Issuer in its discretion may, instead of issuing a new Obligation, pay such Obligation.

Upon the issuance of any new Obligation under this Section, the Issuer and the Trustee may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Obligation issued pursuant to this Section in lieu of any destroyed, lost or stolen Obligation shall constitute an original additional contractual obligation of the Issuer, whether or not the destroyed, lost or stolen Obligation shall be at any time enforceable by anyone, and shall be entitled to all the benefits and security of this Trust Indenture equally and proportionately with any and all other Obligations duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Obligations.

Section 405. Payment of Principal of and Interest on Obligations; Interest Rights Preserved. Unless otherwise provided in a Supplemental Indenture authorizing a series of Obligations, the provisions of this Section shall apply to all series of Obligations.

Unless otherwise provided in a Supplemental Indenture, the Trustee shall be the Paying Agent for the Obligations. The principal of the Obligations shall be paid to the registered Owner thereof at the Maturity of such Obligation upon presentation of such Obligation at the Place of Payment.

Interest on the Obligations shall be payable on the Interest Payment Dates and shall be paid to the Person in whose name that Obligation is registered on the Bond Register at the close of business on the Record Date for such interest (1) by check or draft mailed to such Person at the address specified in the Bond Register, (2) if such Obligation is in book-entry form, by Federal Funds wire to any designated account within the United States of America, or (3) pursuant to other customary arrangements made by such Person and acceptable to the Trustee for such interest.

The Issuer shall pay Obligations to the Trustee when due pursuant to the terms thereof, unless the Supplemental Indenture authorizing their issuance provides that such payments are to be made directly to the Holder thereof, in which case the Issuer shall make such payments to such Holder. The Issuer shall deliver to the Trustee upon request and upon the occurrence of any Event of Default, to the extent applicable, a copy of the most recent amortization or debt service schedule, or calculation of amounts due and owing on any Obligation.

Subject to the foregoing provisions of this Section, each Obligation delivered under this Trust Indenture upon transfer of or in exchange for or in lieu of any other Obligation shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Obligations.

Section 406. Money for Obligation Payments to be Held in Trust; Appointment of Paying Agents. The Issuer shall appoint a Paying Agent in each Place of Payment for each series of the Obligations. Each such Paying Agent appointed by the Issuer shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000, subject to supervision or

examination by federal or state authority. The Issuer will, on or before each due date of the principal of (and premium, if any) or interest on any Obligations, deposit or cause to be deposited (but only from the sources provided herein) with a Paying Agent a sum sufficient to pay the principal (and premium, if any) and interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Issuer will promptly notify the Trustee of its action or failure so to act.

The Issuer will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this subsection, that such Paying Agent will

- (1) hold all sums received by it for the payment of principal of (and premium, if any) or interest on Obligations in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;
- (2) give the Trustee notice of any default by the Issuer (or any other obligor upon the Obligations) in the making of any such payment of principal (and premium, if any) or interest; and
- (3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Trust Indenture or for any other purpose, by Issuer Request direct any Paying Agent to pay to the Trustee all sums held in trust by such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent in trust for the payment of the principal of (and premium, if any) or interest on any Obligation and remaining unclaimed shall be disposed of in accordance with applicable law, including Title 6, TEX. PROP. CODE, as amended. The Trustee or Paying Agent shall observe the reporting requirements of the Texas Property Code.

Section 407. Persons Deemed Owners. The Issuer, the Trustee and any agent of the Issuer may treat the Person in whose name any Obligation is registered on the Bond Register as the Owner of such Obligation for the purpose of receiving payment of principal of (and premium, if any), and interest on, such Obligation and for all other purposes whatsoever whether or not such Obligation be overdue, and neither the Issuer, the Trustee, nor any agent of the Issuer shall be affected by notice to the contrary.

Section 408. Cancellation. All Obligations surrendered for payment or redemption shall be delivered to the Trustee at its designated corporate trust office and, if not already cancelled or required to be otherwise delivered by the terms of the Supplemental Indenture authorizing the series of Obligations of which such Obligation is a part, shall be promptly cancelled by it. The Issuer may at any time deliver to the Trustee at its designated corporate trust office for cancellation any Obligations previously authenticated and delivered hereunder, which the Issuer may have acquired in any manner whatsoever, and all Obligations so delivered shall be promptly cancelled by the Trustee. No Obligations shall be authenticated in lieu of or in exchange for any Obligations cancelled as provided in this Section, except as expressly permitted by this Trust Indenture or a Supplemental Indenture. All cancelled Obligations held by the Trustee shall be treated in accordance with the Trustee's document retention policy.

Section 409. Prerequisites to Delivery of Obligations. One or more series of Obligations may be executed by the Issuer hereunder and thereafter authenticated and delivered by the Trustee for any purpose authorized by or permitted under the Act or other applicable law. Prior, however, to the authentication and delivery of any series of Obligations, there shall have been delivered to the Trustee:

- (a) a resolution of the Wharves' Board authorizing the issuance of such Obligations and approving such documentation as may be required in connection therewith;
- (b) executed counterparts of a Supplemental Indenture authorizing such Obligations, making all modifications hereto which the Issuer may require in connection with the issuance of such Obligations, the payment therefor and the disposition of the proceeds thereof;
- (c) an Opinion of Counsel rendered by Bond Counsel to the effect that (1) all of the conditions set forth in this Trust Indenture to the issuance of such Obligations have been satisfied, and (2) upon the execution of such Obligations by the Issuer and the authentication by the Trustee, such Obligations will be the legal and valid limited obligations of the Issuer enforceable in accordance with their terms and will be entitled to the benefit and security of this Trust Indenture;
- (d) an Officer's Certificate of the Issuer certifying that there then exists no Event of Default under this Trust Indenture, as supplemented;
- (e) an Issuer Order for the Trustee to authenticate and deliver such Obligations to the Person therein identified upon payment to the Trustee of the sum specified therein, if any; and
- (f) an ordinance of the Issuer authorizing the issuance of the Obligations.

Owners of any series of Obligations shall have no right to the Debt Service Reserve Fund or any other Funds created under a Supplemental Indenture for any other series of Obligations, except as provided in any Supplemental Indenture. The Issuer reserves the right to issue bonds or other obligations with a lien on the Trust Estate subordinate to the lien of the Obligations from time to time, except as provided in any Supplemental Indenture.

Section 410. Reserved

Section 411. Temporary Initial Obligations. Pending the preparation of definitive Obligations, the Issuer may execute, and upon Issuer Order the Trustee shall deliver, temporary Obligations which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any denomination, substantially of the tenor of the definitive Obligations in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Obligations may determine, as evidenced by their execution of such Obligations.

If temporary Obligations are issued, the Issuer will cause definitive Obligations to be prepared without unreasonable delay. After the preparation of definitive Obligations, the temporary Obligations shall be exchangeable for definitive Obligations upon surrender of the temporary Obligations at the corporate trust office of the Trustee in a Place of Payment, without charge to the Owner. Upon surrender for cancellation of any one or more temporary Obligations the Issuer shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Obligations of Authorized Denominations. Until so exchanged, temporary Obligations that have attached to them an executed registration certificate of the Comptroller of Public Accounts of the State of Texas shall in all respects be entitled to the same benefits under this Trust Indenture as definitive Obligations.

Section 412. Book-Entry System; Payments and Notices to Cede & Co. The provisions of this Section shall apply to each series of Obligations unless the Supplemental Indenture authorizing a series of Obligations provides that it shall not apply to such series.

Unless otherwise specified in a Supplemental Indenture authorizing a series of Obligations, the Obligations will be issued initially as one fully registered bond for each maturity in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and deposited in the

custody of DTC. The beneficial owners will not receive physical delivery of the Obligations. Individual purchases of the Obligations may be made in book-entry form only in principal amounts equal to Authorized Denominations thereof. Payments of principal of, premium, if any, interest on, and purchase price for the tendered Obligations will be made to DTC or its nominee as Holder.

DTC shall pay interest to the beneficial owners of record only through its Participants as of the close of business on the applicable Record Date. DTC shall pay the redemption price of the Obligations called for redemption to the beneficial owners of record only through its Participants in accordance with its customary procedures.

Transfer of ownership interests in the Obligations shall be made by DTC and its Participants, acting as nominees of the beneficial owners, in accordance with rules specified by DTC and its Participants.

Obligation certificates will be issued directly to owners of the Obligations other than DTC, or its nominee, upon the occurrence of the following events (subject, however, to operation of the two sentences following clause (c) below):

- (a) DTC determines not to continue to act as securities depository for the Obligations;
- or
- (b) Issuer has advised DTC of its determination that DTC is incapable of discharging its duties; or
- (c) Issuer has determined that it is in the best interest of the beneficial owners not to continue the book-entry system of transfer or that interests of the beneficial owners of the Obligations might be adversely affected if the book-entry system of transfer is continued.

Upon occurrence of the event described in (a) or (b) above, Issuer shall attempt to locate another qualified Depository. If Issuer fails to locate another qualified Depository to replace DTC, the Trustee shall authenticate and deliver Obligations in certificated form as hereinafter provided. In the event Issuer makes the determination noted in (b) or (c) above, and has made provisions to notify the beneficial owners of the Obligations of the availability of the Obligation certificates by mailing an appropriate notice to DTC, the Issuer shall cause the Trustee to authenticate and deliver the Obligations in certificated form to DTC's Participants (as requested by DTC) in appropriate amounts and to comply with the transfer procedure in Section 149(a)(3) of the Code. Principal of (and premium, if any) and interest on the Obligations shall be payable as otherwise provided in this Article IV.

In connection with any proposed transfer outside the Book-Entry System, prior to or in conjunction with the issuance of certificated Obligations each Owner shall provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Section 6045 of the Code. The Issuer acknowledges such tax reporting obligations and, if necessary, agrees to use commercially reasonable efforts to assist the Trustee in obtaining such information. The Trustee shall conclusively rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information.

Notwithstanding any other provision of this Trust Indenture to the contrary, so long as any series of Obligations are registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on and purchase price for such tendered Obligations and all notices with respect to such Obligations shall be made and given, respectively, in the manner provided in the Representation Letter. The Trustee shall request in each notice sent to Cede & Co. pursuant to the terms of this Trust Indenture that Cede & Co. forward or cause to be forwarded such notice to the DTC Participants, but neither the Trustee nor the Issuer shall be liable if the Trustee fails to make such request or if Cede & Co. fails to honor such request. The Issuer and the Trustee may conclusively rely upon (i) a

certificate of the Depository as to the identity of the participants in the Book Entry System and (ii) a certificate of such participants as to the identity of, and the respective principal amounts of Obligations beneficially owned by, the beneficial owners.

ARTICLE V

REDEMPTION OF BONDS; PREPAYMENT OBLIGATIONS

Section 501. Redemption. Obligations of each series may be subject to redemption at the times and redemption prices provided in the Supplemental Indenture authorizing such series of Obligations.

Section 502. Election to Redeem; Notice to Trustee. Unless otherwise provided in a Supplemental Indenture authorizing a series of Obligations, the provisions of this Section shall apply to all series of Obligations.

In case of any redemption at the election of the Issuer, the Issuer shall, at least 45 days prior to the redemption date fixed by the Issuer (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such redemption date and in the case of partial optional redemption, of the principal amount of Obligations of each maturity and series to be redeemed.

Section 503. Selection by Trustee of Obligations to be Redeemed. Unless otherwise provided in a Supplemental Indenture authorizing a series of Obligations, the provisions of this Section shall apply to all series of Obligations.

If less than all the Obligations are to be redeemed in connection with a redemption (other than a mandatory sinking fund redemption), the Obligations to be redeemed shall be from such series and maturities specified by the Issuer.

If less than all the Obligations of a particular stated maturity are to be redeemed, the particular Obligations of such stated maturity to be redeemed shall be selected prior to the redemption date by the Trustee, from the Outstanding Obligations (or, if pursuant to mandatory sinking fund redemption, from all Obligations not yet due) of such series and stated maturity specified by the Issuer not previously called for redemption, by such method as the Trustee deems fair and appropriate and which may provide for the selection for redemption of portions of the principal of Obligations of a denomination larger than the minimum Authorized Denomination.

For all purposes of this Trust Indenture, unless the context otherwise requires, all provisions relating to the redemption of Obligations shall relate, in the case of any Obligation redeemed or to be redeemed only in part, to the portion of the principal of such Obligation which has been or is to be redeemed.

Section 504. Notice of Redemption. Unless otherwise provided in a Supplemental Indenture authorizing a series of Obligations, the provisions of this Section shall apply to all series of Obligations.

Notice of redemption shall be given by first-class mail, postage paid, mailed not less than 30 nor more than 60 days prior to the redemption date, to each Owner of Obligations to be redeemed, at his address appearing in the Bond Register.

All notices of redemption shall state:

- (1) the redemption date,
- (2) the redemption price,
- (3) the identification, including designation and Issuance Date of the series of Obligations of which such Obligations are a part and the CUSIP number (if any), certificate number

(if any) and maturity dates of the Obligations to be redeemed,

(4) the conditions, if any, to such redemption, and

(5) the name and address and telephone number (or other appropriate contact information) of the Trustee and any Paying Agent for such Obligations, and the Place of Payment for the redemption price.

Notice of redemption of Obligations to be redeemed at the election of the Issuer shall be given by the Issuer or, at the Issuer's Request, by the Trustee in the name of the Issuer and at the expense of the Issuer.

Section 505. Deposit of Redemption Price. Subject to the occurrence of any condition to a redemption, not later than the date fixed for redemption, the Issuer shall deposit or cause to be deposited with the Trustee or with a Paying Agent an amount of money sufficient to pay the redemption price, including premium, of all the Obligations which are to be redeemed on such date.

Section 506. Obligations Payable on Redemption Date. Notice of redemption having been given and the deposit of the redemption price having been made as aforesaid, the Obligations so to be redeemed shall on the redemption date, become due and payable at the price therein specified and from and after such date such Obligations shall cease to bear interest. Upon surrender of any such Obligation for redemption in accordance with said notice, such Obligation shall be paid by the Issuer at the redemption price. Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the Owners of such Obligations registered as such on the relevant Record Dates according to their terms.

If any Obligation called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the redemption date at the rate borne by the Obligation.

Section 507. Obligations Redeemed in Part. Any Obligation which is to be redeemed only in part shall be surrendered at a Place of Payment (with, if the Issuer or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Trustee duly executed by, the Owner thereof or his attorney duly authorized in writing) and the Issuer shall execute and the Trustee shall authenticate and deliver to the Owner of such Obligation without service charge, a new Obligation or Obligations of the same series, interest rate and Stated Maturity and of any Authorized Denomination as requested by such Owner in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal or principal amount of the Obligation so surrendered.

Section 508. Prepayment of Obligations. Prepayment of Obligations shall be governed by the terms of the instrument evidencing such Obligations and the Trustee shall be entitled to rely on a certification of the Issuer as to the Outstanding amount of any Obligations.

Section 509. Defeasance. The Issuer reserves the right to discharge and defease its obligations with respect to any Obligations in any manner now or hereafter permitted by the laws of the State.

ARTICLE VI

FUNDS AND ACCOUNTS

Section 601. Establishment of Special Funds.

(a) The following special funds are hereby created, and such Funds shall be established and maintained and accounted for as hereinafter provided, so long as any of the Obligations remain Outstanding:

- (1) Revenue Fund;
- (2) Annual Issuer Payment Fund;
- (3) Rebate Fund;
- (4) First Lien Debt Service Fund;
- (5) First Lien Debt Service Reserve Fund;
- (6) Second Lien Debt Service Fund;
- (7) Second Lien Debt Service Reserve Fund;
- (8) Funds or accounts established for Inferior Lien Obligations; and
- (9) General Fund.

(b) The special funds shall be maintained in the following manner:

(1) The First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund, and funds or accounts established for Inferior Lien Obligations, shall be held by the Trustee and shall constitute trust funds which shall be held in trust for the benefit of the Holders of the Obligations and proceeds of which shall be and are hereby pledged to the payment of the Obligations. The Revenue Fund, the Annual Issuer Payment Fund, the Rebate Fund and the General Fund shall be maintained by the Wharves' Board or the City (in the event the management and control of the Wharves' Facilities is placed in the hands of the Issuer as authorized by Section 702) at an official depository bank or banks selected by the Wharves' Board.

(2) The First Lien Debt Service Fund shall constitute a fund for the benefit of the Owners of the First Lien Obligations and the balance on deposit therein (other than the interest income thereon, which shall either be retained in the First Lien Debt Service Fund and applied against future required deposits into such fund or transferred to the Revenue Fund unless federal tax law requires that it be deposited to a different Fund) is hereby pledged to the payment of the First Lien Obligations.

(3) The First Lien Debt Service Reserve Fund or accounts therein may be pledged to particular Series of First Lien Obligations as described herein and in the applicable Supplemental Indentures. Within the First Lien Debt Service Reserve Fund, there is created a First Lien Debt Service Reserve Fund Participant Account. The First Lien Debt Service Reserve Fund Participant Account shall constitute funds for the benefit of Owners of the First Lien Obligations that are First Lien Debt Service Reserve Fund Participants. The balance of the First Lien Debt Service Reserve Fund Participant Account (other than the interest income thereon, which may be transferred, to the extent herein provided, to the First Lien Debt Service Fund or such other funds as may be permitted under federal tax law) is hereby pledged to the payment of the First Lien Obligations that are First Lien Debt Service Reserve Fund Participants. The Issuer reserves the right to issue First Lien Obligations that are not Debt Service Reserve Fund Participants and that are not secured by the First Lien Debt Service Reserve Fund Participant Account; and the Issuer may, but is not obligated to, create one or more separate accounts within the First Lien Debt Service Reserve Fund for the benefit of any Series of First Lien Obligations that is not a Debt Service Reserve Fund Participant, the balance of which account (other than the interest income thereon, which may be transferred, to the extent herein provided, to the First Lien Debt Service Fund or such other funds as may be

permitted under federal tax law) is hereby pledged to the payment of such Series of First Lien Obligations that is not a First Lien Debt Service Reserve Fund Participant.

(4) The Second Lien Debt Service Fund shall constitute a fund for the benefit of the Owners of the Second Lien Obligations and the balance on deposit therein (other than the interest income thereon, which shall either be retained in the Second Lien Debt Service Fund and applied against future required deposits into such fund or transferred to the Revenue Fund unless federal tax law requires that it be deposited to a different Fund) shall be pledged to the payment of the Second Lien Obligations.

(5) The Second Lien Debt Service Reserve Fund or accounts therein may be pledged to particular Series of Second Lien Obligations as described herein and in the applicable Supplemental Indentures. Within the Second Lien Debt Service Reserve Fund, there is created a Second Lien Debt Service Reserve Fund Participant Account. The Second Lien Debt Service Reserve Fund Participant Account shall constitute funds for the benefit of Owners of the Second Lien Obligations that are Second Lien Debt Service Reserve Fund Participants. The balance of the Second Lien Debt Service Reserve Fund Participant Account (other than the interest income thereon, which may be transferred, to the extent herein provided, to the Second Lien Debt Service Fund or such other funds as may be permitted under federal tax law) is hereby pledged to the payment of the Second Lien Obligations that are Second Lien Debt Service Reserve Fund Participants. The Issuer reserves the right to issue Second Lien Obligations that are not Debt Service Reserve Fund Participants and that are not secured by the Second Lien Debt Service Reserve Fund Participant Account; and the Issuer may, but is not obligated to, create one or more separate accounts within the Second Lien Debt Service Reserve Fund for the benefit of any Series of Second Lien Obligations that is not a Debt Service Reserve Fund Participant, the balance of which account (other than the interest income thereon, which may be transferred, to the extent herein provided, to the Second Lien Debt Service Fund or such other funds as may be permitted under federal tax law) is hereby pledged to the payment of such Series of Second Lien Obligations that is not a Second Lien Debt Service Reserve Fund Participant.

(6) All of the Funds named above shall be used solely as herein provided so long as any Obligations remain Outstanding.

(7) The Issuer reserves the right to establish additional accounts and subaccounts within any Fund as necessary or desirable in furtherance of the intent and purpose of this Trust Indenture, including without limitation, the purposes of causing the supplemental funding of any Debt Service Reserve Fund and creating accounts and subaccounts for the purpose of accounting for Obligation proceeds, revenues or other amounts relating to one or more Series of Obligations. Each such account or subaccount within a Fund shall be designated in a manner that indicates the identity of such Fund and that distinguishes such account or subaccount from all other accounts and subaccounts established under this Trust Indenture. The Trustee may create other accounts and subaccounts to enable it to perform its duties hereunder or under any Supplemental Indenture.

(c) The Issuer reserves the right to establish one or more additional Funds, accounts or sub-accounts for such purposes as the Issuer may determine from time to time, including, but not limited to, the purposes of providing for the issuance of Inferior Lien Obligations, establishing construction funds and the creation of reserves for any lawful Issuer purpose.

Section 602. Revenue Fund; and Flow of Funds. After payment of or reservation or encumbrance for the payment of Operation and Maintenance Expenses and to make all required deposits into the Annual Issuer Payment Fund due in a month from all Gross Revenues, all Net Revenues (except funds to pay and make provision for payment of and investment income required to be retained in the Debt Service Fund and the Debt Service Reserve Fund) shall be deposited as received by the Wharves' Board as collected into the

Revenue Fund. Unless modified with respect to a particular Series of Obligations in a Supplemental Indenture, which modifications shall not have an adverse effect with respect to any Outstanding Obligations, moneys on deposit in the Revenue Fund shall be deposited in, or credited to, as appropriate, the following funds and accounts, on or before the last Business Day of each month (each, a “Transfer Date”) beginning on the last Business Day of the calendar month in which any Obligations are issued and Outstanding hereunder (or on such other date or dates as may be provided in a Supplemental Indenture with respect to a particular Series of Obligations adopted in accordance herewith and any conditions contained in a Supplemental Indenture or Credit Agreement) in the following amounts and in the following order of priority (provided, however, that if the Wharves’ Board provides a written certification that a fund contains the amount required to be deposited therein for a particular period under the Trust Indenture and any Supplemental Indenture, the Wharves’ Board may suspend transfers to such fund for the period identified in such certification):

(a) First, to the Rebate Fund the amount, if any, necessary to pay the rebate amount required to be paid, pursuant to section 148(f) of the Code in the month following the Transfer Date; and

(b) Second, to the First Lien Debt Service Fund (or to a fund or account created to pay Credit Agreement Obligations under a Credit Agreement entered into in connection with First Lien Obligations or a Hedge Agreement Payment Obligation under a First Lien Hedge Agreement, if the same are not payable from the First Lien Debt Service Fund and deposits to such fund or account are ratable with deposits to the First Lien Debt Service Fund), an amount equal to the sum of the following:

(1) one-sixth (1/6) of the interest becoming due on the next semiannual Interest Payment Date with respect to First Lien Obligations that bear interest at a fixed rate payable semiannually; and

(2) one-third (1/3) of the interest becoming due on the next quarterly Interest Payment Date with respect to First Lien Obligations that bear interest at a fixed rate payable quarterly; and

(3) the amount of interest next becoming due in the following month on First Lien Obligations that bear interest at a fixed rate payable monthly; and

(4) if interest on the First Lien Obligations bears interest payable at a variable rate or a fixed rate on other than a semi-annual, quarterly, or monthly basis, the amount required to provide for the payment of the interest thereon becoming due on the next Interest Payment Date in substantially equal monthly installments based on reasonably foreseeable financial conditions; and

(5) the amount of interest accruing in such month on First Lien Obligations that bear interest payable on other than a monthly basis (other than Capital Appreciation Obligations), together with the amount of interest that will accrue on such First Lien Obligations through any Interest Payment Dates that will occur prior to the next Transfer Date; and

(6) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of First Lien Obligations that will mature and become due and payable on the next annual maturity date therefor; and

(7) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of First Lien Obligations subject to mandatory sinking fund redemption on the next annual mandatory sinking fund redemption date; and

(8) the Credit Agreement Obligation secured by a pledge of and a lien on Net Revenues on parity with other First Lien Obligations or Hedge Agreement Payment Obligation, if any, payable by the Issuer under a First Lien Hedge Agreement accruing in such month or that will

accrue through a payment date that will occur prior to the next Transfer Date; provided, that such amounts shall be included in the calculation of the monthly deposit only to the extent such amounts are required to be paid in addition to the amounts provided for by clauses (1) through (7) above.

In calculating such monthly deposit to the First Lien Debt Service Fund, the following shall be taken into account and credited against deposits to the First Lien Debt Service Fund otherwise required by the foregoing clauses: (a) any accrued interest deposited into the First Lien Debt Service Fund from the proceeds of a Series of First Lien Obligations, and any amounts credited to the First Lien Debt Service Fund and dedicated to pay capitalized interest on a Series of First Lien Obligations, in either case on or before the Transfer Date and anticipated to be available to pay interest on such First Lien Obligations on the next Interest Payment Date, (b) any other amounts deposited to the First Lien Debt Service Fund prior to the Transfer Date, (c) any investment income realized by the Issuer from the investment of amounts on deposit in the First Lien Debt Service Fund and credited to the First Lien Debt Service Fund, and (d) any payments received by the Issuer from a Counterparty under a First Lien Hedge Agreement and deposited to the First Lien Debt Service Fund (which amounts shall be deposited to the First Lien Debt Service Fund as described in Section 203 of this Trust Indenture).

No deposits shall be required under clauses (6) or (7), above, for the payment of the principal amount or Maturity Amount as applicable on a First Lien Obligation to the extent there is in effect a third party agreement (e.g. bond purchase agreement) to refund or refinance the principal amount or Maturity Amount coming due or the First Lien Obligation is a Short-Term Obligation that will be refinanced, refunded or rolled under a commercial paper program or a direct purchase note program.

Further, such monthly deposits shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to each Series of First Lien Obligations and the frequency of payments under any First Lien Hedge Agreements so as to assure ratable monthly accrual of all Obligations of the Issuer payable thereunder. On or before each Transfer Date, the Issuer shall make up any deficiencies in deposits on prior Transfer Dates from and to the extent moneys remain on deposit in the Revenue Fund.

(c) Third, to the First Lien Debt Service Reserve Fund, all amounts, if any, which, together with amounts on deposit therein and amounts available under a First Lien DSRF Security, may be required by any Supplemental Indenture, including transfers to pay all Credit Agreement Obligations under a First Lien DSRF Security.

(d) Fourth, to the Second Lien Debt Service Fund (or to a fund or account created to pay or Credit Agreement Obligations under a Credit Agreement entered into in connection with Second Lien Obligations or a Hedge Agreement Payment Obligation under a Second Lien Hedge Agreement), an amount equal to the sum of the following:

(1) one-sixth (1/6) of the interest becoming due on the next semiannual Interest Payment Date with respect to Second Lien Obligations that bear interest at a fixed rate payable semiannually; and

(2) one-third (1/3) of the interest becoming due on the next quarterly Interest Payment Date with respect to Second Lien Obligations that bear interest at a fixed rate payable quarterly; and

(3) the amount of interest next becoming due in the following month on Second Lien Obligations that bear interest at a fixed rate payable monthly; and

(4) if interest on the Second Lien Obligations bears interest payable at a variable rate or fixed rate on other than a semi-annual, quarterly, or monthly basis, the amount required to provide for the payment of the interest thereon becoming due on the next Interest Payment Date in substantially equal monthly installments under reasonably foreseeable financial conditions; and

(5) the amount of interest accruing in such month on Second Lien Obligations that bear interest payable on other than a monthly basis (other than Capital Appreciation Obligations), together with the amount of interest that will accrue on such Second Lien Obligations through any Interest Payment Dates that will occur prior to the next Transfer Date; and

(6) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Second Lien Obligations that will mature and become due and payable on the next annual maturity date therefor; and

(7) one-twelfth (1/12) of the principal amount or Maturity Amount, as applicable, of Second Lien Obligations subject to mandatory sinking fund redemption on the next annual mandatory sinking fund redemption date; and

(8) the Credit Agreement Obligation secured by a pledge of and a lien on the Net Revenues on parity with other Second Lien Obligations or Hedge Agreement Payment Obligations the amount, if any, payable by the Issuer under a Second Lien Hedge Agreement accruing in such month or that will accrue through a payment date that will occur prior to the next Transfer Date; provided, that such amounts shall be included in the calculation of the monthly deposit only to the extent such amounts are required to be paid in addition to the amounts provided for by clauses (1) through (7) above.

In calculating such monthly deposit to the Second Lien Debt Service Fund, the following shall be taken into account and credited against deposits to the Second Lien Debt Service Fund otherwise required by the foregoing clauses: (a) any accrued interest deposited into the Second Lien Debt Service Fund from the proceeds of a Series of Second Lien Obligations, and any amounts credited to the Second Lien Debt Service Fund and dedicated to pay capitalized interest on a Series of Second Lien Obligations, in either case before the Transfer Date and anticipated to be available to pay interest on such Second Lien Obligations on the next Interest Payment Date, (b) any amounts deposited to the Second Lien Debt Service Fund prior to the Transfer Date, (c) any investment income realized by the Issuer from the investment of amounts on deposit in the Second Lien Debt Service Fund and credited to the Second Lien Debt Service Fund, and (d) any payments received by the Issuer from a Counterparty under a Second Lien Hedge Agreement and deposited to the Second Lien Debt Service Fund (which amounts shall be deposited to the Second Lien Debt Service Fund as described in Section 203 of this Trust Indenture).

No deposits shall be required under clauses (6) or (7), above, for the payment of the principal amount or Maturity Amount as applicable on a Second Lien Obligation to the extent there is in effect a third party agreement (e.g. bond purchase agreement) to refund or refinance the principal amount or Maturity Amount coming due or the Second Lien Obligation is a Short-Term Obligation that will be refinanced, refunded or rolled under a commercial paper program or a direct purchase note program.

Further, such monthly deposits shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to each Series of Second Lien Obligations and the frequency of payments under any Second Lien Hedge Agreements so as to assure ratable monthly accrual of all Obligations of the Issuer payable thereunder. On or before each Transfer Date, the Issuer shall make up any deficiencies in deposits on prior Transfer Dates from and to the extent monies remain on deposit in the Revenue Fund.

(e) Fifth, to the Second Lien Debt Service Reserve Fund, all amounts, if any, which, together with amounts on deposit therein and amounts available under a Second Lien DSRF Security, may be required by any Supplemental Indenture, including transfers to pay all Credit Agreement Obligations under a Second Lien DSRF Security.

(f) Sixth, to any funds or accounts created by any Supplemental Indenture to pay Inferior Lien Obligations or pay or repay amounts under a Credit Agreement or Hedge Agreement secured on a lien and subordinate to the First Lien Obligations and Second Lien Obligations. Supplemental Indentures establishing such funds or accounts shall establish the application of such deposits.

(g) Seventh, to any reserve funds or accounts created by any Supplemental Indenture to provide a reserve for any lawful purpose. Supplemental Indentures establishing such reserve funds or accounts shall establish the application of such deposits.

(h) Eighth, to make all required deposits into any funds created in order to provide for payments to the Issuer as may hereafter be required by Article XII of the Issuer's Home Rule Charter in excess of the Annual Issuer Payment.

(i) Ninth, except as otherwise provided in a Supplemental Indenture, to the General Fund all amounts remaining on deposit in the Revenue Fund for any lawful purpose approved by the Wharves' Board related to the ports and harbors of the Issuer, or any facilities, channels, or properties incident thereto.

It shall be the duty of the authorized representative of the Wharves' Board or designee to cause all Gross Revenues to be accounted for, deposited, invested, transferred and applied in accordance with the provisions of this Article VI and any Supplemental Indenture.

Section 603. Rebate Fund. Amounts on deposit in the Rebate Fund may be used solely to make payments due to the United States of America under Section 148 of the Code (or any successor provision).

Section 604. First Lien Debt Service Fund. The Issuer may create such additional accounts in the First Lien Debt Service Fund pursuant to a Supplemental Indenture as it deems necessary or appropriate, including, but not limited to, (i) an account into which drawings on a Credit Agreement are to be deposited and from which principal or Maturity Amount, as applicable (including redemption price), of and interest on the Series of First Lien Obligations secured by such Credit Agreement are to be paid (and upon such payment, amounts on deposit in the First Lien Debt Service Fund shall be used to repay the provider of the Credit Agreement for such payments as and to the extent provided in Section 602), and (ii) an account into which payments to the Issuer from any First Lien Hedge Agreement Counterparty are to be deposited and from which payments from the Issuer to any such First Lien Hedge Agreement Counterparty are to be paid as and to the extent provided in Section 602.

The moneys in the First Lien Debt Service Fund shall be held for the benefit of the First Lien Obligations. The Issuer shall pay out of the First Lien Debt Service Fund to the respective Paying Agents, if any, for First Lien Obligations or other payees thereof (a) on or before each Interest Payment Date and each date fixed for the redemption or other payment of First Lien Obligations, the amount required for the payment of the interest becoming due on such date and (b) on or before each date on which First Lien Obligations or other payments secured by the First Lien Debt Service Fund mature or become subject to scheduled mandatory sinking fund redemption or optional redemption or otherwise become due, the amount required for payment of the principal amount or Maturity Amount, as applicable, of the First Lien Obligations maturing or otherwise becoming due, the redemption price of First Lien Obligations becoming subject to redemption on such date (or to purchase First Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), and any other payments secured by moneys in the First Lien Debt Service Fund becoming due, except, in each case, to the extent such interest, principal amount or Maturity Amount, as applicable, or redemption price is paid from a fund or account other than the First Lien Debt Service Fund, as provided in the Supplemental Indenture authorizing such

First Lien Obligation.

Except as may be otherwise provided in any Supplemental Indenture authorizing any First Lien Obligations, whenever the total amounts on deposit to the credit of the First Lien Debt Service Fund and the First Lien Debt Service Reserve Fund, if applicable, shall be equivalent to the sum of the aggregate principal amount of all Outstanding First Lien Obligations plus the aggregate amount of all interest and other payments secured by the First Lien Debt Service Fund accrued and to accrue thereon, no further transfers need be made into the First Lien Debt Service Fund or the First Lien Debt Service Reserve Fund, if applicable, and such First Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds.

Section 605. First Lien Debt Service Reserve Fund.

(a) The Issuer shall establish and maintain as hereinafter provided a balance in the applicable account of the First Lien Debt Service Reserve Fund equal to the First Lien Debt Service Reserve Fund Requirement for the First Lien Obligations that are secured thereby as established in the Supplemental Indenture authorizing such First Lien Obligations. In addition, subaccounts may be established pursuant to Supplemental Indentures for First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants being issued under the Supplemental Indenture.

The First Lien Debt Service Reserve Fund Requirement shall, as provided in any Supplemental Indenture authorizing such First Lien Obligations, be satisfied by depositing to the credit of the First Lien Debt Service Reserve Fund Participant Account (in the case of First Lien Obligations that are First Lien Debt Service Reserve Fund Participants) or such other designated accounts, as applicable, (in the case of First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants) of the First Lien Debt Service Reserve Fund (i) after providing for the payment of Operating and Maintenance Expenses and making required transfers to the First Lien Debt Service Fund, transfers into the First Lien Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to accumulate within sixty (60) months the First Lien Debt Service Reserve Fund Requirement;

(ii) proceeds of such First Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the Issuer, will be sufficient to fund fully the First Lien Debt Service Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such First Lien Obligations has been provided out of proceeds of such Additional First Lien Obligations or investment earnings thereon as estimated by the Issuer or from other lawfully available funds other than Net Revenues; or (iii) a surety bond, insurance policy or letter of credit or similar financial instrument; provided that, at the time of deposit, either the rating for the long-term unsecured debt of the issuer of such surety bond, insurance policy or letter of credit or similar financial instrument, or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the three highest letter categories by at least one nationally recognized securities rating agency (each, a "First Lien DSRF Security") and which First Lien DSRF Security is in an amount equal to the amount required to be funded. The First Lien DSRF Security shall be payable (upon the giving of any notice as may be required thereunder) on any Interest Payment Date, principal payment date or redemption date on which moneys will be required to be withdrawn from the First Lien Debt Service Reserve Fund and applied to the payment of the principal amount, Maturity Amount or redemption price of or interest on any First Lien Obligations secured thereby, unless otherwise provided in a Supplemental Indenture. Any downgrade of an issuer of a First Lien DSRF Security shall have no effect on the value of such instrument for the purposes of meeting the First Lien Debt Service Reserve Fund Requirement and the Issuer shall have no obligation to supplement or replace such First Lien DSRF Security or make additional cash contributions to the First Lien Debt Service Reserve Fund as a result of such downgrade. The Issuer further expressly reserves the right to substitute at any time a First Lien DSRF Security for any funded amounts in the First Lien Debt Service Reserve Fund and to apply the funds thereby released for any lawful purpose, including without limitation any purpose for which First Lien Obligations may be issued or in order to pay debt service on First Lien Obligations. The Issuer also reserves the right to provide for the use of a DSRF

Security in relationship to a Series-specific debt service reserve requirement as may be required under any Supplemental Indenture.

(b) In any month in which any account of the First Lien Debt Service Reserve Fund contains less than the applicable First Lien Debt Service Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the Issuer has elected to accumulate the First Lien Debt Service Reserve Fund Requirement for any Series of First Lien Obligations as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses and all required transfers to the First Lien Debt Service Fund, the Issuer shall transfer to the Trustee for deposit on a pro rata basis into the First Lien Debt Service Reserve Fund Participant Account (in the case of First Lien Obligations that are Debt Service Reserve Fund Participants) and such other designated accounts, as applicable, (in the case of First Lien Obligations that are not Debt Service Reserve Fund Participants) of the First Lien Debt Service Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the Issuer to pay all Credit Agreement Obligations under First Lien DSRF Security allocable to the First Lien Debt Service Reserve Fund

Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the Issuer within a twelve (12) month period to reestablish in the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Fund, as applicable, the First Lien Debt Service Reserve Fund Requirement for the First Lien Obligations secured thereby. After such amounts have been accumulated in the First Lien Debt Service Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain the First Lien Debt Service Reserve Fund Requirement, no further transfers shall be required to be made into the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Reserve Fund, and any excess amounts in such accounts shall be transferred to the First Lien Debt Service Fund to the extent the excess is attributable to the First Lien Debt Service Reserve Fund for any tax- exempt First Lien Obligations, and otherwise, shall be transferred to the Revenue Fund or such other Funds as may be permitted by federal tax law. But if and whenever the balance in the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts is reduced below the applicable First Lien Debt Service Reserve Fund Requirement, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the First Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the First Lien Debt Service Fund, as applicable, to such amount within a twelve (12) month period.

The First Lien Debt Service Reserve Fund Participant Account shall be used to pay the principal of and interest on the First Lien Obligations that are Debt Service Reserve Fund Participants at any time when there is not sufficient money available in the First Lien Debt Service Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any First Lien DSRF Security, unless provided otherwise in each of the First Lien DSRF Securities allocable to the First Lien Debt Service Reserve Fund Participant Account) and to repay amounts drawn under any First Lien DSRF Security allocable to such First Lien Debt Service Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the Issuer's Credit Agreement Obligations incurred in connection with such First Lien DSRF Security. The First Lien Debt Service Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all First Lien Obligations then Outstanding that are secured thereby.

With respect to any Series of First Lien Obligations that are not First Lien Debt Service Reserve Fund Participants, any account created within the First Lien Debt Service Reserve Fund for the benefit of such Series of First Lien Obligations shall be used to pay the principal of and interest on such Series of First Lien Obligations at any time when there is not sufficient money available in the First Lien Debt Service Reserve Fund for such purpose and to repay amounts drawn under any First Lien DSRF Security allocable to such account for such purpose, in accordance with the terms of the Supplemental Indenture establishing such account.

(c) The Trustee is hereby directed to make a claim or draw upon the applicable First Lien DSRF Security, in accordance with its terms, as may be necessary to provide for the timely payment of principal of and interest on the First Lien Obligations to which it pertains.

Section 606. Second Lien Debt Service Fund. The Issuer may create such additional accounts in the Second Lien Debt Service Fund pursuant to a Supplemental Indenture as it deems necessary or appropriate, including, but not limited to, (i) an account into which drawings on a Credit Agreement are to be deposited and from which principal or Maturity Amount, as applicable (including redemption price), of and interest on the Series of Second Lien Obligations secured by such Credit Agreement are to be paid (and upon such payment, amounts on deposit in the Second Lien Debt Service Fund shall be used to repay the provider of the Credit Agreement for such payments as and to the extent provided for in Section 602), (ii) an account into which payments to the Issuer from any Second Lien

Hedge Agreement Counterparty are to be deposited and from which payments from the Issuer to any such Second Lien Hedge Agreement Counterparty are to be paid as and to the extent provided for in Section 602.

The moneys in the Second Lien Debt Service Fund shall be held for the benefit of the Second Lien Obligations. The Issuer shall pay out of the Second Lien Debt Service Fund to the respective Paying Agents, if any, for Second Lien Obligations or other payees thereof (a) on or before each Interest Payment Date and each date fixed for the redemption of Second Lien Obligations, the amount required for the payment of the interest becoming due on such date and (b) on or before each date on which Second Lien Obligations or other payments secured by the Second Lien Debt Service Fund mature or become subject to scheduled mandatory sinking fund redemption or optional redemption or otherwise become due, the amount required for payment of the principal amount or Maturity Amount, as applicable, of the Second Lien Obligations maturing or otherwise becoming due, the redemption price of Second Lien Obligations becoming subject to redemption on such date (or to purchase Second Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), and any other payments secured by moneys in the Second Lien Debt Service Fund becoming due, except, in each case, to the extent such interest, principal amount or Maturity Amount, as applicable, or redemption price is payable from a fund or account other than the Second Lien Debt Service Fund, as provided in the Supplemental Indenture authorizing such Second Lien Obligation.

Except as may be otherwise provided in any Supplemental Indenture authorizing any Second Lien Obligations, whenever the total amounts on deposit to the credit of the Second Lien Debt Service Fund and the Second Lien Debt Service Reserve Fund, if applicable, shall be equivalent to the sum of the aggregate principal amount of all Outstanding Second Lien Obligations plus the aggregate amount of all interest and other payments secured by the Second Lien Debt Service Fund accrued and to accrue thereon, no further transfers need be made into the Second Lien Debt Service Fund or the Second Lien Debt Service Reserve Fund, if applicable, and such Second Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds.

Section 607. Second Lien Debt Service Reserve Fund.

(a) The Issuer shall establish and maintain as hereinafter provided a balance in the applicable account of the Second Lien Debt Service Reserve Fund equal to the Second Lien Debt Service Reserve Fund Requirement for the Second Lien Obligations that are secured thereby as established in the Supplemental Indenture authorizing such Second Lien Obligations. In addition, subaccounts may be established pursuant to Supplemental Indentures for Second Lien Obligations that are not Second Lien Debt Service Reserve Fund Participants being issued under the Supplemental Indenture.

The Second Lien Debt Service Reserve Fund Requirement shall, as provided in any Supplemental Indenture authorizing such Second Lien Obligations, be satisfied by depositing to the credit of the Second Lien Debt Service Reserve Fund Participant Account (in the case of Additional Second Lien Obligations that are Second Lien Debt Service Reserve Fund Participants) or such other designated accounts, as

applicable, (in the case of Second Lien Obligations that are not Second Lien Debt Service Reserve Fund Participants) of the Second Lien Debt Service Reserve Fund (i) after providing for the payment of Operating and Maintenance Expenses and making required transfers to the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund and the Second Lien Debt Service Fund, transfers into the Second Lien Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to accumulate within sixty (60) months the First Lien Debt Service Reserve Fund Requirement; (ii) proceeds of such Second Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the Issuer, will be sufficient to fund fully the Second Lien Debt Service Reserve Fund Requirement by no

later than the end of the period of time for which the payment of interest on such Second Lien Obligations has been provided out of proceeds of such Second Lien Obligations or investment earnings thereon as estimated by the Issuer or from other lawfully available funds other than Net Revenues or (iii) a surety bond, insurance policy or letter of credit or similar financial instrument; provided that, at the time of deposit, either the rating for the long-term unsecured debt of the issuer of such surety bond, insurance policy or letter of credit or similar financial instrument, or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the three highest letter categories by at least one nationally recognized securities rating agency (or, if such entities are no longer in existence, by comparable services) (each, a "Second Lien DSRF Security") and which Second Lien DSRF Security is in an amount equal to the amount required to be funded. The Second Lien DSRF Security shall be payable (upon the giving of any notice as may be required thereunder) on any Interest Payment Date, principal payment date or redemption date on which moneys will be required to be withdrawn from the Second Lien Debt Service Reserve Fund and applied to the payment of the principal amount, Maturity Amount or redemption price of or interest on any Second Lien Obligations secured thereby, unless otherwise provided in a Supplemental Indenture. Any downgrade of an issuer of a Second Lien DSRF Security shall have no effect on the value of such instrument for the purposes of meeting the Second Lien Debt Service Reserve Fund Requirement and the Issuer shall have no obligation to supplement or replace such Second Lien DSRF Security or make additional cash contributions to the Second Lien Debt Service Reserve Fund as a result of such downgrade. The Issuer further expressly reserves the right to substitute at any time a Second Lien DSRF Security for any funded amounts in the First Lien Debt Service Reserve Fund and to apply the funds thereby released for any lawful purpose, including without limitation any purpose for which Second Lien Obligations may be issued or in order to pay debt service on Second Lien Obligations. The Issuer also reserves the right to provide for the use of a DSRF Security in relationship to a Series-specific debt service reserve requirement as may be required under any Supplemental Indenture.

(b) In any month in which any account of the Second Lien Debt Service Reserve Fund contains less than the applicable Second Lien Debt Service Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the Issuer has elected to accumulate the Debt Service Reserve Fund Requirement for any Series of Second Lien Obligations as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses and all required transfers to the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund and Second Lien Debt Service Fund, there shall be transferred on a pro rata basis into the Second Lien Debt Service Reserve Fund Participant Account (in the case of Second Lien Obligations that are Second Lien Debt Service Reserve Fund Participants) and such other designated accounts, as applicable, (in the case of Second Lien Obligations that are not Second Lien Debt Service Reserve Fund Participants) of the Second Lien Debt Service Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the Issuer to pay all Credit Agreement Obligations under Second Lien DSRF Security allocable to the Second Lien Debt Service Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the Issuer within a twelve (12) month period to reestablish in the Second Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the Second Lien Debt Service Fund, as applicable, the Second Lien Debt Service Reserve Fund Requirement for the Second Lien Obligations secured thereby. After such amounts have been accumulated in the Second Lien Debt Service Reserve Fund Participant Account and such other designated accounts (as described above),

and so long thereafter as such accounts contain the Second Lien Debt Service Reserve Fund Requirement, no further transfers shall be required to be made into the Second Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the Second Lien Debt Service Reserve Fund, and any excess amounts in such accounts shall be transferred to the Second Lien Debt Service Fund to the extent the excess is attributable to the Second Lien Debt Service Reserve Fund for any tax-exempt Second Lien Obligations, and otherwise, shall be transferred to

the Revenue Fund or such other Funds as may be permitted by federal tax law. But if and whenever the balance in the Second Lien Debt Service Reserve Fund Participant Account or such other designated accounts is reduced below the applicable Second Lien Debt Service Reserve Fund Requirement, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Second Lien Debt Service Reserve Fund Participant Account or such other designated accounts within the Second Lien Debt Service Fund, as applicable, to such amount within a twelve (12) month period.

The Second Lien Debt Service Reserve Fund Participant Account shall be used to pay the principal of and interest on the Second Lien Obligations that are Second Lien Debt Service Reserve Fund Participants at any time when there is not sufficient money available in the Second Lien Debt Service Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Second Lien DSRF Security, unless provided otherwise in each of the Second Lien DSRF Securities allocable to the Second Lien Debt Service Reserve Fund Participant Account) and to repay amounts drawn under any Second Lien DSRF Security allocable to such Second Lien Debt Service Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the Issuer's Credit Agreement Obligations incurred in connection with such Second Lien DSRF Security. The Second Lien Debt Service Reserve Fund Participant Account shall also be used to make the final payments for the retirement or defeasance of all Second Lien Obligations then Outstanding that are secured thereby.

With respect to any Series of Second Lien Obligations that are not Debt Service Reserve Fund Participants, any account created within the Second Lien Debt Service Reserve Fund for the benefit of such Series of Second Lien Obligations shall be used to pay the principal of and interest on such Series of Second Lien Obligations at any time when there is not sufficient money available in the Second Lien Debt Service Fund for such purpose and to repay amounts drawn under any Second Lien DSRF Security allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the Supplemental Indenture establishing such account.

(c) The Trustee is hereby directed to make a claim or draw upon the applicable Second Lien DSRF Security, in accordance with its terms, as may be necessary to provide for the timely payment of principal of and interest on the Second Lien Obligations to which it pertains.

Section 608. Project Fund. The Issuer may create one or more funds or accounts (the "Project Fund"), which may be established outside of this Trust Indenture at an official depository bank of the Issuer, for the purpose of depositing net proceeds of sale of any series of Obligations issued for the purpose of financing costs to be paid from the Project Fund. The Issuer shall disburse amounts in the Project Fund to pay any costs permitted under the Act, including the costs of issuance of any Obligations. The Issuer may from time to time create accounts and subaccounts in the Project Fund as it deems appropriate or convenient.

Section 609. Annual Issuer Payment Fund. On or before the last Business Day of each month, after making all required payments and provisions for payment of Operation and Maintenance Expenses, the Wharves' Board shall transfer into the Annual Issuer Payment Fund from the Revenue Fund the sum being the amounts required to be paid to the Issuer (i) pursuant to Article XII of the Issuer's Home Rule Charter and (ii) in connection with the property and facilities previously acquired by the Issuer.

Section 610. General Fund. After making all payments, credits and transfers described heretofore,

amounts credited to the General Fund may be used for any purpose permitted by law approved by the Wharves' Board related to the ports and harbors of the Issuer, or any facilities, channels, or properties incident thereto. The General Fund may contain such other funds or accounts as may be established by the policies of the Wharves' Board from time to time. The Wharves' Board or the Issuer (in the event the management and control of the Wharves' Facilities is placed in the hands of the Issuer as authorized by Section 702) reserves the right to pledge the funds on deposit in the General Fund to any lawful obligation, including those entered into outside of this Trust Indenture.

Section 611. Deficiencies in Funds. If in any month there shall not be transferred into any Fund maintained pursuant to this Article VI the full amounts required herein, amounts equivalent to such deficiency shall be set apart and transferred to such Fund or Funds from the first available and unallocated moneys in the Revenue Fund, in the order provided in Section 602, and such transfer shall be in addition to the amounts otherwise required to be transferred to such Funds during any succeeding month or months. To the extent necessary and practicable, the tariffs, rentals, tolls, rates, fees and other charges for the use and services of Wharves' Facilities pursuant to Section 303 shall be increased to make up for such deficiencies.

Section 612. Investment of Funds; Transfer of Investment Income.

(a) Money in the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, the Second Lien Debt Service Reserve Fund, and any debt service funds or debt service reserve funds established for Inferior Lien Obligations shall, at the option of the Issuer, be invested by the Trustee at the written direction of the Wharves' Board in Permitted Investments or in any other investments authorized by State law; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any such Funds will be available at the proper time or times. In the absence of investment instructions from the Issuer or the Wharves' Board, the Trustee shall hold the moneys held by it hereunder uninvested. All such investments shall be valued no less frequently than the last Business Day of the Issuer's Fiscal Year at their market value, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held at an official depository of the Issuer, except as otherwise permitted by the laws applicable to the Issuer. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the Issuer, in common investments of the kind described above, or in a common pool of such investments maintained by the Issuer or its designated agent, which shall not be deemed to be a loss of the segregation of such money or Funds, provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default. The Trustee shall have no investment discretion. The Trustee and any Paying Agent may make investments in or through its own bank or any of its affiliates to the same extent it could if it were not the Trustee or Paying Agent hereunder. The Trustee, such Paying Agent, its bank or its affiliates may receive compensation in connection with investments made pursuant to this Trust Indenture. The Trustee and any Paying Agent may rely on the investment directions of the Issuer and the Wharves' Board as to the suitability and the legality of the directed investments. Although the Issuer recognizes that it may obtain a broker confirmation with respect to the investment of moneys in any fund or account (or a written statement containing comparable information) at no additional cost, the Issuer agrees that confirmations of transactions related to Permitted Investments are not required to be issued by the Trustee or any Paying Agent for any month in which a monthly statement is rendered. No statement need be rendered for any fund or account for any month if no activity occurred in such fund or account during such month.

(b) All interest and income derived from deposits and investments credited to any account of the First Lien Debt Service Reserve Fund and the Second Lien Debt Service Reserve Fund shall remain in

such funds to the extent necessary to accumulate the respective Debt Service Reserve Fund Requirement therefor other required balance therein.

(c) All interest and income derived from deposits and investments of any amounts held in any construction fund, including amounts held therein as capitalized interest, created by any Supplemental Indenture authorizing the issuance of First Lien Obligations or Second Lien Obligations shall remain in such construction fund for application in the manner provided in such applicable Supplemental Indenture.

(d) To the extent not otherwise provided for above in this Article VI (including Section 601(b), Sections 612(b) and 612(c)) or specifically excluded from the definition of Gross Revenues, all interest and income derived from deposits and investments credited to the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, and the Second Lien Debt Service Reserve Fund shall remain on deposit in such funds and be credited against future transfers to such funds, be transferred or credited semi-annually to the Revenue Fund, or be transferred to such other Funds as may be required under federal tax law.

(e) Earnings on investments of money in the Annual Issuer Payment Fund shall be transferred to the Revenue Fund.

(f) Notwithstanding anything to the contrary contained herein, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be paid to the federal government if such payment is required in order to prevent interest on any Obligations issued as tax-exempt obligations from being includable in the gross income for federal income tax purposes.

Section 613. Security for Uninvested Funds. So long as any Obligations remain Outstanding, all uninvested moneys on deposit in, or credited to, the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, and the Second Lien Debt Service Reserve Fund shall be secured by the pledge of security, to the extent required by law.

Section 614. Trustee Relieved From Responsibility. The Trustee shall be fully protected in relying upon any Issuer Order or Issuer Request relating to investments and disbursements with respect to any Fund established by this Trust Indenture, and shall not be liable for any losses or for interest on the Obligations becoming includable in gross income for federal income tax purposes as a result of complying with any such Issuer Order or Issuer Request, and shall not be required to ascertain any facts with respect to any such Order or Request.

ARTICLE VII

COVENANTS AND REPRESENTATIONS

Section 701. Payment of Obligations. The Issuer covenants, on behalf of the Wharves' Board, that it will duly and punctually deposit or cause to be deposited with the Trustee (unless a Supplemental Indenture with respect to Obligations provides for such deposits to be made directly to the Holders thereof, in which case the Issuer will so make such deposits) amounts sufficient to pay the Obligations on the dates and in the manner provided in this Trust Indenture and in any Supplemental Indenture according to the true intent and meaning hereof and thereof; provided, however, that the Obligations of the Issuer provided for herein and in any Supplemental Indenture shall be limited obligations of the Issuer and shall be payable by the Issuer solely out of the Trust Estate and the revenues derived therefrom.

Section 702. Wharves' Board. So long as any Obligations remain Outstanding, the Issuer covenants to leave the management and control of the Wharves' Facilities in the hands of the Wharves' Board, pursuant to the provisions of Article XII of the Issuer's Home Rule Charter, as from time to time hereafter amended, or, if authorized by law and the Issuer's Home Rule Charter, the Issuer. The Wharves'

Board shall have those powers which are necessary or proper to the discharge of their responsibilities including, but not being limited to, the employment of a general manager and such subordinate officers and employees as may be required or convenient for the proper conduct of the Wharves' Facilities, the preparation of budgets, the fixing of charges, the authorization of expenditures, the acquisition of properties, the determination of policies and, in general, the complete management and control of the Wharves' Facilities and the income and revenue thereof, subject to the provisions of the Issuer's Home Rule Charter and State law.

Section 703. Maintenance of Wharves' Facilities. So long as any Obligations remain Outstanding, the Issuer covenants that the Wharves' Board or the Issuer (in the event the management and control of the Wharves' Facilities is placed in the hands of the Issuer as authorized by Section 702) will operate or cause to be operated the Wharves' Facilities in accordance with the provisions of this Trust Indenture and the Issuer's Home Rule Charter, and will maintain or cause the same to be maintained in good condition and working order and will operate the same or cause the same to be operated in an efficient and economical manner at a reasonable cost and in accordance with sound business principles. In operating and maintaining the Wharves' Facilities, the Wharves' Board or the Issuer (in the event the management and control of the Wharves' Facilities is placed in the hands of the Issuer as authorized by Section 702) will comply with all contractual provisions and agreements entered into by it and with all valid rules, regulations, directions or orders of any governmental, administrative, or judicial body promulgating same, noncompliance with which would materially and adversely affect the operation of the Wharves' Facilities.

Section 704. Sale or Encumbrance of Wharves' Facilities. So long as any Obligations remain Outstanding, the Issuer will not sell, dispose of or, except as permitted hereunder, further encumber the Wharves' Facilities; provided, however, that this provision shall not prevent the making or entering into of leases or operating agreements (subject to the other provisions of this Trust Indenture), the granting of purchase money liens or purchase money security interests or the granting of franchises when made or granted in accordance with law, or the sale or lease of any of the Wharves' Facilities in any financing transaction if such facilities were acquired with the intention that such facilities would be sold or leased in a financing transaction and the proceeds of such sale or rents under such lease constitute Gross Revenues; nor shall this provision prevent the Issuer or the Wharves' Board from disposing of any property that has been declared surplus or is no longer needed for the proper operation of the Wharves' Facilities.

Section 705. Insurance. The Issuer agrees that the Wharves' Board or the Issuer (in the event the management and control of the Wharves' Facilities is placed in the hands of the Issuer as authorized by Section 702) will (i) keep the Wharves' Facilities insured with insurers of good standing against loss or damage by fire and other related perils to the extent customarily insured against by political subdivisions of the State operating similar properties, to the extent that such insurance is available at reasonable rates, and (ii) carry with insurers of good standing business interruption insurance in an amount not less than the average Annual Debt Service requirements, to the extent that such insurance is available at reasonable rates. The cost of all such insurance together with any additional insurance, shall be a part of Operation and Maintenance Expenses. It is further covenanted and agreed that all insurance money and funds received on account of damage to or loss of any of the Wharves' Facilities shall promptly be applied to the repair or restoration of such facilities to their former condition or in such manner as will make the same afford approximately the same services; provided, however, if the Wharves' Board or the Issuer (in the event the management and control of the Wharves' Facilities is

placed in the hands of the Issuer as authorized by Section 702) in its discretion shall determine that it would be to the benefit of the Wharves' Facilities and to the owners of the Obligations, to expend such insurance money or funds for the construction or acquisition of other and additional improvements and facilities which would yield Net Revenues anticipated to be not less than that of the damaged or destroyed Wharves' Facilities it may do so. Any money or funds received from said insurance policies on account of such damaged or destroyed facilities remaining after such repair or restoration or after such construction or acquisition of other and additional improvements and facilities shall be deposited into the Revenue Fund; provided, further, if the money or funds received from said insurance policies or otherwise on account of

such damaged or destroyed Wharves' Facilities, together with any other funds available for such purposes, he insufficient either to repair or restore the same or to construct or acquire other improvements and facilities, such money or funds shall be deposited into the Debt Service Fund. Insurance money or funds, if any, received under business interruption insurance policies shall be deposited to the Revenue Fund.

Section 706. Accounts, Records, and Audits. So long as any Obligations remain outstanding, the Issuer covenants that the Wharves' Board or the Issuer (in the event the management and control of the Wharves' Facilities is placed in the hands of the Issuer as authorized by Section 702) will maintain a proper and complete system of records and accounts pertaining to the operation of the Wharves' Facilities in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Wharves' Facilities or Gross Revenues or Net Revenues. The Wharves' Board or the Issuer (in the event the management and control of the Wharves' Facilities is placed in the hands of the Issuer as authorized by Section 702) shall cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants within 180 days of the end of each fiscal year. Such audit report shall include a review of the covenants in this Trust Indenture and address compliance with such covenants. Each year promptly after such audit report is prepared, a copy thereof shall be furnished without cost to the Trustee; provided that the Trustee shall have no duty to review, verify or analyze such audit report and shall hold such audit report solely as a repository for the benefit of the holders of the Obligations and the Trustee shall not be deemed to have notice or knowledge of any information contained therein, including but not limited to, any default or Event of Default which may be disclosed therein in any manner. All expenses incurred in preparing such audits are deemed to be Operation and Maintenance Expenses.

Section 707. Competition. To the extent it legally may, the Issuer will prohibit the use of land or facilities owned by it for the operation of any enterprise that competes with the Wharves' Facilities.

Section 708. Pledge and Encumbrance of Revenues. The Issuer covenants and represents that it has the lawful power to create liens on and to pledge the Net Revenues to secure the payment of the Obligations and has lawfully exercised such power under the Constitution and laws of the State. The Issuer further covenants and represents that, other than to the payment of the Obligations, the Net Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the Issuer, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Obligations.

ARTICLE VIII

[RESERVED.]

ARTICLE IX

REMEDIES OF THE TRUSTEE AND OWNERS OF OBLIGATIONS IN EVENT OF DEFAULT

Section 901. Events of Default. An "Event of Default," as used herein, shall mean any of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default by the Issuer in the payment of: (a) the principal of, the premium, if any, or interest on any Obligations when due or (b) the purchase price for tendered Obligations when due; or

(2) the Issuer shall fail duly to observe or perform any other covenant or agreement (other than a covenant or agreement whose performance or observance is elsewhere in this Section specifically dealt

with) contained in this Trust Indenture for a period of 30 days after: (a) the date on which the Issuer has actual knowledge of such failure or (b) written notice of such failure, requiring the same to be remedied, shall have been given to the Issuer by the Trustee, or to the Issuer and the Trustee by the Owners of at least 25% in aggregate principal amount of Obligations then Outstanding; provided that if such default can be cured by the Issuer but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within such 30-day period and diligently pursued until the default is corrected; or

(3) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Issuer as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the Issuer under the federal Bankruptcy Code or any other similar applicable federal or state law, and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Issuer or of the Issuer's property, or for the winding up or liquidation of the Issuer's affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of 60 days; or

(4) the Issuer shall institute proceedings to be adjudicated as voluntarily bankrupt, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Issuer in furtherance of any of the aforesaid purposes; or

(5) the Trustee shall have received written notice from a party that an event of default has occurred and is continuing (after the expiration of any applicable notice and cure period) under a Reimbursement Agreement and specifying the nature of the event of default, and such event of default has not been waived by the Credit Provider; or

(6) the Trustee shall have received written notice from a Credit Provider that an event of default has occurred and is continuing (after the expiration of any applicable notice and cure period) under a Credit Agreement and specifying the nature of the event of default, and such event of default has not been waived by the Credit Provider; or

(7) a default by the Issuer under any deed of trust securing any Obligations; or

(8) any material representation or warranty made by the Issuer in this Trust Indenture or any Supplemental Indenture shall prove to have been incorrect, incomplete or misleading in any material respect; or

(9) any final non-appealable judgment in an amount in excess of \$5,000,000 shall have been entered or filed against the Issuer and remain unvacated, unbonded or unstayed for a period of 30 days.

Section 902. Acceleration of Maturity In Certain Cases. If an Event of Default occurs and is continuing, the Trustee or the Owners of not less than 25% in aggregate principal amount of the Obligations then Outstanding may, and the Trustee at the request of such Holders (provided that such requesting Owners have offered indemnity to the Trustee to its satisfaction pursuant to Section 1003, and that the Trustee has received no conflicting direction from a majority of Owners pursuant to Section 1001(c)(3)) shall, declare all unpaid principal of and accrued interest on all of the Obligations to be due and payable immediately by a notice in writing to the Issuer (and to the Trustee if given by the Owners) and upon such declaration such principal and interest shall become immediately due and payable.

From the date on which such a declaration of acceleration has been made, interest (if any) on the Obligations shall cease to accrue.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter described, the Holders of a majority in principal amount of the Obligations Outstanding, by written notice to the Issuer and the Trustee, in the case of any acceleration of maturity of the Obligations may rescind and annul such declaration and its consequences if:

- (A) the Issuer has caused to be paid or deposited with the Trustee a sum sufficient to pay
 - i. all overdue installments of interest on the Obligations,
 - ii. the principal of (and premium, if any, on) any of the Obligations which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Obligations; and
 - iii. all sums paid or advanced by the Trustee under this Trust Indenture, as supplemented, and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and
- (B) all Events of Default, other than the nonpayment of the principal of the Obligations which have become due solely by such acceleration, have been cured or waived as provided in Section 912 of this Trust Indenture.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 903. Collection of Indebtedness and Suits for Enforcement by Trustee. The Issuer covenants that if:

- (1) default is made in the payment of any installment of interest on any Obligation when such interest becomes due and payable, or
- (2) default is made in the payment of the principal of (or premium, if any, on) any Obligation when such principal becomes due and payable,

the Issuer will, upon demand of the Trustee, pay (but solely from the Trust Estate and the revenues pledged by this Trust Indenture to such payment) to it, for the benefit of the Owners of such Obligations, the whole amount then due and payable on such Obligations for principal (and premium, if any) and interest; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Owners of Obligations by such appropriate judicial proceedings at law or in equity as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Trust Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 904. Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Issuer or any other obligor upon the Obligations or property of the Issuer or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Obligations shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether

the Trustee shall have made any demand on the Issuer for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(i) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Obligations and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Owners of Obligations allowed in such judicial proceeding, and

(ii) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Owner of Obligations to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Owners of Obligations, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under this Trust Indenture.

Nothing herein contained shall be deemed to authorize or require the Trustee to authorize or consent to or accept or adopt on behalf of any Owner of Obligations any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner of Obligations in any such proceeding.

Section 905. Trustee May Enforce Claims Without Possession of Obligations. All rights of action and claims under this Trust Indenture or the Obligations may be prosecuted and enforced by the Trustee without the possession of any of the Obligations or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Obligations in respect of which such judgment has been recovered.

Section 906. Application of Money Collected. Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Obligations and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: To the payment of all amounts due the Trustee under this Trust Indenture;

Second: To the payment of the amounts then due and unpaid upon the Obligations for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Obligations for principal (and premium, if any) and interest, respectively; and

Third: (to the extent not paid under “second” above), To any Credit Provider or any other party for amounts due and owing under any Credit Agreement or Reimbursement Agreement; and

Fourth: To the Issuer, any remaining amounts of money so collected.

Amounts on deposit in any Debt Service Reserve Fund may be used solely for payment of principal of and interest on the series of Obligations entitled to such amounts pursuant to the penultimate paragraph of Section 409.

Section 907. Limitation on Suits. No Owner of any Obligation shall have any right to

institute any proceeding, judicial or otherwise, with respect to this Trust Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Owner has previously given written notice to the Trustee of a continuing Event of Default;

(2) the Owners of not less than 25% in principal amount of the Outstanding Obligations (subject to Section 911) shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder, provided that such requesting Owners have offered indemnity to the Trustee to its satisfaction pursuant to Section 1003, and that the Trustee has received no conflicting direction from a majority of Owners pursuant to Section 1001(c)(3);

(3) such Owner or Owners have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request to its satisfaction; and

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding;

it being understood and intended that no one or more Owners of Obligations shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Trust Indenture to affect, disturb or prejudice the rights of any other Owners of Obligations, or to obtain or to seek to obtain priority or preference over any other Owners, to take any action that would affect the validity of the lien of this Trust Indenture on the Trust Estate, or to enforce any right under this Trust Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Owners of Obligations.

Section 908. Unconditional Right of Owners of Obligations to Receive Principal, Premium and Interest. Notwithstanding any other provision in this Trust Indenture, the Owner of any Obligation shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Obligation, but solely from the sources provided in this Trust Indenture with respect to such Obligation, on the respective Stated Maturities expressed in such Obligation (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Owner.

Section 909. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee or to the Owners of Obligations is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 910. Delay or Omission Not Waiver. No delay or omission of the Trustee or of any Owner of any Obligation to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Owners of Obligations may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Owners of Obligations, as the case may be.

Section 911. Control by Owners of Obligations. The Owners of not less than 51% in principal amount of the Outstanding Obligations shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that

(1) such direction shall not be in conflict with any rule of law or with this Trust Indenture including but not limited to Section 702, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Section 912. Waiver of Past Defaults. The Owners of not less than 51% in principal amount of the Outstanding Obligations may on behalf of the Owners of all the Obligations waive any past default hereunder and its consequences, except

(1) a default in the payment of the principal of (or premium, if any) or interest on any Obligation, or

(2) a default in respect of a covenant or provision hereof which under Article IX cannot be modified or amended without the consent of the Owner of each Outstanding Obligation affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Trust Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 913. Rights of Credit Providers and Credit Enhancers. The rights, if any, of any Credit Provider or the provider of a municipal bond insurance policy or a DSRF Security, if they do not constitute Credit Providers, as they relate to events of default shall be addressed in the Supplemental Indenture approving such Credit Agreement, municipal bond insurance policy or DSRF Security.

Section 914. Counterparties to Hedge Agreements not Owners. Counterparties to Hedge Agreements shall not be treated as Owners of the Obligations to which the Hedge Agreement relates for the purposes of directing the exercise of any remedy under the Trust Indenture or any Supplemental Indenture, unless such Counterparty is in fact the Owner of such Obligations.

Section 915. Provisions and Remedies in Supplemental Indenture. In addition to or in lieu of the provisions and remedies for events of defaults set forth in this Trust Indenture, a Supplemental Indenture may provide additional or different provisions and remedies for events of default in connection with the Series of Obligations authorized thereby, to the extent that any such provisions and remedies are not inconsistent with the provisions and remedies set forth herein.

ARTICLE X

CONCERNING THE TRUSTEE

Section 1001. Duties and Liabilities of Trustee. (a) Except during the continuance of an Event of Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Trust Indenture and no implied covenants or obligations shall be read into this Trust Indenture against the Trustee.

(b) In case any Event of Default has occurred and is continuing and the Trustee has notice thereof as provided in Section 803(h), the Trustee shall exercise such of the rights and powers vested in it by this Trust Indenture, and use the same degree of care and skill in its exercise thereof, as a reasonably prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(c) No provision of this Trust Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except, that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this

Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of Obligations of the applicable series then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Trust Indenture with respect to such Obligations; and

(4) no provision of this Trust Indenture shall require the Trustee to expend or risk its funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall believe that the repayment of such funds or adequate indemnity against such risk or liability or the payment of its fees and expenses is not assured to it.

(d) Whether or not therein expressly so provided, every provision of this Trust Indenture and any Supplemental Indenture hereto relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

Section 1002. Notice of Default. Within 30 days after the occurrence of any default of which the Trustee is deemed to have knowledge hereunder, the Trustee shall transmit by mail to all Owners of Obligations, notice of such default, unless such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default. For the purpose of this Section, the term “default” means any event which is, or after notice or lapse of time or both would become, an Event of Default.

Section 1003. Certain Rights and Duties of Trustee. Except as otherwise provided in Section 1001:

(a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto;

(b) Any request or direction of any Person mentioned herein shall be sufficiently evidenced by a Request of such Person; and any resolution of the governing body of any Person shall be evidenced to the Trustee by a board resolution of such Person;

(c) Whenever in the administration of this Trust Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may rely upon an Officer’s Certificate;

(d) The Trustee may consult with counsel, appraisers, accountants and other skilled personnel and the advice of such person or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) The Trustee shall not be required to expend or risk its own funds or otherwise incur financial liability hereunder and the Trustee shall be under no obligation to exercise any of the rights or

powers vested in it by this Trust Indenture at the request or direction of any of the Owners of Obligations, pursuant to the provisions of this Trust Indenture, unless such Owners, as the case may be, shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities, including reasonable attorneys' fees and expenses, which might be incurred by it in connection with such request or direction and for the payment of the Trustee's fees in connection therewith.

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document. The Trustee shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney;

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, and the Trustee shall not be liable for any negligence or misconduct of such agents or attorneys if they have been appointed with due care hereunder;

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default hereunder unless the Trustee shall be specifically notified of such default or Event of Default in writing by the Issuer, or by the Owner of an Outstanding Obligation, and in the absence of such notice the Trustee may conclusively assume that no default or Event of Default exists; provided, however, that the Trustee shall be required to take and be deemed to have notice of defaults under Section 901(l), (5), and (6);

(i) The Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Trust Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform on their face to the specific requirements of this Trust Indenture;

(j) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Trust Indenture at the request or direction of any of the Owners of the Obligations pursuant to the provisions of this Trust Indenture, unless such Owners shall have offered to the Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in connection with such request or direction and for the payment of the Trustee's fees in connection therewith;

(k) The permissive right of the Trustee to do things enumerated in this Trust Indenture shall not be construed as a duty; To the extent the Person serving as Trustee is also acting in the capacity of Paying Agent or Registrar, the rights, privileges, protections, benefits, immunities and indemnities afforded to the Trustee pursuant hereto shall also be afforded to such Person acting in such capacities;

(l) The Trustee shall not be liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action; and

(m) Notwithstanding any other provisions of this Trust Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of this Trust Indenture, the Trustee shall consider the effect on the Owners as if there were no Municipal Bond Insurance Policy.

Section 1004. Not Responsible For Recitals or Issuance of Obligations. The recitals contained herein and in the Obligations (other than the certificate of authentication on such Obligations), and any disclosure contained in any offering document related to the Obligations (excluding any disclosure provided by the Trustee for inclusion in such offering document), shall be taken as the statements of the Issuer and

the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Trust Indenture or of the Obligations. The Trustee shall not be accountable for the use or application by the Issuer of any of the Obligations or of the proceeds thereof.

Section 1005. Trustee May Own Obligations. The Trustee or other agent of the Issuer, in its individual or any other capacity, may become the owner or pledgee of Obligations and may otherwise deal with the Issuer with the same rights it would have if it were not Trustee or such other agent.

Section 1006. Monies to Be Held in Trust. All monies received by the Trustee shall, until used or applied as herein provided (including payment of monies to the Issuer under the last paragraph of Section 508), be held in trust for the purposes for which they were received. The Trustee shall be under no liability for interest on any monies received by it hereunder other than such interest as it expressly agrees to pay pursuant to the terms hereof.

Section 1007. Compensation and Expenses of Trustee. The Issuer agrees:

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder;

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Trust Indenture (including compensation and the expenses and disbursements of its agents and counsel) except any such expense, disbursement or advance as may arise from its negligence or willful misconduct; and

(3) to the extent allowed by law, to indemnify the Trustee or any predecessor Trustee and their agents for, and to hold them harmless against, any and all loss, damage, claims, liability or expenses incurred without negligence or bad faith on their part, arising out of or in connection with the acceptance or administration of the trusts hereunder, including the costs and expenses of defending themselves against any claim (whether asserted by the Issuer, any Owner or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder.

As such security for the performance of the obligations of the Issuer under this Section the Trustee shall have a lien prior to the Obligations upon all property and funds held or collected by the Trustee as such.

Section 1008. Corporate Trustee Required; Eligibility. There shall at all times be a Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$75,000,000, subject to supervision or examination by Federal or state authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 1009. Resignation and Removal; Appointment of Successor. No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 810.

(a) The Trustee may resign at any time by giving written notice thereof to the Issuer. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30

days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(b) The Trustee may be removed at any time upon payment or reimbursement of all of the Trustee's fees and expenses pursuant to this Trust Indenture by the Owners of at least a majority in principal amount of the Outstanding Obligations delivered to the Trustee and the Issuer.

(c) If at any time:

(1) the Trustee shall cease to be eligible under Section 1008 and shall fail to resign after written request therefor by the Issuer or by any Owner of Obligations (as described below), or

(2) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, upon payment or reimbursement of all of the Trustee's fees and expenses pursuant to this Trust Indenture (i) the Issuer by an Issuer Request may remove the Trustee, or (ii) any Owner of Obligations who has been a bona fide Owner of an Obligation for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of successor Trustee.

(d) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Issuer, by an Issuer Request, shall promptly appoint a successor Trustee. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Request or Action of the Owners of a majority in principal amount of the Outstanding Obligations delivered to the Issuer and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Issuer. If no successor Trustee shall have been so appointed by the Issuer or the Owners of Obligations and accepted appointment in the manner hereinafter provided, any Owner of Obligations who has been a bona fide Owner of an Obligation for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(e) The Issuer shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Owners of Obligations at their addresses. Each notice shall include the name and address of the designated corporate trust office of the successor Trustee.

(f) Notwithstanding any other provision of this Trust Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor trustee shall be appointed.

Section 1010. Acceptance of Appointment by Successor. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Issuer and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Issuer or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee,

and shall duly assign, transfer and deliver to the successor Trustee all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Issuer shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such

rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 1011. Merger or Consolidation. Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation or association succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Obligations shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger or consolidation to such authenticating Trustee may adopt such authentication and deliver the Obligations so authenticated with the same effect as if such successor Trustee had itself authenticated such Obligations.

Section 1012. Electronic Instructions to the Trustee. The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions (“Instructions”) given pursuant to this Trust Indenture and delivered using Electronic Means; provided, however, that the Issuer and/or the Wharves’ Board, as applicable, shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions (“Authorized Officers”) and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the Issuer and the Wharves’ Board, as applicable, whenever a person is to be added or deleted from the listing. If the Issuer and the Wharves’ Board, as applicable, elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee’s understanding of such Instructions shall be deemed controlling. The Issuer and the Wharves’ Board understand and agree that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The Issuer and the Wharves’ Board shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the Issuer, the Wharves’ Board and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Issuer and/or the Wharves’ Board, as applicable. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Issuer and the Wharves’ Board agree: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Issuer and/or the Wharves’ Board, as applicable; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

ARTICLE XI

SUPPLEMENTS AND AMENDMENTS

Section 1101. Supplemental Indentures Without Consent of Owners of Obligations. Without the consent of the Owners of any Obligations, the Issuer and the Trustee at any time may enter into one or more Supplemental Indentures, subject to Section 903 hereof, for any of the following purposes:

- (1) to authorize a series of Obligations;

(2) to evidence the succession of another Person to the Issuer, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer as permitted by this Trust Indenture;

(3) to add to the covenants of the Issuer for the benefit of the Owners of Obligations, to surrender any right or power herein or therein conferred upon the Issuer, or to add property to the Trust Estate;

(4) to cure any ambiguity or to correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Trust Indenture which shall not be inconsistent with this Trust Indenture, provided such action shall not adversely affect the interests of the Owners of Obligations;

(5) to modify or supplement this Trust Indenture in such manner as may be necessary or appropriate to qualify this Trust Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Trustee accepts such powers, duties, conditions and restrictions hereunder and the Issuer undertakes such covenants, conditions or restrictions additional to those contained in this Trust Indenture as would be necessary or appropriate so to qualify this Trust Indenture; provided, however, that nothing herein contained shall be deemed to authorize inclusion in this Trust Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;

(6) to make any amendment to any provision of this Trust Indenture or to any Supplemental Indenture which is only applicable to Obligations issued thereafter or which will not apply so long as any Obligation then Outstanding remains Outstanding;

(7) to provide for the issuance of uncertificated securities;

(8) to amend this Trust Indenture as necessary to maintain the rating assigned to any Obligations by any Rating Agency;

(9) to make such changes, modifications or amendments as may be necessary or desirable, in order, to the extent permitted by law, to facilitate the economic and practical utilization of Credit Agreements with respect to the Obligations including, without limitation, supplementing the definition of "Annual Debt Service" to address the amortization of payments due and owing under a Credit Agreement;

(10) to modify any of the provisions of this Trust Indenture in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Obligations Outstanding at the date of the adoption of such modification shall cease to be Outstanding, and (ii) such modification shall be specifically referred to in the text of all Additional Obligations issued after the date of the adoption of such modification;

(11) to grant to or confer upon the Owners of the Obligations any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Obligations;

(12) to add to the covenants and agreements of the Issuer contained in this Trust Indenture other covenants and agreements of, or conditions or restrictions upon, the Issuer or to surrender or eliminate any right or power reserved to or conferred upon the Issuer in this Trust Indenture;

- (13) to subject additional revenues to the lien and pledge of this Trust Indenture;
- (14) to provide for the issuance of Inferior Lien Obligations;
- (15) to provide for the establishment of additional reserve funds to amend any provisions of this Trust Indenture if such amendment will not have a material adverse effect on the security, remedies or rights of the Owners.
- (16) to make any other amendments which do not materially adversely affect the Holders of any Obligations; and
- (17) to amend any Supplemental Indenture to the extent permitted under the terms of such Supplemental Indenture.

Section 1102. Supplemental Indentures With Consent of Owners of Obligations. With the consent of the Owners of not less than a majority in principal amount of the Outstanding Obligations affected, the Issuer and the Trustee may enter into one or more Supplemental Indentures (subject to Section 903 hereof) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Trust Indenture or of modifying in any manner the rights of the Owners of the Obligations under this Trust Indenture; provided, however, that no such Supplemental Indenture shall, without the consent of the Owner of each Outstanding Obligation affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Obligations or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Obligations or the interest thereon is payable, or impair or subordinate the lien of this Trust Indenture on the Trust Estate or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption on or after the redemption date), or
- (2) reduce the percentage in principal amount of the Outstanding Obligations, the consent of whose Owners is required for any such Supplemental Indenture, or the consent of whose Owners is required for any waiver (of compliance with certain provisions of this Trust Indenture or certain defaults hereunder and their consequences) provided for in this Trust Indenture, or
- (3) modify any of the provisions of this Section or Section 911, except to increase any such percentage or to provide that certain other provisions of this Trust Indenture cannot be modified or waived without the consent of the Owner of each Obligation affected thereby.

It shall not be necessary for Owners of Obligations under this Section to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if the Owners of Obligations shall approve the substance thereof.

Section 1103. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any Supplemental Indenture permitted by this Article or the modifications thereby of the trusts created by this Trust Indenture, the Trustee shall receive, and (subject to Section 1001) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Indenture is authorized or permitted by this Trust Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Obligations (provided that no such Opinion of Counsel shall be required with respect to the tax opinion for any Supplemental Indenture dated the original date of this Trust Indenture) and that all conditions precedent to the execution of the Supplemental Indenture have been satisfied. The Trustee may, but shall not be obligated to, enter into any such Supplemental Indenture or consent which affects the Trustee's own rights, duties or immunities under this Trust Indenture or otherwise.

Section 1104. Effect of Supplemental Indentures. Upon the execution of any Supplemental Indenture under this Article, this Trust Indenture shall, with respect to each series of Obligations to which such Supplemental Indenture applies, be modified in accordance therewith, and such Supplemental Indenture shall form a part of this Trust Indenture for all purposes, and every Owner of Obligations thereafter or (except to the extent provided pursuant to Section 901(6)) theretofore authenticated and delivered hereunder shall be bound thereby.

Section 1105. Obligations May Bear Notation of Changes. Obligations authenticated and delivered after the execution of any Supplemental Indenture pursuant to this Article may bear a notation in form approved by the Trustee as to any matter provided for in such Supplemental Indenture. If the Issuer or the Trustee shall so determine, new Obligations so modified as to conform, in the opinion of the Trustee and the Issuer, to any such Supplemental Indenture may be prepared and executed by the Issuer and authenticated and delivered by the Trustee in exchange for Obligations then Outstanding.

Section 1106. Rights of Credit Provider or Credit Enhancer. The rights, if any, of a Credit Provider, the provider of a municipal bond insurance policy or the provider of a DSRF Security to make any consents under this Article XI, except those under Section 1102(1), (2) and (3), may be specified in the Supplemental Indenture authorizing the Credit Agreement, municipal bond insurance policy or DSRF Security.

Section 1107. Counterparties to Hedge Agreements not Owners. Unless otherwise provided in a Supplemental Indenture authorizing an Obligation, Counterparties to Hedge Agreements shall not be treated as Owners of the Obligations to which the Hedge Agreement relates for purposes of any voting rights to approve any amendments, unless such Counterparty is in fact the Owner of such Obligations.

ARTICLE XII

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONIES

Section 1201. Satisfaction and Discharge of Indenture. If at any time the Wharves' Board shall have paid or caused to be paid or provided for the payment of the principal of (and premium, if any) and interest on all the Obligations Outstanding hereunder, as and when the same shall have become due and payable, and if the Issuer shall also pay or provide for the payment of all other sums payable hereunder by the Issuer, and the Wharves' Board and the Issuer shall have paid all of the Trustee's fees and any other expenses incurred hereunder, this Trust Indenture shall cease to be of further effect (except as to (i) the rights, remaining obligations, if any, and immunities of the Trustee hereunder and (ii) the rights of the Owners of any Obligations as beneficiaries hereof with respect to the property deposited with the Trustee pursuant to Section 1202 payable to them) and the Trustee, on Issuer Request accompanied by an Officer's Certificate and an Opinion of Counsel to the effect that the conditions precedent to the satisfaction and discharge of this Trust Indenture have been fulfilled and at the cost and expense of the Issuer, shall execute proper instruments acknowledging satisfaction of and discharging this Trust Indenture.

Notwithstanding the satisfaction and discharge of this Trust Indenture, the obligations of the Issuer to the Trustee under Section 1007 and, if funds shall have been deposited with the Trustee pursuant to Section 1202, the obligations of the Trustee under Section 1203 shall survive.

Notice of the discharge of this Trust Indenture shall promptly be given by the Trustee to each Rating Agency.

Section 1202. Obligations Deemed Paid. Obligations of any series shall be deemed to have been paid and no longer Outstanding under this Trust Indenture and the applicable Supplemental Indenture if (1) in case said Obligations are to be redeemed on any date prior to their Stated Maturity, notice of redemption shall have been given to the Holders thereof or the Issuer by Issuer Request shall have given to the Trustee

in form satisfactory to it irrevocable instructions to give notice of redemption of such Obligations, (2) there shall have been deposited with the Trustee (or other escrow agent) either:

(x) money sufficient, or (y) Defeasance Obligations the principal of and the interest on which will provide money sufficient without reinvestment (as established by an Officer's Certificate delivered to the Trustee (or other escrow agent) accompanied by a report of an independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based) or (z) a combination of both (x) and (y), to pay when due the principal of (and premium, if any) and interest due and to become due on said Obligations on and prior to the Maturity thereof, assuming in all cases above that such Obligations bear interest at a rate equal to the actual rate for any series for which the rate is known and otherwise at the maximum rate which such series of Obligations may bear, (3) in the event said Obligations are not by their terms subject to redemption within the next 45 days, the Issuer by Issuer Request shall have given the Trustee in form satisfactory to it irrevocable instructions to give a notice to the Owners of such Obligations that the deposit required by (2) above has been made with the Trustee (or other escrow agent) and that said Obligations are deemed to have been paid in accordance with this Section and stating such Maturity date upon which monies are to be available for the payment of the principal of (and premium, if any) and interest on said Obligations and (4) there is delivered to the Trustee an Opinion of Bond Counsel.

Obligations of any series shall be deemed to have been paid and no longer Outstanding under this Trust Indenture or the applicable Supplemental Indenture if the Issuer shall certify to the Trustee that such Obligations have been fully paid and are no longer Outstanding.

Section 1203. Application of Trust Money. The Defeasance Obligations and money deposited with the Trustee (or other escrow agent) pursuant to Section 1202 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Obligations and this Trust Indenture and any Supplemental Indenture, to the payment, either directly or through any Paying Agent as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Trustee of an Officer's Certificate (accompanied by the report of an independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in clause (2) of Section 1202, any money received from principal or interest payments on Defeasance Obligations deposited with the Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Issuer Request be reinvested in other Defeasance Obligations or disposed of as requested by the Issuer. For purposes of any calculation required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its stated maturity.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

Section 1301. Issuer, Wharves' Board and Trustee Exempt from Individual Liability. No recourse under this Trust Indenture or any Obligations shall be had against any director, agent, employee, member, officer or member of the governing body, as such, past, present or future, of the Issuer, the Wharves' Board or the Trustee, or of any successor entity; it being expressly understood that this Trust Indenture and the obligations incurred hereunder are solely obligations of the entities named herein as obligors, and that no personal liability whatever shall attach to the directors, agents, employees, members, officers or members of the governing body, as such, of the Issuer, the Wharves' Board or of the Trustee, or any successor entity, or any of them, under this Trust Indenture or any Obligations; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all

such rights and claims against, every such director, agent, employee, member, officer or director, as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Trust Indenture, any Supplemental Indenture or in any Obligations are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Trust Indenture and the issuance of such Obligations.

Section 1302. Governing Law; Venue. This Trust Indenture shall be governed in all respects, including validity, interpretation and effect by, and shall be enforceable in accordance with, the laws of the State of Texas. In the event of a dispute involving this Trust Indenture or any Supplemental Indenture or any other instrument executed in connection herewith, the parties hereto agree that venue for such dispute shall lie in any court of competent jurisdiction in Galveston County, Texas.

Section 1303. Legal Holidays. In any case where the date of Maturity of interest or premium on or principal of the Obligations of any series or the date fixed for redemption of any such Obligation shall be on a day on which banking institutions in a Place of Payment for the Obligations of such series are authorized by law to remain closed, then payment of such interest, premium or principal need not be made on such date but may be made on the next succeeding day not a day on which banking institutions in the Place of Payment are authorized by law to remain closed with the same force and effect as if made on the date of Maturity or the date fixed for redemption, and, in the case of such payment, no interest shall accrue for the period from and after such date.

Section 1304. Benefits of Provisions of Indenture and Obligations. Nothing in this Trust Indenture or in the Obligations, expressed or implied, shall give or be construed to give any Person other than the parties hereto, any Paying Agent, any Credit Provider, any Credit Agreement, Reimbursement Agreement, Hedge Agreement, and the Owners of such Obligations, any legal or equitable right, remedy or claim under or in respect of this Trust Indenture, or under any covenant, condition and provision herein contained; all its covenants, conditions and provisions being for the sole benefit of the parties hereto, any Paying Agent and of the Owners of such Obligations.

Section 1305. Execution in Counterparts. This Trust Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 1306. Amendment and Restatement of Original Indenture. The Original Indenture will be amended and restated and the liens created thereunder for the Series 2021 Bonds shall be closed and instead secured hereunder as First Lien Obligations, with such amendment and restatement and closure and security to become effective concurrently with the issuance date of the Series 2023 Bonds. The Issuer may take such action as may be necessary to effectuate such amendment and restatement and closure and security, including, without limitation, the provision of notices or the execution of certificates related thereto.

Section 1307. Continuing Disclosure Obligations. The Issuer's continuing disclosure obligations, if any, under United States Securities and Exchange Commission Rule 15c2-12 with respect to the Obligations shall be set out in or authorized by the Supplemental Indenture with respect to such Obligations.

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APPENDIX D

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023**

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THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2023
GALVESTON, TEXAS

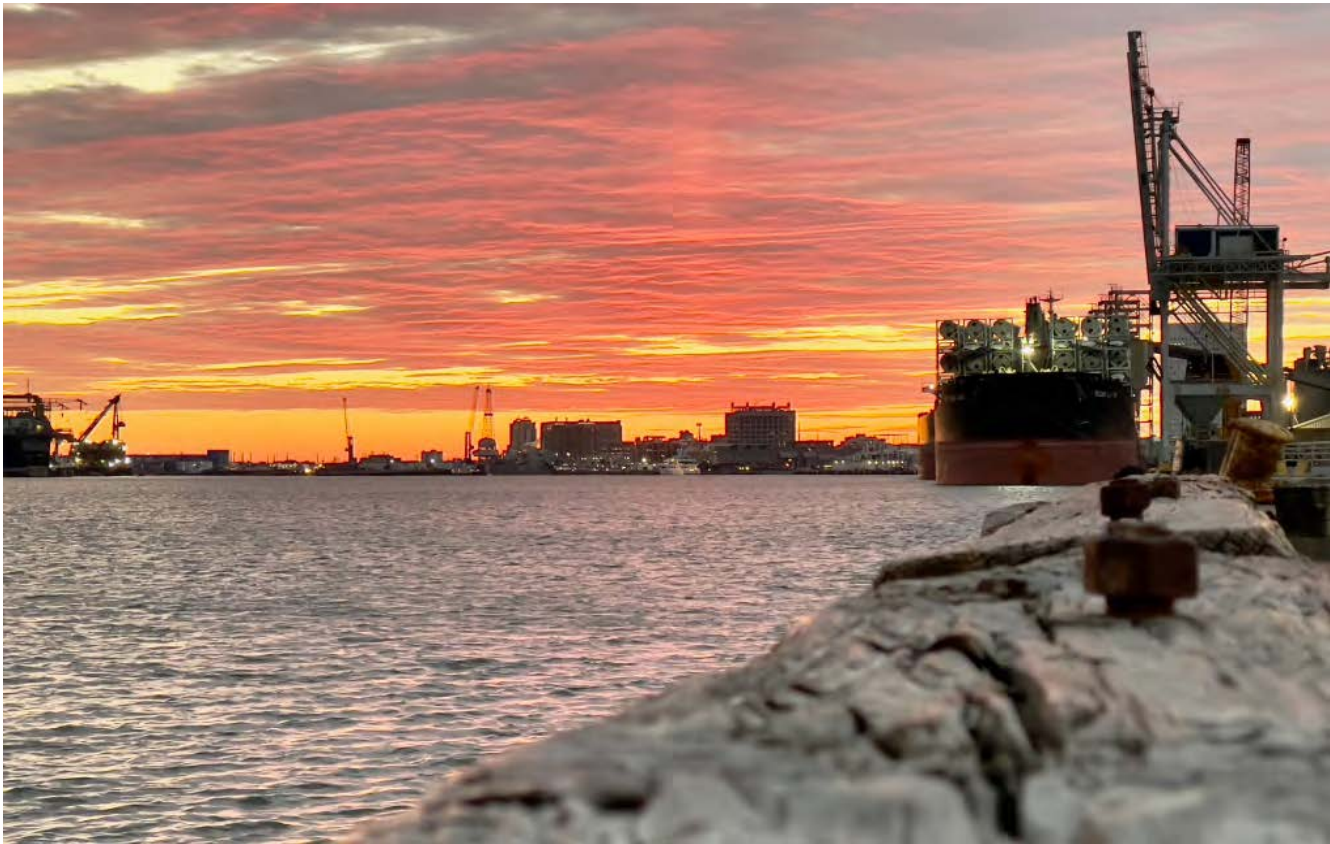


GALVESTON WHARVES



GALVESTON WHARVES

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
Annual Comprehensive Financial Report
For the Year Ended December 31, 2023



THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
Annual Comprehensive Financial Report
For the Year Ended December 31, 2023



Fiscal Year Ended
December 31, 2023

Prepared By:
Finance Department

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

Annual Comprehensive Financial Report

For the Year Ended December 31, 2023

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THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

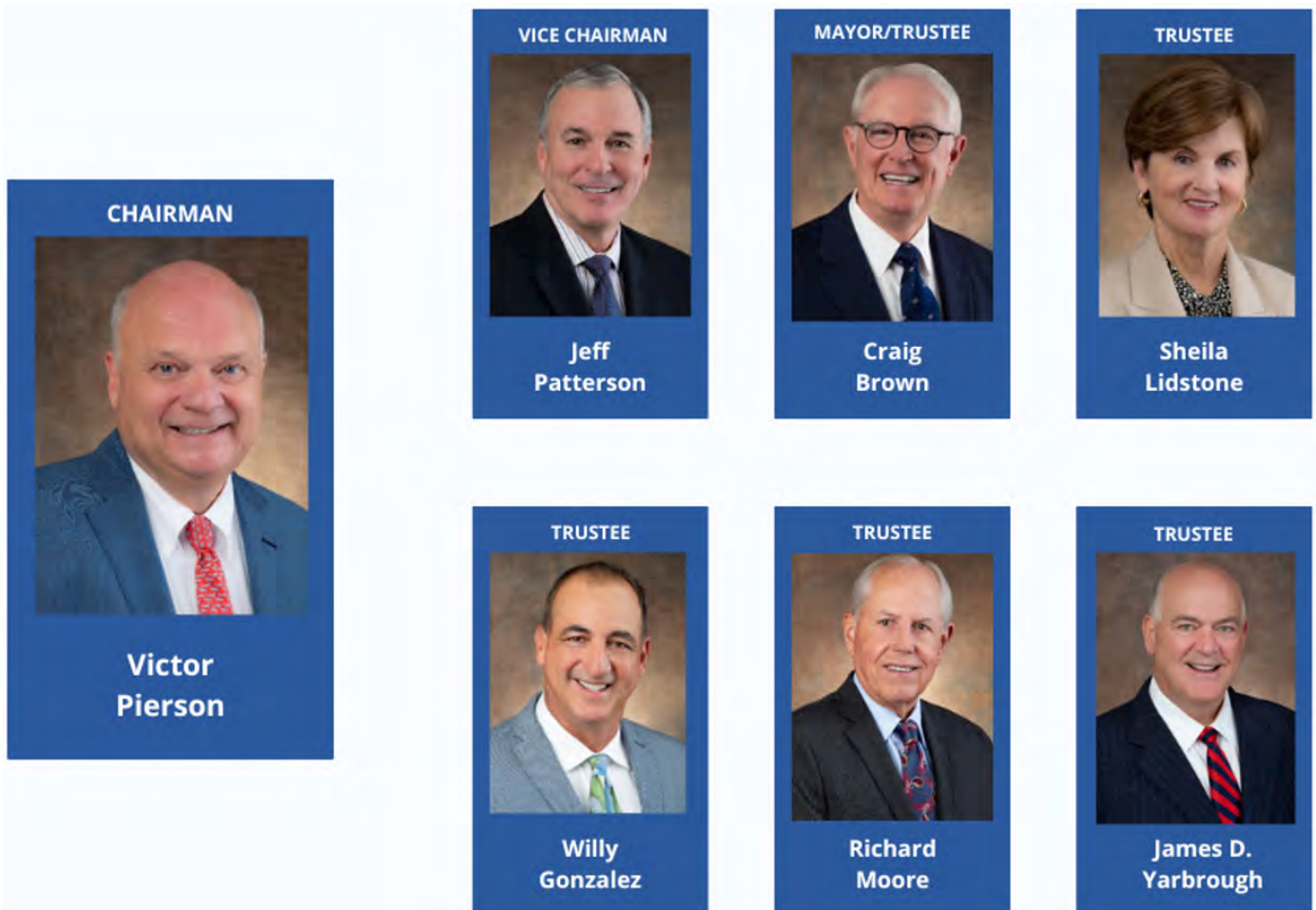


PART I INTRODUCTORY SECTION

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
Annual Comprehensive Financial Report
For the Year Ended December 31, 2023

Directory of Officials

2023 Board of Trustees of the Galveston Wharves



THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
Annual Comprehensive Financial Report
For the Year Ended December 31, 2023

Directory of Officials (continued)

BOARD OF TRUSTEES

Victor Pierson, Chairman
Jeff Patterson, Vice Chairman
Dr. Craig Brown, Trustee/Mayor
Sheila S. Lidstone, Trustee
Willy Gonzalez, Trustee
Richard Moore, Trustee
James D. Yarbrough, Trustee

OFFICERS AND EXECUTIVE STAFF

Rodger Rees, Port Director/CEO
Brett Milutin, Deputy Executive Director – Port Operations
Angie Ramirez, Executive Assistant – Port Director/CEO – Board of Trustees
Mark R. Murchison, Chief Financial Officer – Treasurer, Board of Trustees
Erika Barragan, Controller
Jeffrey Thomas, Chief Engineer
McArthur Readoux, Director of Construction and Maintenance
Julio DeLeon, Director of Port Mobility
Kenneth Campbell, Director of Safety and Security
Kenneth Brown, Chief of Police
William Dell, Director of Cruise Operations
Laura Camcioglu, Director of Special Projects
Brenda Lambright, Human Resource Manager

GENERAL COUNSEL

McLeod, Alexander, Powel & Apffel, P.C.

BOND COUNSEL

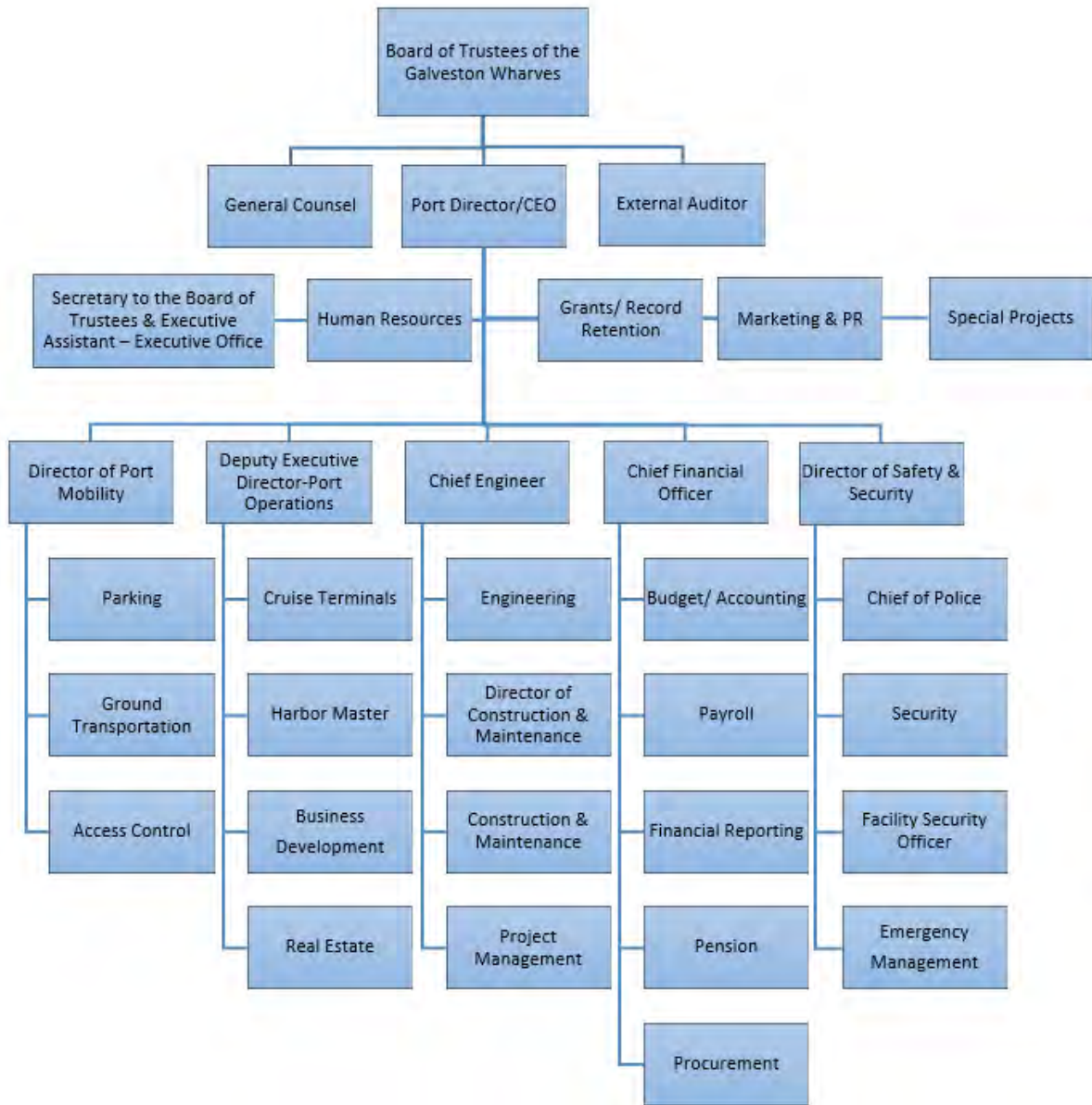
Bracewell & Giuliani, L.L.P.

AUDITORS

FORVIS, L.L.P.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
Annual Comprehensive Financial Report
 For the Year Ended December 31, 2023

Organizational Chart



THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
Annual Comprehensive Financial Report
For the Year Ended December 31, 2023

Port Contact Information

Port of Galveston
123 25th Street, 8th Floor
Galveston, Texas 77550

Telephone: 409-765-9321
Telefax: 409-766-6107
Website: www.portofgalveston.com

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
Annual Comprehensive Financial Report
For the Year Ended December 31, 2023



Norwegian Cruise Line (NCL) Prima at Port of Galveston, Texas



- 123 25th Street 8th Floor, Galveston, Texas 77550
- Galveston (409) 765-9321 • Houston (281) 286-2484
- Fax (409) 766-6171 • Website: <http://www.portofgalveston.com>

BOARD OF TRUSTEES OF
THE GALVESTON WHARVES

Victor Pierson, Chairman
Jeff Patterson, Vice Chairman
Dr. Craig Brown, Mayor/Trustee
Willy Gonzalez, Trustee
Sheila S. Lidstone, Trustee
Richard Moore, Trustee
James D. Yarbrough, Trustee

PORT DIRECTOR/CEO
Rodger Rees

Letter of Transmittal

April 26, 2024

To the Board of Trustees of the Galveston Wharves and
Citizens of the City of Galveston, Texas:

We are pleased to submit the Annual Comprehensive Financial Report (ACFR) of the Board of Trustees of the Galveston Wharves (Port of Galveston or the Port) for the year ended December 31, 2023. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Port of Galveston. 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 the operations of the Port of Galveston. All disclosures necessary to enable the reader to gain an understanding of the Port of Galveston's financial activities have been included.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Independent Auditors selected by the Board of Trustees have audited the financial statements for the year ended December 31, 2023. The Independent Auditor's report is included in front of the financial section of this report.

The audit was designed to meet the requirements of generally accepted auditing standards. When the Port of Galveston meets the requirements of the Single Audit Act of 1984 and related Uniform Guidance, and/or the State of Texas Grants Management Standards and related guidance, the audit is designed to also meet these requirements. The Port met the requirements of a Federal Single Audit in 2023, and the report related to the Single Audit Act is included with the 2023 Annual Comprehensive Financial Report.

A copy of the Independent Auditor's reports may be obtained by contacting the Chief Financial Officer (CFO), 123 25th Street, 8th Floor, Galveston, TX 77550. An electronic copy of this report will be posted to the Port's website at www.portofgalveston.com.

Management's discussion and analysis (MD&A) immediately follows the Independent Auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with this letter.

Profile of the Government

The Port of Galveston was created by City Ordinance in 1940 as a separate utility of the City of Galveston to manage, maintain, operate, and control all existing port properties and all additions, improvements, or extensions to such properties. The Port operates as an enterprise organization under the direction of a Board of Trustees appointed by the Galveston City Council. An enterprise fund is used to account for activity in which the cost of providing goods and services is primarily recovered through the fees charged to the users of such goods and services. All Port of Galveston properties are located within the limits of the City of Galveston, Texas.

The City establishing the Port of Galveston provides that all city-owned wharf and terminal properties, and all income and revenue there from, are to be set aside and controlled, maintained, and operated by a "Board of Trustees of the Galveston Wharves." One member of the Board of Trustees is an ex-officio representative of the City Council and is elected by the Council from its own membership for a term contemporaneous with the term of the Council electing such member. The Council appoints the remaining six members of the Board of Trustees. The Charter provides that the Board of Trustees shall have those powers which are necessary or proper to the discharge of its responsibilities including, but not limited to, the employment of a general manager for the Port and such subordinate officers and employees as may be required for the proper conduct of the business of the Port, the preparation of budgets, the fixing of charges, the authorization of expenditures, the acquisition of properties, the determination of policies, and, in general, the complete management and control of the Port and the income and revenues, thereof, subject only to the special limitations provided in the Charter. The Port of Galveston is a self-sustaining City entity whose mission is to generate and reinvest Port revenues to benefit the Galveston community with economic growth and jobs.

The Port is located on the deep-water Galveston Harbor (Federal Channel) in the Gulf of Mexico, which is at the entrance to Galveston Bay and the Houston Ship Channel. The Port occupies 840 acres on Galveston and Pelican islands. Galveston is a barrier island two miles off the Texas coast and 50 miles south of Houston, the nation's fourth largest city. The Port is 45 minutes from the open sea and a 10-minute drive from Interstate Highway 45 (I-45).

Galveston Island is connected to the Texas mainland by two vehicular causeways, I-45 and a railroad bridge on the northwest side of the island, as well as a third highway bridge to the Texas mainland across the San Luis Pass at the southwestern tip of the island. On the island's eastern tip, a free state highway ferry service provides access to Bolivar Peninsula.

The Port complex is situated on the north side of the island, with property and facilities also located on adjacent Pelican Island located on the north side of the Federal Channel. The Federal Channel is a portion of the Galveston Navigation Harbor maintained by the U.S. Army Corps of Engineers. The Federal Channel is 22,571 feet in total length beginning at the entrance of the harbor and ending just before the Pelican Island Bridge. The width of the Federal Channel remains nearly constant at 1,200 feet wide. The Federal Channel depth is authorized to 46 feet throughout the entire length and includes one turning basin with widths up to 1,500 feet. The Alternate Route for the Gulf Intracoastal Waterway (ICWW) runs alongside the Port of Galveston.

As the fourth most popular cruise home port in North America, the Port had 354 sailings in 2023 with 2,979,275 passenger movements, which include passenger embarkations and debarkations. It is expected to have 388 sailings in 2024 and 401 sailings in 2025. The Port has three cruise terminals, including the Royal Caribbean International terminal which opened in November 2022. The Port also owns and operates 6,002 cruise parking spaces.

The Port leases and maintains a wide range of cargo facilities on the Federal Channel, which is ranked among the top 50 busiest U.S. cargo waterways. In 2023, the Port moved 3.6 million tons of cargo, including bulk, roll-on/roll-off and general cargoes. Cargo infrastructure includes an internal roadway, two Class 1 rails and one short-line rail. The Port has 13,000 linear feet of developed waterfront and 21 berths. More than 307 acres of Port-owned land are available for development.

Budgetary Process

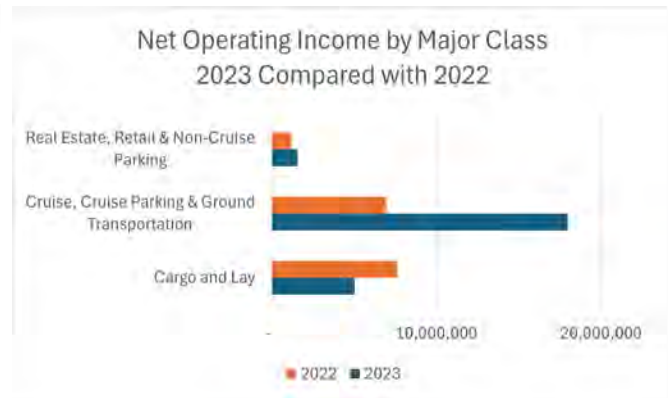
During the fourth quarter of each year, the Board of Trustees adopts an annual budget for the period beginning January 1 through December 31 of the following year. This budget is based on the Port's recommended tariff rates, projected revenues, operating expenses, debt service and capital improvement plans. Should a situation arise where actual results may vary significantly from budgeted results, the Board of Trustees may adopt an amended budget. There was no adoption of an amended budget in 2023.

Results of operations are reviewed monthly by an operational and functional management team who is held responsible for the results. The actual vs. budgetary results are reported monthly to the Board of Trustees of the Port of Galveston, which also holds management accountable for actual results. Through management reporting, the Port is promulgating sound financial and management practices.

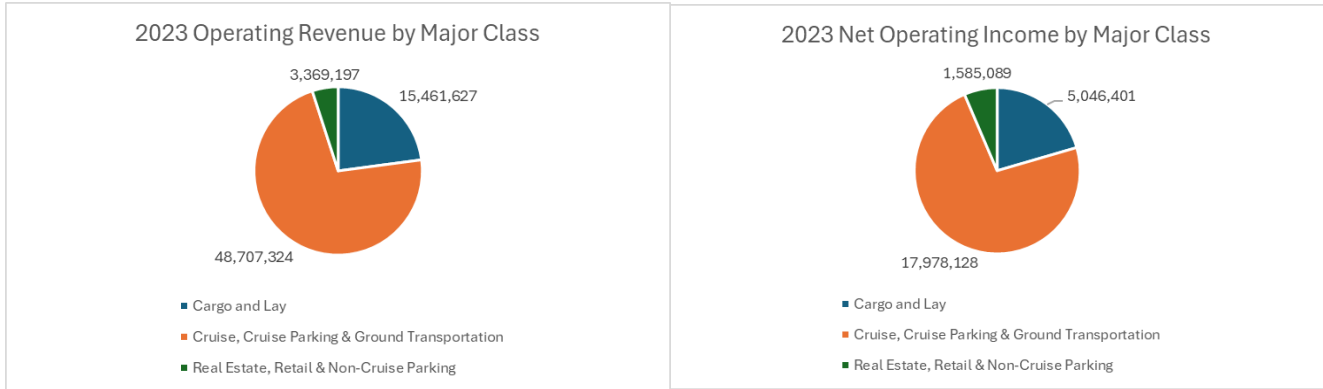
Local Economic Condition and Outlook

Revenues and Profits

Operating revenue of \$67.5 million was \$14.6 million over 2022, operating expense of \$42.9 was \$6.0 million over 2022, operating income of \$24.6 million was \$8.7 million over 2022, and net income of \$24.2 million was \$3.9 million over 2022. Much of the favorable variance relates to a full year of cruise ship sailings from the third cruise terminal in 2023. The Port had 354 cruise ship sailings in 2023, and is expected to have 388 sailings in 2024 and 401 sailings in 2025. The following graphs show operating revenues and income by major class for 2023 compared with 2022:



The following graphs show 2023 operating revenue and operating income by major class:



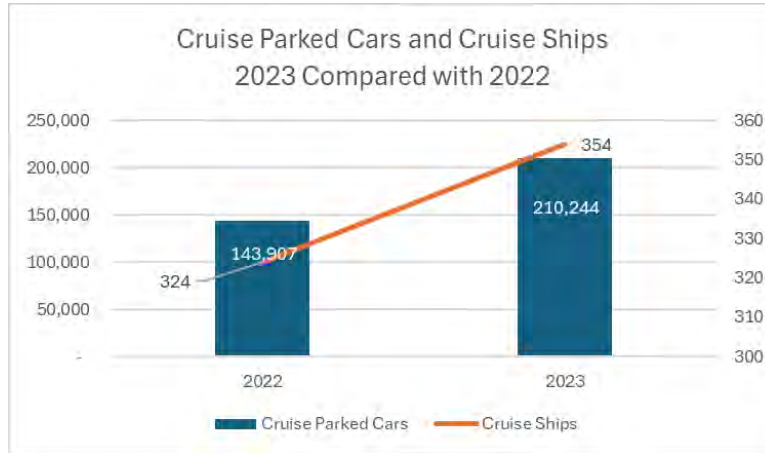
Cruise, Cruise Parking and Ground Transportation

Overall, 2023 revenue from cruise was \$24.1 million, cruise parking was \$22.7 million, and ground transportation was \$1.9 million, for total cruise-related revenue of \$48.7 million. In comparison, 2022 cruise revenue was \$19.1 million, cruise parking was \$12.0 million and ground transportation was \$1.5 million, for total cruise related revenue of \$32.6 million. Year-over-year growth in cruise-related revenue was \$16.1 million, or 49.4 percent, and operating income was \$11.0 million, or 158.9 percent. The Port welcomed a record setting 354 cruise ships, 1,490,532 cruise passenger embarkations (2,979,275 movements), and 210,244 cruise cars parked. The following graphs show cruise, cruise parking and ground transportation operating revenue and net operating income for 2023 compared with 2022:



The Port of Galveston welcomed the Carnival Jubilee for her inaugural cruise on December 23, 2023. This state-of-the-art ship is the first newly built ship to homeport in Galveston since 2011 when the Carnival Magic made Galveston its first homeport. The Carnival Jubilee has a capacity of 6,500 passengers and more than 1,700 crew. A huge Texas star adorns the bow of the Jubilee to honor her new home port. To prepare for the new, larger ship, the Port invested more than \$50 million in improvements to Cruise Terminal 25, which has been home to Carnival ships since 2000. Two passenger boarding bridges and a new configuration inside the terminal help make embarking and debarking more efficient.

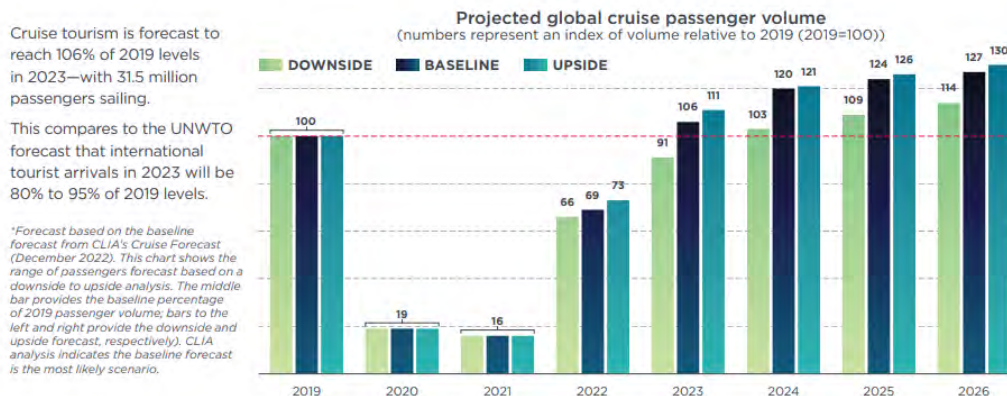
The following graph shows cruise parked cars and cruise ships for 2023 compared with 2022:



The Port has 6,002 parking spaces, of which 5,887, or 98.1, percent are for cruise parking. This includes 3,684 ground, express, and garage parking spaces primarily for cruise terminals 25 and 28, and 2,203 ground and express parking spaces for Cruise Terminal 10. In 2023, the Port added approximately 1,000 cruise parking spaces to meet growing customer demand. The Port also added 8 electrical vehicle charging stations to parking lots in 2023 partially funded through a Texas Volkswagen Environmental Mitigation Program (TxVEMP) grant, with an additional 20 charging stations to be added in 2024.

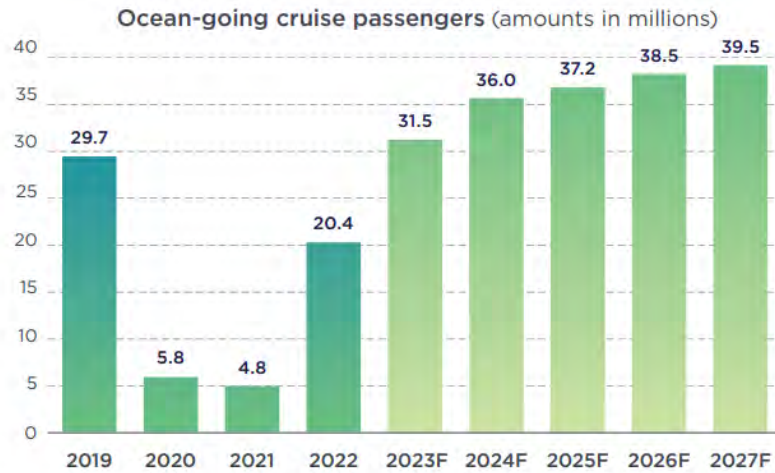
Interior roadways were expanded to aid in traffic control at the three cruise terminals in conjunction with Grant Riders 38 and 48 received from the Texas Department of Transportation (TxDOT) in 2018 and 2020. Final phases of the interior roadways, as outlined in the Port's strategic master plan, are planned for completion in the next few years.

According to the Cruise Lines International Association's (CLIA) *State of the Cruise Industry September 2023 Update*, 85 percent of travelers who have cruised will cruise again. "Cruise tourism is forecast to reach 106% of 2019 levels in 2023 - with 31.5 million passengers sailing."



Source: CLIA Cruise Forecast/Tourism Economics (December 2022)

As is shown in the following graph taken from the CLIA report, "cruise continues to be one of the fastest-growing sectors of tourism." Globally, cruise tourism's economic impact was \$75 billion, supporting 848,000 jobs in 2021. Every 24 cruise passengers support one-full-time equivalent job, adding value before, during, and after sailing.



Source: CLIA Passenger Data, 2019 – 2021 and CLIA Cruise Forecast /Tourism Economics (December 2022)

According to the CLIA report, with passenger volume forecast to reach 33 million cruisers globally, contributing \$155 billion to the global economy, 1.2 million jobs, and \$50 billion in wages,"strong demand and forecast for passenger volume bodes well for future economic contributions from cruise."



Source: CLIA 2019 Economic Impact Study, Oxford Economics

Cargo and Lay

The Port is located on one of the busiest cargo waterways in the U.S. according to a report by the U.S. Army Corps of Engineers, "The U.S. Coastal and Inland Navigation System 2021 Transportation Facts & Information." Based on tonnage, the ranking rose from 46th to 43rd in the most recent annual report.

The Port moved 3.6 million tons of cargo in 2023, which is down 9% overall from 2022 due primarily to winding down the grain contract by June of 2023. Wind energy cargoes remain low due to the loss of government subsidies. Following is a comparative chart showing Short Tons by Major Product Line for 2023 compared with 2022:

2023 and 2022 Short Tons by Major Product Line

| Product Line | 2023 | 2022 | Increase (Decrease) Tons | Increase/ Decrease % |
|--|------------------|------------------|-----------------------------|-------------------------|
| Bulk Grain | 261,808 | 729,203 | (467,395) | -64% |
| Bulk Fertilizer | 155,022 | 229,295 | (74,273) | -32% |
| Liquid Bulk | 2,016,087 | 1,965,982 | 50,105 | 3% |
| Bananas and Other Fruit | 607,615 | 559,084 | 48,531 | 9% |
| RORO (Include BMW Vehicle Processing Center) | 538,129 | 461,690 | 76,439 | 17% |
| Wind and General Cargoes | 65,969 | 73,743 | (7,774) | -11% |
| Total | 3,644,630 | 4,018,997 | (374,367) | -9% |

Cargo operating revenue was \$1.4 million below and net operating income was \$1.7 million below 2022, with the largest factor being the winding down of grain operations which ceased in June of 2023. There were 27 fewer cargo ships in 2023 compared to 2022, of which 13 were grain ships. The total number of cargo ships in 2023 was 283 ships compared to 256 in 2022. Lay operating revenue was \$0.7 million below and net operating income was \$0.8 million below 2022. Lay ships were 25 above 2022, with 343 lay ships in 2023 and 318 ships in 2022. 2023 revenues were lower while ship count was higher because smaller ships called at the Port in 2023, as well as ships being berthed at the Port for shorter durations. Dockage rates are based on ship length.

Real Estate, Retail and Non-Cruise Parking

Real estate, retail and non-cruise parking operating revenues of \$3.4 million were \$0.6 million over 2022 due to Port tenant Gulf Copper. Per contract, when Gulf Copper's operating revenues exceed \$25 million, Gulf Copper shares excess operating revenues between \$25 million and \$35 million at 3.0 percent and operating revenues between \$35 million and \$45 million at 4.0 percent with the Port in supplemental rent. Gulf Copper supplemental rent totaled \$0.6 million.

Strategic Planning and Capital Investment

The Port of Galveston developed a 20-year Strategic Master Plan in 2019 with the assistance of Bermello Ajamil & Partners, Inc., to guide Port growth. The projects proposed in the master plan were approved in February of 2020. Based on one and one-half years of research, including meetings with stakeholders and the public, this comprehensive business-driven road map is guiding the Port in making business decisions, identifying opportunities, and prioritizing capital improvement projects. The strategic master plan is updated regularly as market demand, business strategies, and funding sources evolve. The Port updated the capital projects in the 20-year strategic master plan in 2023.

In 2023, the Port was full steam ahead again with strategic planning projects, which are funded with operating revenues, grants and bond funding. The Port is expanding the existing debt program for the purpose of future additions and improvements to its facilities beginning in 2024.

- **East Port Projects** - The East Port project related to Cruise Terminal 10 is a great example of a successful public-private partnership. The new terminal opened in November of 2022. Royal Caribbean built the \$125-million 161,000-square-foot terminal, and the Port spent \$26.7 million for pier repairs, site work, utilities, and additional cruise parking. Additionally, the Port spent \$6.3 million for construction of the East End Cruise Corridor, which was partially funded through a TxDOT grant.
- **Mid Port Projects** - Mid Port projects included \$51 million in renovations and improvements to accommodate larger ships at Cruise Terminal 25. In December 2023, the Port welcomed the *Carnival Jubilee*, a Carnival Cruise Line Excel-class cruise ship, which accommodates over 6,500 passengers. The Port received state funding of \$2.6 million to complete a portion of interior roadway in its central commercial area, \$3.8 million to restore a skywalk over Harborside Drive connecting a Port parking garage to Cruise Terminal 25, and \$2.0 million for roadway improvements along the Wharf Road. In 2023, the Port began planning for a fourth cruise terminal located at Pier 16 to be developed in 2024 and 2025. The fourth

cruise terminal was originally planned for development in 2030 and 2031 per the master plan. Additionally, the Port is making parking, pier, and interior roadway improvements that will begin in 2024 and 2025.

- **West Port Projects** - The Port received state funding to begin a \$50.1 million project to rehabilitate pier structures between Piers 38 and 41 in and expand berth space in 2024. The Port is also planning to fill slips in this area to create more cargo areas with construction starting in 2024.
- **Other Grants** - The Port of Galveston also received approval for a \$1.3 million federal port security grant related to video surveillance expansion and training. The Port will continue to pursue federal port security grants, TxDOT grants, and local Industrial Development Corporation (IDC) grants. These grants range from 100 percent funding to projects with a 25 percent or more Port cost share. Generally, port security grants have a 25-percent Port cost share.

City of Galveston Local Impact

The Port made payments to the City of Galveston, including apportioned sales taxes, totaling \$1.7 million in 2023, which represents 3.6 percent of Port operating payments. The largest payments to the city include long-term parking fees of \$0.7 million, local sales taxes of \$0.4 million and cruise passenger charges of \$0.3 million passed through from the cruise lines to the city. The Port made payments to other Galveston vendors of \$21.3 million in 2023, which represents 24.8 percent of Port operating payments. Total payments to Galveston vendors were \$23.0 million, or 26.6 percent of all operating payments. Payments to the City of Galveston will increase in 2024 since the parking fee began in July of 2023 and the City's cruise passenger surcharge was implemented during 2023. A full year will be recorded for both the parking fee and cruise passenger surcharge in 2024.

Green Marine Initiative

In 2019 the Port of Galveston joined and began seeking certification from Green Marine, a voluntary environmental certification program for the North American marine industry. Participants include ship owners, ports, terminals, and shipyards based in the United States and Canada. Green Marine certification is a part of the Port's long-term commitment to continuously improve its environmental performance and sustainability efforts. The Port was certified in May of 2021 and is only the second Texas port to gain this certification. The American Association of Port Authorities (AAPA) presented the Port of Galveston the Lighthouse Award of Distinction for its first Green Marine certification. Major environmental initiatives underway include shore power, liquified natural gas (LNG) barge bunkering operations, fleet transition to low emissions, phased approaches to 100-percent clean energy, and installation of electric vehicle charging stations.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Finance Reporting to The Board of Trustees of the Galveston Wharves for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended December 31, 2022. This was the 30th consecutive year that the Port of Galveston has achieved this prestigious award. In order to receive a Certificate of Achievement, candidates must publish an easily readable and efficiently organized ACFR. This report must satisfy both accounting principles accepted in the U.S. and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Port of Galveston staff believe that the 2023 ACFR continues to meet the Certificate of Achievement Program's requirements. The Port will submit the report to the GFOA to determine its eligibility for another certificate.



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Board of Trustees of the Galveston Wharves
Texas**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

December 31, 2022

Christopher P. Morill

Executive Director/CEO

Relevant Financial Policies

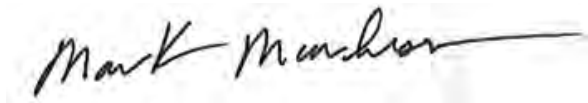
Grant proceeds are treated as contributions to capital and are not included in operating income. Capital grants and contributions are listed immediately following operating income and before contributions in the Port's Statement of Revenues, Expenses and Changes in Net Position. These items are included in the Financial Section of the Port's ACFR.

Acknowledgments

The preparation of this report could not have been accomplished in a timely manner without the dedicated efforts of the Port's staff, our management team, the Board of Trustees and other contributors. We request that you continue to assist us with your advice, efforts and loyalty.

The Port continues to be well positioned for cargo, cruise, and real estate rental growth. With strong cruise, cargo and lay dockage revenues, solid cash flows, and a strategic master plan to guide the way, the Port is well positioned for new opportunities and growth.

Respectfully submitted,

A handwritten signature in black ink, reading "Mark R. Murchison", with a long horizontal flourish extending to the right.

Mark R. Murchison

Chief Financial Officer

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES



PART II FINANCIAL SECTION

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
Annual Comprehensive Financial Report
For the Year Ended December 31, 2023



Independent Auditor's Report

Board of Trustees
The Board of Trustees of the Galveston Wharves
Galveston, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the fiduciary activities of the Board of Trustees of the Galveston Wharves (Port), a component unit of the City of Galveston, Texas, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the fiduciary activities as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Port, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Port adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, in fiscal year 2023. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and pension information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual comprehensive financial report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2024, on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

FORVIS,LLP

**Houston, Texas
April 26, 2024**



GALVESTON WHARVES

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
Annual Comprehensive Financial Report
For the Year Ended December 31, 2023

Management's Discussion and Analysis

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

Financial Highlights

The Port saw record-setting revenues in 2023 attributable to 354 cruise ship calls or an increase of 30 cruise ship calls, increased cruise passenger embarkations of 449,125 and increased cruise related parking of 66,337 vehicles. Lay vessels of 343 represented an increase of 25 calls in 2023 over 2022. Overall, the Port posted operating revenues of \$67.5 million, with \$48.7 million, or 72% attributable to cruise, cruise parking, and cruise ground transportation, compared to 2022 revenues of \$52.9 million which included \$32.6 million attributable to cruise, cruise parking, and cruise ground transportation. Overall parking revenues of \$23.1 million were \$10.7 million over 2022. Operating income of \$ 24.6 million increased from \$16.0 million in 2022. The Port handled 3.6 million tons of cargo, down 0.4 million from 2022, primarily due to the termination of grain shipments from the Port. Cash used for the acquisition and construction of capital assets totaled \$56.4 million and net cash provided by operations was \$16.2 million in 2023, resulting in unrestricted cash available of \$36.4 million as of December 31, 2023.

The Port implemented GASB 96, subscription-based information technology arrangements (*SBITA*), in 2023, resulting in increased assets of \$0.4 million, increased subscription liabilities of \$0.3 million, and increased operating expenses of \$0.1 million. 2022 comparative information presented herein was not restated for adoption of GASB 96. Impacts of implementation are described in more detail later in the MD&A section and in the Notes to the Financial Statements.

Overview of the Financial Statements

The management discussion and analysis is intended to serve as an introduction to the Port of Galveston's basic financial statements which consist of the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, 3) Statement of Cash Flows, 4) Statement of Fiduciary Net Position-Pension Trust Fund 5) Statement of Changes in Fiduciary Net Position- Pension Trust Fund and 6) Notes to Financial Statements and required Supplementary Information.

The proprietary fund financial statements presented herein include the operations of the Port using the approach as prescribed by Governmental Accounting Standards Board (GASB) in its publication *Codification of Governmental Accounting and Financial Reporting Standards*. The financial statements of the Port use the economic resources measurement focus using the accrual basis of accounting.

The Statement of Net Position presents, as of a specific date, information on the Port's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Increase or decrease in net position may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Port's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in this statement result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Port follows enterprise fund accounting and reporting requirements. There is a statement of cash flows included as part of the basic financial statements.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position-Pension Trust Fund

The fiduciary fund accounts for resources held by the Port in a trustee capacity or as an agent for the benefit of parties outside the Port. The fiduciary fund includes the Pension Trust Fund. The Pension Trust Fund statements allow the Port to present the employee benefit trust fund activities. While the fiduciary fund represents a trust responsibility, the assets are restricted in purpose and do not represent discretionary resources of the government. Therefore, these assets are not presented as part of the Port's financial statements.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements may be found beginning on page 29 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Required Supplementary Information (RSI) immediately following the Basic Financial Statements and related notes section of this report. RSI provides trend information related to the Port's benefit plan. The statistical section follows RSI, followed by the Federal Single Audit section. The Port elected to include the Federal Single Audit section with the Annual Comprehensive Financial Report beginning in 2023, and will include the Federal and State Single Audit sections going forward when the Port meets the criteria for performance of these audits.

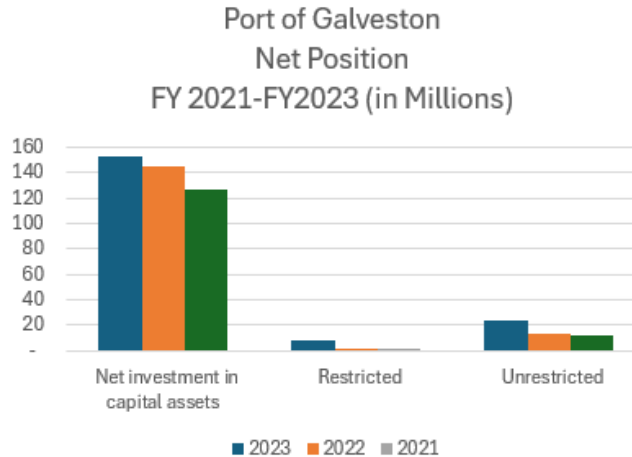
Financial Analysis of the Port

Net Position: The following financial information is derived from the Port's financial statements comparing the Port's current to prior year financial position (in 000's):

| | 2023 | 2022 | Increase (Decrease) Over Prior Year |
|----------------------------------|-------------------|-------------------|--|
| Current assets | \$ 64,406 | \$ 45,052 | 43% |
| Capital assets | 223,823 | 172,743 | 30% |
| Other noncurrent assets | 247,232 | 202,394 | 22% |
| Total assets | 535,461 | 420,189 | 27% |
| Deferred outflows of resources | 2,152 | 400 | 438% |
| Current liabilities | 45,652 | 36,416 | 25% |
| Long-term liabilities | 60,503 | 16,967 | 257% |
| Net pension liability | 3,399 | - | 100% |
| Total liabilities | 109,554 | 53,383 | 105% |
| Deferred inflows of resources | 244,401 | 207,791 | 18% |
| Net position: | | | |
| Net investment in capital assets | 152,290 | 145,378 | 5% |
| Restricted for debt service | 5,807 | 589 | 887% |
| Unrestricted | 25,561 | 13,448 | 90% |
| Total net position | \$ 183,658 | \$ 159,415 | 15% |

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**



Statement of Net Position: The Port's net position increased by \$24.2 million between fiscal years 2022 and 2023, to \$183.7 million. Net investment in Capital Assets increased from \$145.4 million to \$152.3 million, including right of use assets. Net Position restricted for debt service increased from \$0.6 million to \$5.8 million and Unrestricted Net Position increased from \$13.4 million to \$25.6 million.

Total assets and deferred outflows of resources increased by \$117.0 million in 2023.

- **Current assets increased \$19.3 million.**
 - Current unrestricted cash and cash equivalents increased \$8.4 million.
 - Current receivables net of allowances decreased \$1.1 million with a \$0.8 million decrease attributable to cruise with the remaining \$0.3 million decrease due to miscellaneous other receivables.
 - Current restricted cash and cash equivalents increased by \$14.7 million due to the issuance of the Series 2023 Revenue Bonds. The debt reserve fund increased \$4.3 million (funded from unrestricted cash and cash equivalents), related debt service fund increased \$0.9 million, and there were \$9.5 million of unspent bond proceeds remaining in restricted cash originating from the Series 2023 Revenue Bonds. The remaining unspent funds are expected to be fully utilized by the second quarter of 2024. The 2023 Revenue Bonds were issued primarily for improvements to Cruise Terminal 25 building, passenger loading bridges and related waterfront improvements.
 - Short term lease receivable decreased \$2.7 million due to lease asset modifications/terminations.
- **Non-current assets increased \$95.9 million.**
 - Capital assets, nondepreciable increased \$0.3.
 - Capital assets including leased and software assets, net of depreciation, increased \$50.8 million (see Note 4).
 - Additions to capital assets were \$58.5 million primarily due to the modifications and improvements to Cruise Terminal 25 facilities.
 - Retirements from capital assets were \$3.8 million.
 - Capital assets decreased \$7.4 million due to normal depreciation and amortization of \$10.7 million offset by retirements of \$3.3 million.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

- Net lease and software assets beginning balances of \$3.5 million were added related to GASB 87 and GASB 96 implementations.
- A non-current lease receivable in the amount of \$44.8 million was added to non-current assets primarily due to the Carnival cruise line contract amendment which extended the lease and increased the minimum annual guarantees.

Deferred outflows of resources pension items increased \$1.8.

Total liabilities and deferred inflows of resources increased \$92.8 million in 2023.

• Current liabilities increased \$9.3 million.

- Trade accounts payable and other accrued expenses increased \$1.6 million due to capital and \$1.2 million due to non-capital and trade related-payables.
- Customer deposits and customer payables increased \$1.5 million primarily due to the increase in prepaid parking of \$1.2 million and other minor increases of \$0.3 million.
- Interest payable increased \$0.5 million primarily due to the issuance of the Series 2023 Revenue Bonds.
- Long term liabilities due within one year increased \$4.3 million primarily due to the issuance of the Series 2023 Revenue Bonds.
- Short-term lease liability increased \$0.2 million due to the implementation of GASB 96.

• Long-term liabilities increased \$46.9 million.

- Long-term debt increased by \$43.5 million due to the issuance of the Series 2023 Revenue Bonds of \$47.2 million net of short-term portion, the Series 2023 Revenue Bond gain on refunding of \$1.2 million, a \$4.6 million decrease due payments on the Series 2021 Refunding Bonds, and other small reductions of \$0.1 million.
- Net pension liability increased by \$3.4 million primarily due to differences in expected and actual experience and changes in assumptions from the prior year to the current year.

• Deferred inflows of resources increased in the amount of \$36.6 million.

- Pension related deferred inflows decreased \$2.0 million due to the difference between projected and actual earnings on pension plan investments.
- Lease related inflows increased \$38.6 million primarily due to the Carnival cruise line contract amendment which extended the lease and increased the minimum annual guarantees.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

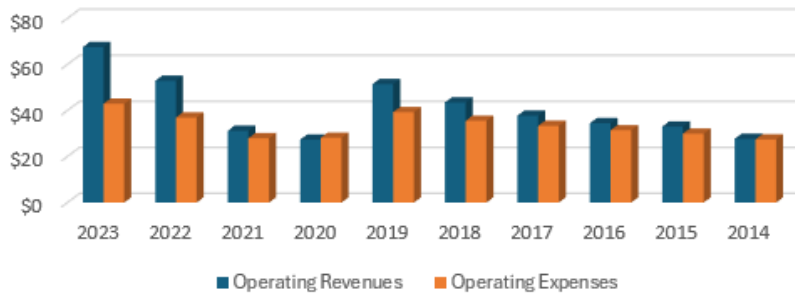
Changes in net position: The following financial information is derived from the Port's financial statements comparing the Port's current to prior year changes in financial position (in 000's):

| | 2023 | 2022 | Increase (Decrease) Over Prior Year |
|--|-------------------|-------------------|---|
| Operating revenues: | | | |
| Vessels and cargo services | \$ 27,330 | \$ 28,734 | -5% |
| Building and facilities rental and fees | 40,208 | 24,177 | 66% |
| Total operating revenues | 67,538 | 52,911 | 28% |
| Operating expenses: | | | |
| Personnel services | 14,470 | 9,927 | 46% |
| Maintenance and operations | 12,907 | 14,179 | -9% |
| Sales and office | 4,860 | 4,959 | -2% |
| Depreciation | 10,692 | 7,889 | 36% |
| Total operating expenses | 42,929 | 36,954 | 16% |
| Operating income | 24,609 | 15,957 | 54% |
| Nonoperating revenues (expenses): | | | |
| Earnings on investment | 1,546 | 511 | 202% |
| Other income | 49 | 29 | 67% |
| Loss on sale of assets | (492) | (48) | 923% |
| Loss on capital lease modifications/terminations | (105) | - | 100% |
| Interest expense | (632) | (225) | 180% |
| Costs of bond issuance | (1,172) | - | 100% |
| Annual City payment | (195) | (198) | -2% |
| FEMA/TDEM Claims-IKE | (382) | (161) | 137% |
| Total nonoperating revenues (expenses) | (1,383) | (92) | 1401% |
| Income before capital grants and contributions | 23,226 | 15,865 | 46% |
| Capital grants and contributions | 1,017 | 4,483 | -77% |
| Changes in net position | 24,243 | 20,348 | 19% |
| Beginning net position | 159,415 | 139,067 | 15% |
| Ending net position | \$ 183,658 | \$ 159,415 | 15% |

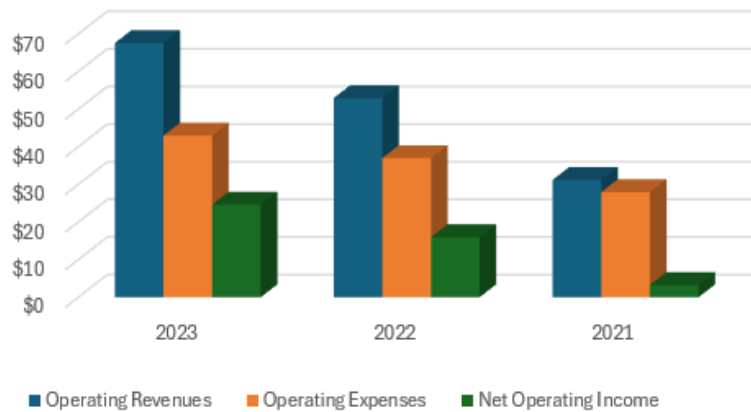
**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

Port of Galveston
Operating Revenues & Expenses FY 2014-2023
(in Millions)



Port of Galveston
Operating Revenue, Expenses, and Income
(in Millions)



Total operating revenues increased by \$14.6 million from \$52.9 million in 2022 to \$67.5 million in 2023. Total operating expenses increased by \$6.0 million from \$37.0 million in 2022 to \$42.9 million in 2023. Net operating income increased by \$8.6 million from \$16.0 million in 2022 to \$24.6 million in 2023.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

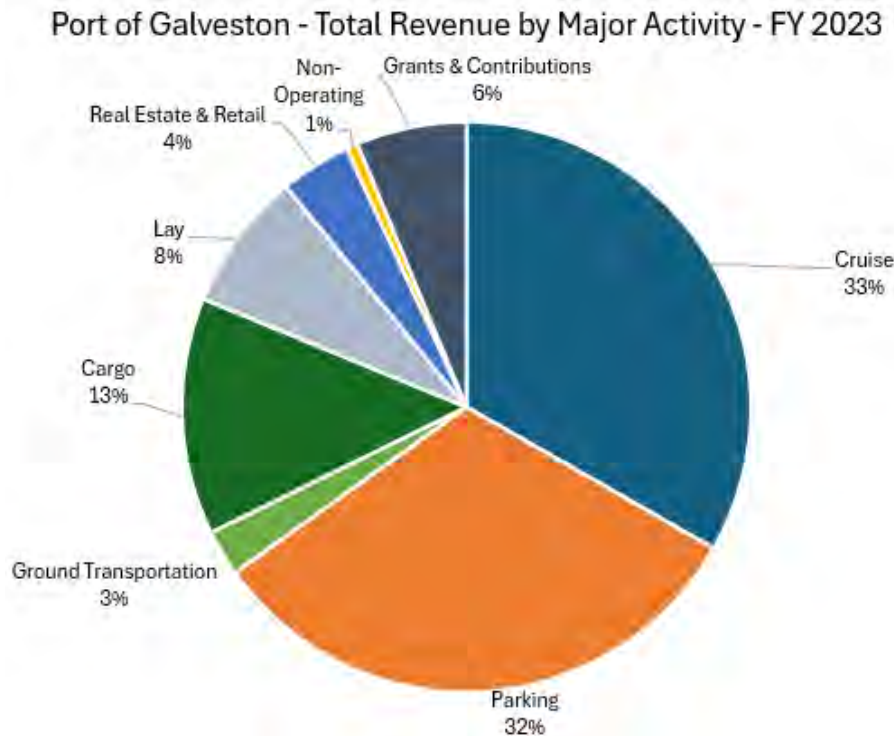
**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

- Vessels and cargo services decreased 5%, or \$1.4 million, from \$28.7 million in 2022 to \$27.3 million in 2023.
 - Passenger revenues increased \$0.9 million from \$15.9 million in 2022 to \$16.8 million in 2023 due to a full year of cruise ship sailings from the third cruise terminal in 2023. The number of cruise ship calls increased from 324 in 2022 to 354 in 2023, and the number of cruise passengers increased from 1,041,407 in 2022 to 1,490,532 in 2023.
 - Dockage, including cruise-related dockage, and Lay dockage decreased \$2.1 million. Dockage decreased by \$1.4 million primarily due to grain shipments ending mid-year 2023. Lay ship calls increased by 25 ships from 2022 to 2023, but lay dockage decreased by \$0.7 million due to smaller ships calling at the port for shorter durations.
 - Wharfage decreased \$0.2 million led by the decrease in wind towers and blades of \$0.2 million.

- Building and facilities rental and fees increased 66% or \$16.0 million increase from \$24.2 million in 2022 to \$40.2 million in 2023.
 - Rail switching decreased \$0.2 million or 45% from \$0.5 million to \$0.3 million due primarily to the decrease in grain shipments.
 - Parking revenues increased by \$10.3 million from \$12.4 million in 2022 to \$22.7 million in 2023 due to a full year of cruise ship sailings from the third cruise terminal in 2023. The number of vehicles parked related to cruise increased from 143,907 in 2022 to 210,244 in 2023.
 - Real estate increased \$5.5 million, or 86%, primarily due to the addition of leases under GASB 87 and GASB lease interest income of \$4.9 million, and other various lease increases of \$0.6 million.
 - Terminal access fees increased \$0.4 million, or 28%, from \$1.4 million in 2022 to \$1.8 million in 2023 due to 30 additional cruise ship calls.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**



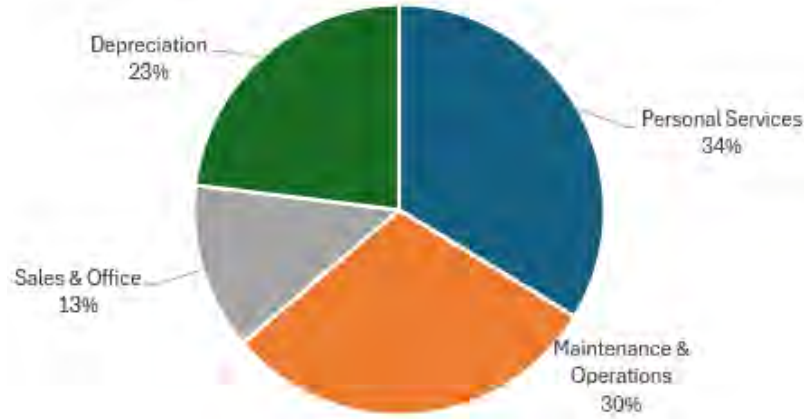
Operating expenses increased \$6.0 million, or 16%, in 2023.

- Personnel Related Expenses increased \$4.6 million, or 46%, due to an increase of \$2.1 million in Salaries and Wages related to filled positions and salary adjustments to market in 2023, related increased payroll taxes, employee insurances and other employee benefits of \$0.4 million, and contracted labor of \$0.8 million due to a full year of cruise ship sailings from the third cruise terminal in 2023, and an increase in the defined benefit plan of \$1.3 million due to differences between projected and actual earnings on pension plan investments.
- Maintenance and Operations Expenses decreased \$1.3 million or 9%. due to the reclassification of cruise line incentives of \$2.9 million now classified as an offset to revenue, offset by increase of utilities \$0.4 million, insurances \$0.8 million, and equipment repairs and building maintenance \$0.4 million.
- Sales and Office Expenses, excluding salaries and related expenses, decreased \$0.1 million, or 2% due to \$0.3 million credit card fees due to a full year of cruise ship sailings from the third cruise terminal in 2023, offset by a \$0.4 million decrease in bad debt expense.
- Depreciation/amortization expense increased \$2.8 million, or 36%, when compared with 2022 due to increased depreciation of \$2.0 million from capitalizing depreciable projects and adding lease and software amortization of \$0.8 million.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

Port of Galveston - Total Expenses - FY 2023



Other non-operating revenues/expenses netted a revenue decrease of \$1.3 million, or 1,401%, in 2023.

- Revenue increase of \$1.1 million—Investment Income increased by \$1.1 million due to increased cash balances related to unspent debt proceeds, as well as higher interest rates.
- Expense increase of \$2.4 million—The increase is primarily due to bond interest and bond issuance expenses of \$1.6 million from the issuance of the Series 2023 Revenue Bonds, equipment obsolescence of \$0.5 million, and other small increases of \$0.3 million.

2023 Tonnage, Passengers and Vehicles

- Cargo tonnage decreased 9% from 4.0 million tons to 3.6 million tons.
 - Grain shipments decreased by 64% from 0.7 million tons to 0.3 million tons due to Archer Midland Daniels (ADM) discontinuing operations in June of 2023.
 - Bulk fertilizer decreased 32% from 229,295 tons to 155,022 tons due to market conditions.
 - Liquid bulk remained consistent at 2.0 million tons as draft limitations in the Federal Channel were reduced.
 - Fresh Fruit and Vegetables increased 9% from 599,084 tons to 607,615 tons.
 - RoRo increased 17% from 461,690 tons to 538,129 tons due to the increase in production in foreign manufacturing.
 - Wind and General Cargoes decreased 11% from 73,743 tons to 65,969 tons.
 - Cruise passenger movements increased 43% from 1,041,407 to 1,490,532 due to a full year of cruise ship sailings from the third cruise terminal in 2023 resulting in 30 additional sailings.
 - Parking increased 46% from 143,907 vehicles to 210,244 vehicles due to a full year of cruise ship sailings from the third cruise terminal in 2023.

Fiduciary Fund

Fiduciary fund: The Galveston Wharves Pension Plan (the Plan) is sponsored by the Port. The Plan is a component unit of the Port and is reported as a fiduciary pension trust fund in the basic financial statements of the Port in accordance with GASB No. 84, *Fiduciary Activities*.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

Fiduciary Fund Financial Highlights and Analysis

- Net position restricted for pensions is available for payment of monthly retirement benefits and other qualified distributions to the Plan's participants. Net position restricted for pensions increased by \$1.5 million, or 138.2%, in 2023. This increase was primarily due to favorable market conditions in 2023 compared to 2022. Net investment income was \$2.3 million in 2023 when compared to the investment loss of \$2.9 million in 2022.
- Employer contributions totaled \$505,000, compared with \$399,996 in 2022, or an increase of 26.3%. The Plan's actuary prepares an annual valuation. As part of this valuation, the Plan actuary calculates the actuarial determined contribution, and the Plan sponsor contributes at a minimum in accordance with this calculation.
- The amount of benefits paid to participants during 2023 remained near 2022 benefit payments.
- The Plan's rate of return on investments for the year ended December 31, 2023, was 18.35%, which was higher than the return of -17.72% for 2022. The actuarial assumed rate of return in 2023 decreased from 7.25% in 2022 to 7.00% in 2023.

| | 2023 | 2022 | Percentage Change |
|--|---------------------|-----------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 645,657 | \$ 80,553 | 701.5% |
| Receivable benefits | 24,116 | | |
| Prepaid benefits | 107,150 | 106,975 | 0.2% |
| Investments | 13,697,065 | 12,835,355 | 6.7% |
| Total assets and net position | 14,473,988 | 13,022,883 | 11.1% |
| Additions: | | | |
| Employer contributions | 505,000 | 399,996 | 26.3% |
| Net Investment income | 2,291,256 | - | 0.0% |
| Total additions | 2,796,256 | 399,996 | 599.1% |
| Deductions: | | | |
| Benefits paid to participants | 1,282,081 | 1,283,191 | -0.1% |
| Net investment loss | - | 2,876,194 | -100.0% |
| Administrative expenses | 63,070 | 41,183 | 53.1% |
| Total deductions | 1,345,151 | 4,200,568 | -68.0% |
| Net increase/(decrease) in net position | \$ 1,451,105 | \$ (3,800,572) | 138.2% |

Investments increased by \$0.9 million, or 6.7%, from 2022 to 2023. This was primarily due to an increase in the fair value of investments.

Capital Assets and Debt Administration

Capital assets: As of December 31, 2023, capital assets before depreciation, which includes both depreciable and non-depreciable assets along with construction work in progress, totaled \$352.4 million, an increase of \$55.0 million over 2022. Accumulated depreciation as of year-end is \$128.6 million, an increase of \$7.4 million over 2022. The following is a comparison of capital assets for the years ended December 31 (in 000's):

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

| | <u>2023</u> | <u>2022</u> |
|---|-------------------|-------------------|
| Land | \$ 18,221 | \$ 18,184 |
| Channel deepening | 18,388 | 18,388 |
| Construction in progress | 5,261 | 4,994 |
| Total capital assets, nondepreciable | <u>41,870</u> | <u>41,566</u> |
| Land leases | 3,580 | 3,236 |
| Railway facilities | 2,305 | 3,491 |
| Wharves, docks and buildings | 282,521 | 232,371 |
| Wharves, docks and building leases | 508 | 474 |
| Machinery and equipment | 15,179 | 10,422 |
| Machinery and equipment leases | 133 | 153 |
| Furniture and office equipment | 4,759 | 4,723 |
| Intangible assets | 1,031 | 856 |
| Software subscriptions | 498 | 119 |
| Total capital assets being depreciated/amortized | <u>310,514</u> | <u>255,845</u> |
| Less allowance for depreciation and amortization | <u>(128,561)</u> | <u>(121,175)</u> |
| Total assets being depreciated/amortized, net | <u>181,953</u> | <u>134,670</u> |
| Total capital assets, net | <u>\$ 223,823</u> | <u>\$ 176,236</u> |

Non-depreciable capital assets of \$41.9 million increased \$0.3 million, primarily related to additions of \$57.2 million, offset by transfers to depreciable capital of \$56.9 million mainly related to Cruise Terminal 25 improvements and renovations. Total capital assets being depreciated/amortized, net, of \$182.0 million increased \$47.3 million, which is the net of an increase in capital assets being depreciated/amortized of \$54.7 million and accumulated depreciation/amortization increase of \$7.4 million.

More detailed information on capital assets may be found in Note 4 to the financial statements.

Bond ratings: The underlying ratings assigned to the Port's Series 2021A, Series 2021B (AMT), and Series 2023 Revenue Bonds issues are as follows:

- Standard and Poor's: A-/Stable
- Fitch Ratings: A-/Stable

The Port is the Local Sponsor for the Federal Channel. As the Local Sponsor it is responsible for the local cost share of the previous deepening of the federal channel. In addition to the cost share paid to the U.S. Army Corps of Engineers on previously constructed general navigation features, the Port is responsible for an additional 10 percent of the cost of the Federal Channel deepening to 45 mean lower low water. The estimated cost is \$3.9 million payable over a period not to exceed 30 years. These costs are being capitalized and the liability is being accrued.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

| Issue | Balance at | | | Balance at | Amounts |
|-------------------------|----------------------|----------------------|---------------------|----------------------|------------------------|
| | December 31, 2022 | Increases | Decreases | December 31, 2023 | Due Within One Year |
| Direct Placements | \$ 14,652,364 | \$ - | \$ (4,555,664) | \$ 10,096,700 | \$ 4,624,035 |
| Revenue Bonds | - | 51,460,000 | - | 51,460,000 | 4,257,179 |
| U.S. Corps of Engineers | 3,401,817 | - | (130,367) | 3,271,450 | 130,409 |
| | <u>\$ 3,401,817</u> | <u>\$ 51,460,000</u> | <u>\$ (130,367)</u> | <u>\$ 54,731,450</u> | <u>\$ 4,387,588</u> |

More detailed information on long-term debt may be found in Note 5 to the financial statements.

Economic Factors and Next Year's Rates

The Port of Galveston's mission is to manage the assets and resources under its stewardship for optimum economic benefit for the City of Galveston and the surrounding region. It is the intent of the Board to set its fees, leases and other charges at a level to recover the cost of its activities including renewal and replacement of its facilities and equipment.

The vision of The Port of Galveston is to be a premier port that is globally recognized, well capitalized with state-of-the-industry facilities and service and promote the movement of cruise passengers and a broad range of cargoes. Our passions are people, innovation, continuous improvement and service to industry and the community.

The mission of the Port of Galveston management and staff is to protect, preserve and enhance the assets of the City of Galveston's waterfront property by continuing to rebuild and improve facilities to grow opportunities for existing customers and attract new businesses that will promote jobs and economic prosperity for the Port and the community.

Port of Galveston management and staff fully recognize the value of Port property in a global economy and will continue to seek alternative sources of funding and development arrangements to expand and diversify the Port's commercial base with accountability and sensitivity to Port and community stakeholders and the environment.

The Port welcomed over 1 million cruise passengers for the third time in its history of modern cruising. The notable increase in revenue in 2023 was attributed to a full year of cruise ship sailings from the third cruise terminal. Cruise-related revenue alone amounted to \$48.7 million, representing a significant growth of 49.4 percent year over year. Additionally, the Port experienced a record-setting year in cruise ship traffic, welcoming 354 cruise ships and 1,490,532 cruise passengers, including the inaugural cruise of the Carnival Jubilee. Projected 2024 cruise revenue of over \$30 million is expected as the Port is on track to set new records with more than 380 cruise sailings scheduled in 2024, increased passenger counts due to larger ships, and increased rates. Parking recorded a record of 210,244 cars, or a 46% increase over the prior year. Parking revenues of \$22.7 million were 84% over the prior year. Parking revenues are expected to remain strong with over \$27 million in revenues expected in 2024. Cargo business remained strong. While cruise brought 30 more ships to the Port in 2023 as compared to 2022, or an increase of 10%, cargo showed an increase of 28 ships, or 3%, primarily due to the termination of grain operations mid-year 2023, for an overall tonnage decrease of 374,367.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2023**

In 2023, the Port of Galveston enhanced its sustainability efforts by installing 8 electric vehicle charging stations in parking lots with another 20 scheduled to come on line in 2024, partially funded through the Texas Volkswagen Environmental Mitigation Program. Additionally, the expansion of interior roadways at three cruise terminals was facilitated by grants from the Texas Department of Transportation received in 2018 and 2020. The Port's strategic master plan includes further development of interior roadways. The Port facilitated pier repairs, site work, utilities, and additional cruise parking. Various grants, including federal port security grants and TXDOT grants, continue to support infrastructure improvements, with the Port committed to pursuing additional funding opportunities. The construction of the third cruise terminal was completed in November of 2022, with a full year of cruise ship sailings from the third cruise terminal in 2023.

Contacting the Port's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the Port's finances and to demonstrate the Port's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Port of Galveston, 123 25th Street, 8th Floor, Galveston, Texas 77550.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
Annual Comprehensive Financial Report
For the Year Ended December 31, 2023

Basic Financial Statements

The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston

Statement of Net Position
December 31, 2023

Assets

| | |
|--|-----------------------|
| Current assets-unrestricted: | |
| Cash and cash equivalents | \$ 36,383,556 |
| Accounts receivable, net | 6,053,541 |
| Prepaid items | 850,706 |
| Short term lease receivables | 5,809,358 |
| Current assets-restricted | |
| Cash and cash equivalents | <u>15,308,509</u> |
| Total current assets | <u>64,405,670</u> |
| Noncurrent assets: | |
| Capital assets: | |
| Capital assets, nondepreciable | 41,869,674 |
| Capital assets, net of depreciation | 178,488,429 |
| Capital right of use assets, net of amortization | <u>3,465,062</u> |
| Total capital assets | <u>223,823,165</u> |
| Other assets: | |
| Lease receivables | <u>247,232,390</u> |
| Total other assets | <u>247,232,390</u> |
| Total noncurrent assets | <u>471,055,555</u> |
| Total assets | <u>535,461,225</u> |
| Deferred outflows of resources-pension items | <u>2,152,040</u> |
| Total assets and deferred outflows of resources | <u>\$ 537,613,265</u> |

(Continued)

The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston

Statement of Net Position (Continued)
December 31, 2023

Liabilities

Current liabilities:

| | | |
|--|----|------------------|
| Accounts payable | \$ | 16,461,730 |
| Accrued expenses | | 3,016,451 |
| Payable to other governments | | 521,500 |
| Accrued compensated absences | | 655,016 |
| Unearned revenues and rents | | 3,609,861 |
| Due to FEMA/TDEM-IKE | | 11,106,716 |
| Interest payable | | 467,151 |
| Long-term liabilities due within one year | | 801,836 |
| Long-term liabilities due within one year (payable from restricted assets) | | <u>9,011,623</u> |

Total current liabilities 45,651,884

Noncurrent liabilities:

| | | |
|---|--|------------------|
| Accrued compensated absences | | 861,502 |
| Long-term liabilities due in more than one year | | 59,641,113 |
| Net pension liability | | <u>3,399,295</u> |

Total noncurrent liabilities 63,901,910

Total liabilities 109,553,794

Deferred inflows of resources:

| | | |
|---|--|--------------------|
| Deferred inflows of resources - gain on refunding | | 50,058 |
| Deferred inflows of resources - lease related | | <u>244,350,943</u> |

Total deferred inflows of resources 244,401,001

Total liabilities and deferred inflows of resources 353,954,795

Net Position:

| | | |
|----------------------------------|--|-------------------|
| Net investment in capital assets | | 152,289,923 |
| Restricted for debt service | | 5,807,149 |
| Unrestricted | | <u>25,561,398</u> |

Total net position 183,658,470

Total liabilities, deferred inflows of resources and net position \$ 537,613,265

See accompanying notes to financial statements.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2023**

| | |
|---|--------------------|
| Operating revenues: | |
| Charges for customers services: | |
| Vessels and cargo services | \$ 27,329,579 |
| Building and facilities rental and fees | 40,208,569 |
| | <hr/> |
| Total operating revenues | 67,538,148 |
| | <hr/> |
| Operating expenses: | |
| Personnel services | 14,469,719 |
| Maintenance and operations | 12,906,875 |
| Sales and office | 4,860,390 |
| Depreciation and amortization | 10,691,546 |
| | <hr/> |
| Total operating expenses | 42,928,530 |
| | <hr/> |
| Operating income | 24,609,618 |
| | <hr/> |
| Nonoperating revenues (expenses): | |
| Investment income | 1,546,368 |
| Other income | 49,050 |
| Loss on disposal of capital assets | (492,311) |
| Loss on lease modifications/terminations | (105,079) |
| Interest expense | (631,643) |
| Costs of bond issuance | (1,171,544) |
| Annual city payment | (195,031) |
| FEMA/TDEM Claims-IKE | (382,446) |
| | <hr/> |
| Total nonoperating revenues (expenses) | (1,382,636) |
| | <hr/> |
| Income before capital grants and contributions | 23,226,982 |
| | <hr/> |
| Capital grants and contributions | 1,016,923 |
| | <hr/> |
| Change in net position | 24,243,905 |
| | <hr/> |
| Net position at beginning of year | 159,414,565 |
| | <hr/> |
| Net position at end of year | \$ 183,658,470 |
| | <hr/> <hr/> |

See accompanying notes to financial statements

**The Board of Trustees
A Component Unit of the City of Galveston**

**Statement of Cash Flows
Year Ended December 31, 2023**

| | |
|--|-----------------------------|
| Cash flows from operating activities: | |
| Cash receipts from customers | \$ 48,196,934 |
| Cash payments to employees | (14,246,808) |
| Cash payments to suppliers for goods and services | <u>(17,726,994)</u> |
| Net cash provided by operating activities | <u>16,223,132</u> |
| Cash flows from noncapital financing activities: | |
| Annual city payment | (198,124) |
| Payments to FEMA/TDEM | <u>(100,588)</u> |
| Net cash used in noncapital financing activities | <u>(298,712)</u> |
| Cash flows from capital and related financing activities: | |
| Principal payments on revenue bonds, contracts payable and other long-term liabilities | (3,492,192) |
| Cost of bond issuance | (1,171,544) |
| Proceeds from issuance of revenue bonds | 51,460,000 |
| Principal and interest payments received on leases | 15,205,923 |
| Principal and interest payments on leases and SBITA arrangements | (926,194) |
| Receipts from capital grants and contributions | 1,112,996 |
| Interest paid—long-term debt | (164,491) |
| Acquisition and construction of capital assets | <u>(56,370,208)</u> |
| Net cash provided by capital and related financing activities | <u>5,654,290</u> |
| Cash flows from investing activities: | |
| Receipts of interest | <u>1,546,368</u> |
| Net cash provided by investing activities | <u>1,546,368</u> |
| Net increase in cash and cash equivalents | 23,125,078 |
| Cash and cash equivalents at beginning of year | <u>28,566,987</u> |
| Cash and cash equivalents at end of year | <u>\$ 51,692,065</u> |
| Cash and cash equivalents per statement of net position: | |
| Unrestricted | \$ 36,383,556 |
| Restricted | <u>15,308,509</u> |
| Cash and cash equivalents at end of year | <u>\$ 51,692,065</u> |

(Continued)

**The Board of Trustees
A Component Unit of the City of Galveston**

**Statement of Cash Flows (Continued)
Year Ended December 31, 2023**

Reconciliation of operating income to net cash provided by operating activities

| | |
|---|-----------------------------|
| Operating Income | \$ 24,609,618 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization | 10,691,546 |
| Accrual for bad-debt expense | (63,393) |
| Lease expense | 71,478 |
| SBITA expense | 4,116 |
| Lease revenue | (22,292,468) |
| Changes in operating assets and liabilities: | |
| Decrease in accounts receivable | 1,000,675 |
| Increase in prepaid items | (39,847) |
| Decrease in accounts payable | (676,724) |
| Increase in accrued expenses | 1,415,732 |
| Increase in unearned revenues and rents | 1,303,738 |
| Increase in wages payable and accrued absences | 473,809 |
| Increase in deferred outflows—pension items | (1,649,183) |
| Decrease in deferred inflows—pension items | (2,025,260) |
| Increase in net pension liability | <u>3,399,295</u> |
| Net cash provided by operating activities | <u>\$ 16,223,132</u> |
| Noncash investing, capital and financing activities: | |
| Payables that result in capital assets related to construction | <u>\$ 6,732,847</u> |
| Retainage payable | <u>\$ 4,134,942</u> |

See accompanying notes to financial statements.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Statement of Fiduciary Net Position
December 31, 2023**

| | Pension Trust Fund |
|--|-----------------------|
| Assets | |
| Cash and cash equivalents | \$ 645,657 |
| Contributions receivable | 24,116 |
| Prepaid pension benefits | 107,150 |
| Investments at fair value: | |
| Fixed income securities | 2,223,014 |
| Common stock | 6,497,099 |
| Domestic equities - mid cap | 1,899,443 |
| Domestic equities - small cap | 450,035 |
| International equities | 1,455,249 |
| Real estate | 501,947 |
| Emerging markets | 670,278 |
| Total investments | <u>13,697,065</u> |
| Total assets | <u>\$ 14,473,988</u> |
| Net position restricted for pension | <u>\$ 14,473,988</u> |

See accompanying notes to financial statements.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2023**

| | Pension Trust Fund |
|--|-----------------------|
| Additions: | |
| Employer contributions | \$ 505,000 |
| Net investment gain: | |
| Interest and dividends | 362,557 |
| Investment realized gains | 83,756 |
| Investment unrealized gains | 1,909,520 |
| Investment expenses- trustee fees | <u>(64,577)</u> |
| Total additions | <u>2,796,256</u> |
| Deductions: | |
| Benefits paid to participants and beneficiaries | 1,282,082 |
| Administrative expense | <u>63,070</u> |
| Total deductions | <u>1,345,152</u> |
| Net increase in fiduciary net position | 1,451,105 |
| Net position restricted for pension at beginning of year | <u>13,022,883</u> |
| Net position restricted for pension at end of year | <u>\$ 14,473,988</u> |

See accompanying notes to financial statements

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The accompanying financial statements of the Port of Galveston have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the Port's significant policies.

A. Reporting Entity

The Port was designated "a separate utility" in Article XII, Section 2 of the Charter of the City of Galveston (the City) (by ordinance adopted October 17, 1940). Article XII, Section 2 states "The Galveston Wharves and the income and revenues therefrom, shall be fully managed, controlled, maintained and operated by a Board of Trustees to be known as 'The Board of Trustees of the Galveston Wharves' (the Board)."

The Board consists of seven members; one member is the ex-officio representative of the City of Galveston City Council and is elected from the City Council (the Council) by council members. The Council appoints the six remaining members for three-year staggered terms. The Board has the powers which are necessary or proper to discharge their responsibilities which include, but are not limited to: the election of a chairman, the employment of a general manager and such other officers and employees as may be required for the proper conduct of the Port, the preparation of budgets, the fixing of charges, the authorization of expenditures, the acquisition of properties, the determination of policies, and in general, the complete management and control of the Port and the income and revenue thereof. The Board has no power to contract in the name of the City and no action or inaction by the Board of Trustees shall render the City liable for damages or shall be binding other than on the properties, income and revenues of the Port. Except for the annual payment of \$195,031, a cruise passenger fee that the Port collects from each cruise line per contractual obligation with the cruise lines and passes the fee on to the City, and cruise parking fees pursuant to a Memorandum of Understanding between the Port and the City whereby an amount per parked car per night is passed through to the City, all net revenues of the Port shall be retained and used by the Port for the betterment and extension of the Port. For reporting purposes, the Port is considered a component unit of the City. As a local government, the Port is exempt from taxes.

As required by GAAP, these financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations or functions, as part of the Port's financial reporting entity. Based on these considerations, the following entity has been included in the Port's reporting entity as a fiduciary component unit.

Galveston Wharves Pension Plan: The Galveston Wharves Pension Plan (the Pension Plan) is sponsored by the Board of the Port. Based on the criteria of GASB Codification Section 2100 *Defining the Reporting Entity*, there are no other entities required to be combined with the Pension Plan; however, the Pension Plan is a component unit of the Port and is reported as a fiduciary pension trust fund in the basic financial statements in accordance with GASB Statement No. 84, *Fiduciary Activities*. The defined benefit plan was closed to new participants in 2010.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Port uses a single enterprise fund for the presentation of its financial statements. Proprietary fund (which includes enterprise funds) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with GAAP. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Port are charges to customers for services. Operating expenses include personnel services, maintenance and operations, sales and office, and depreciation/amortization of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Port reports the Pension Plan as a fiduciary pension trust fund. The Pension Plan is a defined benefit plan. The fiduciary pension trust fund financial statements are prepared using the accrual basis of accounting. Employer contributions to the Pension Plan are recognized when due. Benefit payments and expenses are recognized when due and payable in accordance with the terms of the Pension Plan.

C. Cash and Cash Equivalents

The Port's cash and cash equivalents, including restricted cash and cash equivalents, are considered to be cash on hand and include demand deposits, external investment pools and short-term investments with original maturities of three months or less from the date of acquisition, if any. Restricted cash and cash equivalents represent amounts restricted through debt covenants, the annual payment to the City, and restricted for net pension asset, if applicable. External investment pools are valued at amortized cost, as applicable.

D. Investments

The Pension Plan's investment policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. There were no significant modifications to the investment policy during the year. The following is the Board accepted asset allocation mix as of December 31, 2023:

| Asset Class | Target Allocation |
|----------------------------------|-------------------|
| Fixed income equities securities | 10.0% |
| Common stock | 60.0% |
| Domestic equities—large cap | 5.0% |
| Domestic equities—mid cap | 3.0% |
| Domestic equities—small cap | 5.0% |
| International equities | 10.0% |
| Real estate | 1.0% |
| Emerging markets | 1.0% |
| Cash | 5.0% |
| Total | 100.0% |

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

E. Accounts Receivable

The Port considers most accounts receivable to be fully collectible; however, the Port has created an allowance, where based upon historical attempts at collection, it deems collection to be unlikely. It is the Port's practice to set a reserve of 30.0% for receivables over 90 days, 20.0% for receivables over 60 days and 2.5% for receivables under 60 days. The Port specifically reserves for other receivables that are deemed to be uncollectible from time to time.

F. Prepaid Items

Prepayments for services and insurance that will benefit periods beyond the current period are reflected as prepaid items for the Port.

G. Capital Assets

Land, Building, and Equipment Assets - Property constructed or acquired by purchase is stated at cost. The Port's policy is to capitalize all assets with historical costs over \$10,000, movable equipment under \$10,000, and equipment purchased with federal or state funds over \$5,000. Donated capital assets, donated works of art and similar items and capital assets received in a service concession arrangement are reported at acquisition value on the date the asset is received (if the transaction is not subject to GASB 94 treatment), if any. Construction in progress is depreciated when placed in service.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are used for depreciation purposes:

| | |
|--------------------------------|------------|
| Railway facilities | 5-25 years |
| Wharves, docks and buildings | 5-75 years |
| Machinery and equipment | 3-40 years |
| Furniture and office equipment | 5-30 years |

Leased Land, Building and Equipment Assets - At the commencement of a lease, the Port records a right-of-use (ROU) lease asset that is initially measured as the net present value of future lease payments adjusted for lease payments made at or before the lease commencement date. The Port calculates the present value of future lease payments by using its estimated incremental borrowing rate. Subsequently, the ROU asset is recognized as expense over the lesser of the life of the assets or the term of the lease. Remeasurement of a lease asset occurs when there is a change in the lease term and/or other changes that are likely to have a significant impact on the lease liability.

Leased Subscription Assets - At the commencement of a Subscription-Based Information Technology Arrangement (SBITA or Subscription Asset), the Port records an ROU subscription asset that is initially measured as the net present value of future subscription payments adjusted for subscription payments made at or before the subscription commencement date. The Port calculates the present value of future subscription payments by using its estimated incremental borrowing rate. Subsequently, the ROU asset is recognized as expense over the lesser of the life of the assets or the term of the lease. Remeasurement of a subscription asset occurs when there is a change in the subscription term and/or other changes that are likely to have a significant impact on the subscription liability.

H. Compensated Absences

Compensated absences, which include unpaid accrued vacation and sick leave, are accumulated during employment. Employees of the Port earn annual vacation and sick leave time at the rate of one-twelfth of the annual days eligible for each month worked. Vacation time is accrued at the rate of

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

H. Compensated Absences (Continued)

12.0 to 31.5 working days per year and may accumulate up to a maximum of 320 hours measured on employee's hire anniversary date. Full-time employees accumulate sick leave time at the rate of one day per month, not to exceed 960 hours. Upon termination, employees are paid for accumulated vacation time, as well as accumulated sick leave, with sick time being paid up to a maximum of 720 hours. Liabilities for compensated absences are recognized on the Port's financial statements as they accumulate based on employees' current rate of pay as of December 31, 2023.

I. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plan and additions to/deductions from the Pension Plan's net position have been determined on the same basis as they are reported by the Pension Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Use of Estimates

The financial statements prepared in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred outflows (inflows) of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates utilized in preparing the financial statements include depreciable lives of property and equipment, the allowance for doubtful accounts and actuarial assumptions relative to net pension liabilities (assets). Although not expected by management, actual results could differ from those estimates.

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The Port has the following that qualify for reporting in these categories:

- The Port reports deferred outflows and inflows of resources calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. They consist of actuarial gains and losses due to the difference between expected and actual experience, the effect of changes in actuarial assumptions and the net difference between actual and projected investment earnings. Deferred outflows of resources also include contributions to the Pension Plan subsequent to the measurement date.
- The Port reports deferred outflows and inflows on refunding when the carrying value of refunded debt was higher or lower than its reacquisition price. This difference is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- A deferred inflow of resources for leases results when the Port recognizes a lease receivable and a deferred inflow of resources which are initially measured as the amount of lease receivable and adjusted for lease payments received at or before the lease commencement date pursuant to GASB 87 guidance. Subsequently, the deferred inflows of resources are recognized as revenues over the life of the lease terms.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

L. Net Position

Net investment in capital assets: The net investment in capital assets component of net position consists of unspent bond proceeds, capital assets net of accumulated depreciation, lease assets net of accumulated amortization, subscription assets net of accumulated amortization, and deferred outflows related to debt, reduced by the outstanding balance of bonds, leases and subscription liabilities, deferred inflows related to debt, mortgages, notes or other borrowings that are attributable to the acquisition, and construction or improvements of those assets.

Restricted for Debt Service: Restricted for debt service represents those portions of net position segregated pursuant to the provisions of the 2021 direct placement revenue refunding bonds, wherein the Port transfers each month's payment at the end of the prior month, the 2023 revenue bonds whereby the Port transfers payments monthly for annual principal payments to be made on August 1, and interest payments to be made on August 1 and February 1 of each year, and the annual City payment made during the first quarter of each year.

Unrestricted: This is the residual component of net position. It consists of net position that does not meet the definition of restricted or net investment in capital assets.

When both restricted and unrestricted resources are available for use, it is the Port's policy to use restricted resources first, then unrestricted resources when they are needed.

M. Revenues and Expenses

Operating revenues and expenses: Operating revenues are recorded when earned and expenses are recorded when incurred. Revenues and expenses relating to the Port's vessel and cargo operations include cruise passenger fees, wharfage, dockage and lay dockage. Revenues and expenses relating to the Port's building and facilities rental operations include terminal access fees, real estate fees, switching fees, license fees and parking fees. All other revenues and expenses are classified as non-operating.

Capital grants and contributions: Grants restricted for capital acquisition and construction are recorded as capital contributions. Grant revenue that may be used for operating purposes, if any, is recognized when earned. Both are considered earned when all applicable eligibility requirements have been met by the Port.

Pension Plan's investment valuation and income recognition: Investments are reported at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of common stocks is based on quoted market prices. The fair value of United States (U.S.) government securities, municipal, corporate, and foreign bonds are based on quotes from broker-dealers or are valued using interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and considering the counterparty rating. Shares of registered investment companies (mutual funds) are reported at fair value based on the quoted price per share of the fund.

The Pension Plan's purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold, as well as held during the year.

Pension Plan's payment of benefits: Benefit payments are recognized as expenses when due and payable in accordance with the terms of the Plan.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

M. Revenues and Expenses (Continued)

Pension Plan's administrative expenses: All administrative expenses, unless paid by the Port at its discretion, are paid by the Pension Plan. Certain expenses incurred in connection with the general administration of the Pension Plan that are paid by the Plan are recorded as deductions in the accompanying statement of changes in fiduciary net position. In addition, certain investment-related expenses are included in net appreciation (depreciation) in fair value of investments presented in the accompanying statement of changes in fiduciary net position.

N. Actuarial Valuation

The Pension Plan has an actuarial valuation performed annually for financial reporting purposes in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25*. The most recent actuarial valuation was performed as of December 31, 2023.

O. Pension Plan Risk and Uncertainties

The Pension Plan may invest in various types of investment securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net position.

The Pension Plan's employer contributions and the actuarial present value of accumulated plan benefits are determined based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions processes, it is at least reasonably possible that changes in these estimates and assumptions in the near-term would be material to the financial statements.

P. GASB Pronouncements:

Adopted Pronouncements:

The Port adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships (P3) and Availability Payment Arrangements (APA)*, issued in March 2020, effective for the Port for fiscal year ending December 31, 2023. This statement provides guidance for P3 arrangements, including those that are outside of the scope of the GASB's existing literature for those transactions—namely GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and GASB Statement No. 87, *Leases*. The statement also makes certain improvements to the guidance previously included in GASB Statement No. 60 and provides accounting and financial reporting guidance for APAs. This has been implemented and the Port determined there was no effect on the financial statements.

The Port adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, issued May 2020, effective for the Port for the fiscal year ending December 31, 2023. SBITA (or Subscription Assets) are recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation. Under this statement, the Port recognizes: (1) a subscription liability, (2) an intangible asset representing the subscriber's right to use the subscription asset, (3) amortization expense for using the subscription asset over the shorter of the term of the lease or the useful life of the underlying asset, and (4) interest expense on the subscription liability. The Port also includes note disclosures about the SBITA asset in Note 4 and SBITA liability in Note 5. This statement provides exceptions if the subscription is considered short-term or transfers ownership of the underlying asset.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

P. GASB Pronouncements (Continued)

There was no impact to beginning net position as a result of the adoption of GASB Statement No. 96. The impact to 2023 statements includes an increase in capital ROU subscription assets of \$401,406, an increase in subscription liabilities of \$303,968, and decrease in expenses of \$97,438 due to prepayments associated with ROU subscription assets.

The Port adopted GASB Statement No. 99, *Omnibus 2022*, issued April 2022, establishing or amending accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, P3s, SBITAs, the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP) (formerly, food stamps), nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology. This has been implemented and the Port determined there was no effect on the financial statements.

Future GASB implementations:

GASB Statement No. 100, *Accounting Changes and Error Corrections*, an amendment of GASB Statement No. 62, issued June 2022, will be effective for the Port for fiscal year ending December 31, 2024. This Statement prescribes the accounting and financial reporting for (1) certain changes in accounting principles, (2) certain changes in accounting estimates, and (3) error corrections. This Statement requires that changes in accounting principles and error corrections be reported retroactively by restating prior periods, and changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in the absence of specific transition provisions in the pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position be displayed in the financial statements.

This statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 101, *Compensated Absences*, issued June 2022, will be effective for the Port for fiscal year ending 2024. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences.

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Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies (Continued)
P. GASB Pronouncements (Continued)**

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

GASB Statement No. 102, *Certain Risk Disclosures*, issued December 2023, will be effective for the Port for the fiscal year ending 2025. This Statement requires that governments disclose essential risks related to vulnerabilities due to certain concentrations or constraints. Concentration is a lack of diversity related to an aspect of a significant inflow or outflow of resources, and constraint is a limitation imposed by an external party or by formal action of the government’s highest level of decision-making authority.

Management is currently evaluating the impact, if any, these pronouncements will have on the Port’s financial statements.

Note 2. Cash and Cash Equivalents and Investments

Cash and cash equivalents as of December 31, 2023, are classified in the accompanying financial statements as follows:

| | | |
|--|-----------|-------------------|
| Unrestricted: | | |
| Cash and cash equivalents | \$ | 36,383,556 |
| Restricted: | | |
| Cash and cash equivalents | | 15,308,509 |
| Pension trust fund—cash and cash equivalents | | 645,657 |
| Total cash and cash equivalents | <u>\$</u> | <u>52,337,722</u> |

Cash and cash equivalents as of December 31, 2023, consist of the following:

| | | |
|---|-----------|-------------------|
| Checking and time deposits: | | |
| Cash on hand | \$ | 1,000 |
| Deposits with financial institutions: | | |
| Cash on demand - Moody Bank | | 36,186,824 |
| Cash in investment accounts | | 5,631,164 |
| Pension Trust Fund - cash held with financial institution | | 645,657 |
| | | <u>42,464,645</u> |
| Investments: | | |
| Local government investment pools | | 9,873,077 |
| Total cash and cash equivalents | <u>\$</u> | <u>52,337,722</u> |

Deposits: State statutes and the Port’s depository agreement require all deposits and investment balances in depository institutions be covered by federal depository insurance and/or to be collateralized at the lower of par or current fair value by the following:

- Obligations of the United States (U.S.) or its agencies and instrumentalities
- Direct obligations of the state of Texas or its agencies

**The Board of Trustees of the Galveston Wharves
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Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments (Continued)

- Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the state of Texas
- Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent

Investments: The Port is required by Government Code Chapter 2256, the Public Funds Investment Act (PFIA), to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable instruments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities and (9) bid solicitation preferences for certificates of deposit (CDs). PFIA determines the types of investments which are allowable for the Port. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies and state of Texas; (2) CDs; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers' acceptances; (7) mutual funds; (8) investment pools; (9) guaranteed investment contracts; and (10) common trust funds.

Public funds investment pools: Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of PFIA, Chapter 2256 of the Texas Government Code. In addition to other provisions of PFIA designed to promote liquidity and safety of principal, it requires Pools to (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, (2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service and (3) maintain the fair value of its underlying investment portfolio within one half of one percent of the value of its shares.

These two acts provide for the creation of public funds investment pools and authorize eligible governmental entities (Participants) to invest their public funds and funds under their control through the investment pools.

The Port invests in the Texas Short Term Asset Reserve Program (TexStar) which has been organized in accordance with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and PFIA. The fund seeks to maintain a constant dollar objective and fulfills all requirements of PFIA for local government investment pools. The portfolio is a government-repurchase agreement (REPO) pool, utilizing primarily U.S. Treasury securities, U.S. agency securities and REPO collateralized obligations, the principal and interest of which are unconditionally guaranteed or insured by the full faith and credit of the U.S. or its agencies or its instrumentalities. The Port's investments managed through TexStar are valued and recorded at amortized cost in accordance with GASB Statement No.79, *Certain External Investment Pools and Pool Participants*.

As of December 31, 2023, the Port had the following investments:

| Type | Amount | Weighted-Average Maturity Days | Percentage Invested | Fair Value Hierarchy | Credit Rating |
|---|---------------------|-----------------------------------|------------------------|-------------------------|---------------|
| Investments measured at amortized cost: | | | | | |
| TexStar investment pool | \$ 9,873,077 | 45 | 100% | n/a | AAAM |
| Total investments | <u>\$ 9,873,077</u> | | <u>100%</u> | | |
| Weighted-average maturity days | | <u>45</u> | | | |

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Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments (Continued)

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Port has a formal investment policy with a maximum allowable stated maturity of investments of three years.

Credit risk: In accordance with state statutes, PFIA and the Port's investment policy, the Port's investments require at a minimum a rating of "A" by a nationally recognized rating agency. TexStar was rated AAAM by Standard and Poor's.

Concentration of credit risk: The Port is required to disclose investments in any one issuer that represent 5% or more of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement. The Port's investment policy does not specifically address the concentration of credit risk, as this is accomplished through diversity of its holdings.

Custodial credit risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Port will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Port's investment pools are not exposed to custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the Port's deposits may not be returned to it. The Port's deposits held at financial institutions were entirely covered by the Federal Deposit Insurance Corporation or were secured by collateral on December 31, 2023.

Restricted cash, cash equivalents and investments: Restricted cash, cash equivalents and investments at December 31, 2023, consist of the following:

Interest and sinking:

| | |
|---|----------------------|
| Revenue Refunding Bonds Series 2021, Direct Placement | \$ 391,596 |
| Revenue Bonds Series 2023 | 14,721,882 |
| City of Galveston franchise payment | <u>195,031</u> |
| | <u>\$ 15,308,509</u> |

Investments are reported at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of common stocks and mutual funds are based on quoted market prices (Level 1). The fair value of United States (U.S.) government securities, municipal, corporate and foreign bonds are based on quotes from broker-dealers or are valued using interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and considering the counterparty rating (Level 2).

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Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments (Continued)

Fiduciary Fund – Pension Trust Fund

| Investment Type | Fair Value Hierarchy | | | Fair Value |
|-------------------------------------|----------------------|--------------|---------|------------|
| | Level 1 | Level 2 | Level 3 | |
| Cash equivalents | | | | |
| Money mkt funds taxable | \$ 617,369 | \$ - | \$ - | 617,369 |
| Total cash equivalents | \$ 617,369 | \$ - | \$ - | 617,369 |
| Fixed income | | | | |
| U.S. government agency securities | \$ - | \$ 141,538 | \$ - | 141,538 |
| Municipal bonds | - | 95,465 | - | 95,465 |
| Corporate bonds | - | 1,790,439 | - | 1,790,439 |
| Foreign bonds | - | 195,572 | - | 195,572 |
| Total fixed income | \$ - | \$ 2,223,014 | \$ - | 2,223,014 |
| Equities | | | | |
| Common stock - domestic | \$ 6,100,207 | \$ - | \$ - | 6,100,207 |
| Common stock - international | 396,892 | - | - | 396,892 |
| Real estate investment trust (REIT) | 501,947 | - | - | 501,947 |
| Mutual Funds - eomestic | 2,349,478 | - | - | 2,349,478 |
| Mutual funds - international | 2,125,527 | - | - | 2,125,527 |
| Total equities | \$ 11,474,051 | \$ - | \$ - | 11,474,051 |
| Total | \$ 12,091,420 | \$ 2,223,014 | \$ - | 14,314,434 |

Credit risk: The following table lists Moody's credit rating by investment type at fair value on December 31, 2023, that are subject to credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The investment policy does not specifically address the quality rating of the investments. The Board is responsible for determining the risks and commensurate returns of the portfolio. The following table lists Moody's credit rating by investment type at fair value on December 31, 2023, that are subject to credit risk.

| Moody's Quality Ratings | U.S. Government | | | | Foreign Bonds | Fair Total |
|----------------------------|----------------------|--------------------|--------------------|------------|------------------|---------------|
| | Agency Securities | Municipal Bonds | Corporate Bonds | | | |
| Aaa | \$ 141,538 | \$ - | \$ - | \$ - | \$ - | 141,538 |
| Aa2 | - | 95,465 | - | - | - | 95,465 |
| Aa3 | - | - | 120,458 | - | - | 120,458 |
| A1 | - | - | 938,675 | 99,460 | - | 1,038,135 |
| A2 | - | - | 336,544 | 96,112 | - | 432,656 |
| A3 | - | - | 394,761 | - | - | 394,761 |
| | \$ 141,538 | \$ 95,465 | \$ 1,790,439 | \$ 195,572 | \$ - | 2,223,014 |

**The Board of Trustees of the Galveston Wharves
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Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments (Continued)

Fiduciary Fund – Pension Trust Fund (Continued)

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investments in a single issuer. The investment policy does not specifically address the concentration of credit risk. As of December 31, 2023, there were no concentrations of investments with individual institutions equaling or exceeding 5% of fiduciary net position.

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. The investment policy does not specifically address foreign currency risk. The diversified selection of equity and fixed income securities encourages the investment advisors to employ diversification, asset allocation and quality strategies to minimize risks. Each participant is responsible for determining the risks and commensurate returns of his or her portfolio. The investment in international equities does not require disclosure of the individual investment within the fund, as such fund balances are denominated in U.S. dollars.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Pension Plan does not have a formal policy regarding interest rate risk. The Board monitors credit exposure using segmented time distribution. The following is a listing of the fixed income investments and related maturity schedule (in years) as of December 31, 2023. The maturity schedule is based on the average maturity of the fund, as noted by the fund manager.

| | Less Than | | | Fair Value |
|-----------------------------------|-------------------|---------------------|-------------------|---------------------|
| | 1 Year | 1-5 Years | 6-10 Years | |
| U.S. government agency securities | \$ - | \$ 141,538 | \$ - | \$ 141,538 |
| Municipal bonds | - | 95,465 | - | 95,465 |
| Corporate bonds | 99,149 | 1,233,419 | 457,871 | 1,790,439 |
| Foreign bonds | 99,460 | 96,112 | - | 195,572 |
| | <u>\$ 198,609</u> | <u>\$ 1,566,533</u> | <u>\$ 457,871</u> | <u>\$ 2,223,014</u> |

Note 3. Accounts Receivable

Trade accounts receivable are generated from general deep water port services and rental property and facilities. Accounts receivable and the associated allowance for doubtful accounts as of December 31, 2023, are as follows:

| | |
|---|---------------------|
| Accounts receivable—trade | \$ 6,084,786 |
| Pension trust fund - contributions receivable | 24,116 |
| Grants receivable | 177,705 |
| Less allowance for doubtful accounts | <u>(208,950)</u> |
| Net accounts receivable | <u>\$ 6,077,657</u> |

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Notes to Financial Statements

Note 4. Capital Assets

Subscription-Based Information Technology Arrangements (SBITA): For the year ended December 31, 2023, the financial statements include the adoption of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. The primary objective of this statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements. This statement defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset - an intangible capital asset - and a corresponding subscription liability, and provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Port has obtained software through long-term subscription arrangements comprised of financial, police equipment assistance, and parking equipment assistance.

Lease and Subscription Assets: The Port's 11 lease assets and 4 subscription assets have balances of \$3,063,656 and \$401,406, respectively in the statement of net position as of December 31, 2023. The lease/subscription asset is initially measured as the initial amount of the liability, adjusted for payments made at or before the lease/subscription commencement date. Subsequently, the capital lease/subscription asset is recognized as an expense over the life of the lease/subscription term.

Key estimates and judgments include how the Port of Galveston determines (1) the discount rate it uses to discount the expected lease/subscription payments to present value, (2) lease/subscription term, and (3) lease/subscription payments.

- The Port of Galveston uses its estimated incremental borrowing rate as the discount rate for leases/subscriptions.
- The lease/subscription term includes the noncancelable period of the lease/subscription including any renewal clauses if the Port is reasonably certain to exercise the renewal option. Lease/subscription payments included in the measurement of the liability are comprised of fixed payments by the Port.

The Port of Galveston monitors changes in circumstances that would require a remeasurement of its leases/subscriptions and will remeasure the asset and liability if certain changes occur that are expected to significantly affect the amount of the lease/subscription liability.

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Notes to Financial Statements

Note 4. Capital Assets (Continued)

Changes in capital assets during the year ended December 31, 2023, are summarized as follows:

| | Balance at January 1, 2023 (as restated) | | Additions | Retirements | Transfers/ Reclassification | Balance at December 31, 2023 |
|--|---|---------------|--------------|--------------|--------------------------------|------------------------------------|
| Capital assets not being depreciated/amortized: | | | | | | |
| Land | \$ 18,184,604 | \$ 36,150 | \$ - | \$ - | \$ - | \$ 18,220,754 |
| Channel deepening | 18,387,690 | - | - | - | - | 18,387,690 |
| Construction in progress | 4,993,818 | 57,201,715 | - | (56,934,303) | | 5,261,230 |
| Total capital assets not being depreciated/amortized | 41,566,112 | 57,237,865 | - | (56,934,303) | | 41,869,674 |
| Capital assets being depreciated/amortized: | | | | | | |
| Land leases | 3,236,310 | 343,862 | - | - | - | 3,580,172 |
| Railway facilities | 3,490,460 | - | (1,185,922) | - | - | 2,304,538 |
| Wharves, docks and buildings | 232,371,040 | - | (1,147,743) | 51,298,069 | | 282,521,366 |
| Wharves, docks and building leases | 473,730 | 34,165 | - | - | - | 507,895 |
| Machinery and equipment | 10,422,050 | 748,215 | (1,295,085) | 5,303,623 | | 15,178,803 |
| Machinery and equipment leases | 152,450 | - | (19,530) | - | - | 132,920 |
| Furniture and office equipment | 4,723,431 | 29,864 | (152,432) | 158,521 | | 4,759,384 |
| Intangible assets | 856,490 | - | - | 174,090 | | 1,030,580 |
| Software subscriptions | 118,731 | 379,597 | - | - | - | 498,328 |
| Total capital assets being depreciated/amortized | 255,844,692 | 1,535,703 | (3,800,712) | 56,934,303 | | 310,513,986 |
| Less accumulated depreciation/amortization for: | | | | | | |
| Land leases | (276,472) | (446,798) | - | - | - | (723,270) |
| Railway facilities | (1,815,755) | (56,439) | 1,018,150 | - | - | (854,044) |
| Wharves, docks and buildings | (107,095,590) | (8,249,343) | 817,554 | - | - | (114,527,379) |
| Wharves, docks and building leases | (177,987) | (194,799) | - | - | - | (372,786) |
| Machinery and equipment | (8,469,529) | (996,864) | 1,298,660 | - | - | (8,167,733) |
| Machinery and equipment leases | (34,132) | (46,673) | 19,530 | - | - | (61,275) |
| Furniture and office equipment | (3,079,269) | (450,547) | 152,432 | - | - | (3,377,384) |
| Intangible assets | (226,541) | (153,161) | - | - | - | (379,702) |
| Software subscriptions | - | (96,922) | - | - | - | (96,922) |
| Total accumulated depreciation/amortization | (121,175,275) | (10,691,546) | 3,306,326 | - | - | (128,560,495) |
| Total capital assets, being depreciated/amortized, net | 134,669,417 | (9,155,843) | (494,386) | 56,934,303 | | 181,953,491 |
| Capital assets, net | \$ 176,235,529 | \$ 48,082,022 | \$ (494,386) | \$ - | \$ - | \$ 223,823,165 |

Depreciation and amortization expense for the year ended December 31, 2023, totaled \$ 10,691,546.

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Notes to Financial Statements

Note 4. Capital Assets (Continued)

Commitments relating to capital construction in progress as of December 31, 2023, are as follows:

| | Project Authorization | Project Cost to Date | Remaining Commitment |
|---|--------------------------|-------------------------|-------------------------|
| Port security grant 2021 License Plate Reader | \$ 682,000 | \$ 115,803 | \$ 566,197 |
| Port security grant 2022 Video Surveillance & Cybersecurity | 836,500 | - | 836,500 |
| Galveston Harbor Channel Extension | 1,904,972 | - | 1,904,972.00 |
| Wharf Road Improvements | 3,129,723 | 133,010 | 2,996,713 |
| West End Port Redevelopment | 2,850,570 | 2,329,543 | 521,027 |
| CT 25 Improvements | 56,662,219 | 51,265,449 | 5,396,770 |
| CT 25 Walkway | 491,224 | - | 491,224 |
| CT 16 Construction | 5,907,320 | 1,108,144 | 4,799,176 |
| Parking Access Control System | 1,523,276 | 1,449,355 | 73,921 |
| Express Lot Expansion | 2,800,000 | 695,759 | 2,104,241 |
| Projects under \$200,000 | 277,900 | 151,560 | 126,340 |
| Totals | <u>\$ 77,065,704</u> | <u>\$ 57,248,623</u> | <u>\$ 19,817,081</u> |

The Port plans to finance construction commitments with the use of bond proceeds, grants and proceeds from operations.

Note 5. Long-Term Liabilities

During the year ended December 31, 2023, the following changes occurred in the Port's long-term liabilities:

| Issue | Balance at January 1, 2023 (as restated) | Increases | Decreases | Balance at December 31, 2023 | Amounts Due Within One Year |
|------------------------------|---|----------------------|-----------------------|------------------------------------|-----------------------------------|
| Bonds from Direct Placements | \$ 14,652,364 | \$ - | \$ (4,555,664) | \$ 10,096,700 | \$ 4,624,035 |
| Revenue Bonds | - | 51,460,000 | - | 51,460,000 | 4,257,179 |
| Revenue Bonds Premium | - | 1,193,839 | (12,396) | 1,181,443 | - |
| Other long-term liabilities: | | | | | |
| Lease Liability | 3,408,340 | 390,343 | (657,672) | 3,141,011 | 606,900 |
| Subscription Liability | 53,715 | 347,175 | (96,922) | 303,968 | 194,936 |
| U.S. Army Corps of Engineers | 3,401,817 | - | (130,367) | 3,271,450 | 130,409 |
| Compensated absences | 1,292,460 | 884,099 | (660,041) | 1,516,518 | 655,016 |
| Net pension liability | - | 3,399,295 | - | 3,399,295 | - |
| | <u>\$ 8,156,332</u> | <u>\$ 57,674,751</u> | <u>\$ (1,557,398)</u> | <u>\$ 64,273,685</u> | <u>\$ 5,844,440</u> |

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Notes to Financial Statements

Note 5. Long-Term Liabilities (Continued)

Long-term bonded debt on December 31, 2023, was comprised of the following issues:

| Description | Original Issue | Interest Rates | Maturity Dates Beginning/ Ending | Interest Payment Dates |
|---|----------------|----------------|--|------------------------------|
| Bonds from Direct Placements: | | | | |
| City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 2021A and 2021B | \$ 22,700,000 | 1.30% | February 1, 2021/2026 | Monthly |
| Revenue bonds: | | | | |
| City of Galveston, Texas Wharves and Terminal First Lien Revenue Bonds, Series 2023 (AMT) | \$ 51,460,000 | 5.25% | October 31, 2023/2043 | Monthly |

As of December 31, 2023, the annual debt service requirements for bonds from direct placements and revenue bonds until maturity are as follows:

| Years ending December 31: | Bonds from Direct Placements | | Revenue Bonds | | Total |
|---------------------------|------------------------------|-------------------|----------------------|----------------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| 2024 | \$ 4,624,035 | \$ 103,766 | \$ 2,155,000 | \$ 2,102,179 | \$ 8,984,980 |
| 2025 | 4,689,303 | 43,263 | 1,575,000 | 2,679,425 | 8,986,991 |
| 2026 | 783,362 | 1,273 | 1,660,000 | 2,596,738 | 5,041,373 |
| 2027 | - | - | 1,745,000 | 2,509,588 | 4,254,588 |
| 2028 | - | - | 1,835,000 | 2,417,975 | 4,252,975 |
| 2029-2033 | - | - | 10,740,000 | 10,538,238 | 21,278,238 |
| 2034-2038 | - | - | 13,805,000 | 7,469,713 | 21,274,713 |
| 2039-2043 | - | - | 17,945,000 | 3,328,800 | 21,273,800 |
| | <u>\$ 10,096,700</u> | <u>\$ 148,302</u> | <u>\$ 51,460,000</u> | <u>\$ 33,642,656</u> | <u>\$ 95,347,658</u> |

Bonds from Direct Placements: The Port issued \$22,700,000 of Wharves and Terminal Revenue Refunding Bonds, Series 2021A and 2021B, dated August 26, 2021, to refund \$22,654,699 of Series 2011 Wharves and Terminal Refunding Bonds and Series 2014 Revenue Notes (AMT). The Port reduced its total debt service payments over the next five years by \$1,522,968 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,764,585. The reacquisition price exceeded the net carrying amount of the old debt by \$100,116. This amount is recorded as a deferred outflow and amortized over the life of the refunded debt. The balance was \$50,058 as of December 31, 2023.

The Series 2021 bonds were used to finance the construction of cruise terminal improvements. Gross revenues are pledged for repayment of these bonds. The Series 2021 bonds bear interest at a fixed rate of 1.30% per annum. Payments are structured so that the Port makes four payments of \$1.1 million from November 1, 2021, through February 1, 2022, followed by payments averaging \$0.4 million per month beginning March 1, 2022, with final payment occurring February 1, 2026. The Series 2021 bonds are subject to redemption prior to their respective dates of maturity, at any time at the option of the Port, in whole or in part, at redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued interest to the redemption date. Commencing with the fiscal year beginning on January 1, 2022, and while the series 2021 bonds remaining outstanding, in any fiscal year, such fees, tolls and charges will be fixed, charged and collected in order that net revenues will equal an amount not less than 125% of the debt service on all parity obligations in such fiscal year.

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Notes to Financial Statements

Note 5. Long-Term Liabilities (Continued)

Bonds from Direct Placements (Continued)

The indentures require that for the duration of the period the series 2021 bonds are outstanding, the Port maintain at least one long term unenhanced credit rating above BBB or Baa2 or the senior lien parity obligations with either Moody's or Standard and Poor's.

Revenue Bonds: The Port issued \$51,460,000 of City of Galveston Texas Wharves and Terminal First Lien Revenue Bonds, Series 2023 on October 31, 2023. The bonds were issued at an effective interest rate of 5.30 percent and the bonds mature in 20 years. The bonds were issued at a premium of \$1,193,839, which will be amortized over the life of the debt. The premium balance was \$1,181,443 as of December 31, 2023.

The Series 2023 Bonds were used to finance improvements to CT 25, and as of December 31, 2023, all but \$9,501,359 was spent on the improvements. Bonds maturing on or after August 1, 2023, are subject to optional redemption, in whole or in part, prior to maturity by the Port at 100% of the principal plus accrued interest to the date fixed for redemption. The \$14,745,000 Term Bond scheduled to mature on August 1, 2043 is, also subject to mandatory sinking fund redemption of \$3,370,000 on August 1, 2040, \$3,575,000 on August 1, 2041, \$3,785,000 on March 1, 2042, and \$4,015,000 on August 1, 2043. The indentures require that for the duration of the period the Series 2023 Bonds are outstanding, the Port's revenues will be at least equal to the greater of (a) all amounts required to be deposited in such fiscal year to the credit of the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund, the Second Lien Debt Service Fund, and the Second Lien Debt Service Reserve Fund, or (b) an amount not less than 110% of the annual debt service in such fiscal year on all outstanding first lien obligations and second lien obligations. The indentures also require a debt service reserve funding requirement of \$4,257,563, which is restricted for debt service.

In 2023, the debt service coverage was 632%.

U.S. Army Corps of Engineers: The Port received billing from the U.S. Army Corps of Engineers for payback on previously constructed general navigation features. Based on the billing, the Port is responsible for an additional 10% of the cost of the Galveston Harbor Channel deepening to 45 mean lower low water. The estimated cost is \$3,925,466 payable over a period not to exceed 30 years. These costs are being capitalized and the liability is being accrued. As of December 31, 2023, the balance is \$3,271,450.

Lease and Subscription Liabilities: At the commencement of a lease/subscription arrangement, the Port of Galveston initially measures the lease/subscription liability at the present value of payments expected to be made during the lease/subscription term pursuant to GASB 87/96. Subsequently, the lease/subscription liability is reduced by the principal portion of lease/subscription payments made.

Key estimates and judgments include how the Port of Galveston determines (1) the discount rate it uses to discount the expected lease/subscription payments to present value, (2) lease/subscription term, and (3) lease/subscription payments.

- The Port of Galveston uses its estimated incremental borrowing rate as the discount rate for leases/subscriptions.
- The lease/subscription term includes the noncancelable period of the lease/subscription including any renewal clauses if the Port is reasonably certain to exercise the renewal option. Lease/subscription payments included in the measurement of the lease/subscription liability are composed of fixed payments by the Port.

The Port of Galveston monitors changes in circumstances that would require a remeasurement of its leases/subscriptions and will remeasure the lease/subscription liability and lease/subscription asset if certain changes occur that are expected to significantly affect the amount of the lease/subscription liability.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 5. Long-Term Liabilities (Continued)

Lease Liabilities: The Port leases property and equipment from third parties, the terms of which expire 2024 through 2061, and recognizes a lease liability in the statement of net position. The Port has 11 leases of this type with a lease liability balance of \$3,141,010 as of December 31, 2023.

The payment, principal, and interest under the leases for 2023 are as follows:

| Year Ending December 31, | Principal | Interest | Total Principal and Interest |
|--------------------------|------------|-----------|---------------------------------|
| 2023 | \$ 688,269 | \$ 71,478 | \$ 759,747 |

The following is a schedule by year of principal, interest, and total payments for future years as of December 31, 2023:

| Year Ending December 31, | Principal | Interest | Total Principal and Interest |
|--------------------------|--------------|------------|---------------------------------|
| 2024 | \$ 606,900 | \$ 61,847 | \$ 668,747 |
| 2025 | 478,412 | 53,408 | 531,820 |
| 2026 | 460,609 | 45,772 | 506,381 |
| 2027 | 301,384 | 38,824 | 340,208 |
| 2028 | 127,089 | 34,798 | 161,887 |
| 2029 - 2033 | 658,425 | 121,429 | 779,854 |
| 2034 - 2038 | 274,147 | 45,975 | 320,122 |
| 2039 - 2043 | 37,782 | 34,792 | 72,574 |
| 2044 - 2048 | 44,417 | 28,158 | 72,575 |
| 2049 - 2053 | 52,216 | 20,358 | 72,574 |
| 2054 - 2058 | 61,386 | 11,189 | 72,575 |
| 2059 - 2061 | 38,243 | 1,673 | 39,916 |
| Total | \$ 3,141,010 | \$ 498,223 | \$ 3,639,233 |

Subscription Liabilities: The Port has obtained software through long-term subscription arrangements as described in more detail in Note 4. The Port has four subscription arrangements of this type, the terms of which expire 2024 - 2028, with a subscription liability balance of \$303,968 as of December 31, 2023.

The payment, principal, and interest under the subscriptions for 2023 are as follows:

| Year Ending December 31, | Principal | Interest | Total Principal and Interest |
|--------------------------|-----------|----------|---------------------------------|
| 2023 | \$ 96,922 | \$ 4,116 | \$ 101,038 |

The following is a schedule by year of principal, interest, and total payments for future years as of December 31, 2023:

| Year Ending December 31, | Principal | Interest | Total Principal and Interest |
|--------------------------|------------|-----------|---------------------------------|
| 2024 | \$ 194,225 | \$ 6,248 | \$ 200,473 |
| 2025 | 40,230 | 2,361 | 42,591 |
| 2026 | 41,113 | 1,479 | 42,592 |
| 2027 | 13,916 | 812 | 14,728 |
| 2028 | 14,484 | 244 | 14,728 |
| Grand Total | \$ 303,968 | \$ 11,144 | \$ 315,112 |

**The Board of Trustees of the Galveston Wharves
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Notes to Financial Statements

Note 6. Lease Arrangements with the Port as Lessor

Lease Receivable: The Port of Galveston leases a portion of its property to various third parties, the terms of which expire 2024 through 2065, and recognizes a lease receivable and a deferred inflow of resources in the statement of net position pursuant to GASB 87. The Port has 24 leases of this type with a lease receivable balance of \$117,439,244 and deferred inflow of resources balance of \$114,251,526 as of December 31, 2023.

The Port also has contracts with customers that contain minimum annual guarantees (MAGs), the terms of which expire 2024 through 2045, and recognizes a lease receivable and a deferred inflow of resources in the statement of net position pursuant to GASB 87. The Port has five leases of this type with a lease receivable balance of \$135,602,502 and deferred inflow of resources balance of \$130,099,417 as of December 31, 2023.

The payment, principal, and interest under the leases/MAGS for 2023 is as follows:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Principal and Interest</u> |
|---------------------------------|------------------|-----------------|---|
| 2023 | \$ 12,481,796 | \$ 9,792,578 | \$ 22,274,374 |

The Port had customers with fixed and variable lease/MAG payments in 2023 as is shown on the below table:

| <u>Year Ending December 31,</u> | <u>Fixed Payments</u> | <u>Variable Payments</u> | <u>Total Payments</u> |
|---------------------------------|-----------------------|--------------------------|-----------------------|
| 2023 | \$ 22,274,374 | \$ 10,341,217 | \$ 32,615,591 |

The following is a schedule by year of payment, principal, and interest under the leases/MAGs for future years as of December 31, 2023.

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Principal and Interest</u> |
|---------------------------------|-----------------------|-----------------------|---|
| 2024 | \$ 5,809,358 | \$ 9,573,497 | \$ 15,382,855 |
| 2025 | 6,129,810 | 9,426,083 | 15,555,893 |
| 2026 | 6,385,075 | 9,180,795 | 15,565,870 |
| 2027 | 6,603,912 | 8,950,839 | 15,554,751 |
| 2028 | 6,898,762 | 8,710,103 | 15,608,865 |
| 2029 - 2033 | 40,554,998 | 39,439,870 | 79,994,868 |
| 2034 - 2038 | 48,100,197 | 31,199,637 | 79,299,834 |
| 2039 - 2043 | 39,557,188 | 23,019,738 | 62,576,926 |
| 2044 - 2048 | 27,144,502 | 15,713,667 | 42,858,169 |
| 2049 - 2053 | 17,446,481 | 12,022,327 | 29,468,808 |
| 2054 - 2058 | 23,945,667 | 7,700,524 | 31,646,191 |
| 2059 - 2063 | 24,106,673 | 2,043,654 | 26,150,327 |
| 2064 - 2065 | 359,125 | 7,799 | 366,924 |
| <u>Total</u> | <u>\$ 253,041,748</u> | <u>\$ 176,988,533</u> | <u>\$ 430,030,281</u> |

At the commencement of a lease, the Port of Galveston initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

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Notes to Financial Statements

Note 6. Lease Arrangements with the Port as Lessor (Continued)

Key estimates and judgments include how the Port of Galveston determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Port of Galveston uses its estimated incremental borrowing rate as the discount rate for leases. The discount rate as of the implementation date of January 1, 2022, was used, and discount rates were adjusted for leases commencing post-implementation.
- The lease term includes the non-cancelable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessor.

Note 7. Pension Plan

Pension Plan description: The Port's Pension Plan is a single employer defined benefit pension plan created by the City Ordinance to provide retirement and incidental benefits to substantially all employees of the Port. The Plan was established January 1, 1965, restated January 1, 2008, and most recently amended effective January 1, 2013. On January 10, 2010, the Pension Plan was amended to cease further accrual of benefits under the Plan for existing employees electing to participate in the Galveston Wharves 2010 Plan and for all Port employees hired after January 1, 2010. The Pension Plan has been designed as a "governmental plan" by the U.S. Department of Labor and, thus, is not subject to the provisions of Title I of the Employee Retirement Income Security Act of 1974. Beginning January 1, 2010, the Pension Plan is closed to new members.

Pension Plan administration: The Plan is administered by the Port. Frost Bank is the Trustee for the Plan.

Pension Plan fiduciary net position: Detailed information about the Pension Plan's fiduciary net position is available in a separately issued Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by requesting such report from the Board of Trustees of the Galveston Wharves, 123 25th Street, 8th Floor, Galveston Texas 77550 or may be viewed at <https://www.portofgalveston.com/156/Reports>.

Management of the Pension Plan: Management of the Pension Plan is vested in the Port's Board of Trustees. The Board has overall responsibility for the operation and administration of the Pension Plan. The Board determines the appropriateness of the Pension Plan investment offerings and monitors investment performance. The assets of the Pension Plan are held in a trust by a trustee. The trustee on behalf of the Pension Plan carries out an investment policy established by the Board, consistent with the purpose of the Pension Plan and the requirements of applicable laws and regulations.

Vesting: Participants become 100% vested upon completion of five years of service. Vesting service includes periods prior to the effective date of the Pension Plan computed as if the Pension Plan had been in effect. The Pension Plan also allows participants to recognize prior service (limited to five years) with a governmental entity or other entity related to the provision of public transportation services. For vesting purposes, service shall be credited based on elapsed time.

Normal retirement: Pension Plan participants are eligible for normal retirement upon attainment of age 65 and the fifth anniversary of the date that he or she entered the Pension Plan as a participant. The normal retirement benefit under the Pension Plan equals 1.5% of average monthly compensation multiplied by a participant's years of benefit service at retirement or earlier termination of employment. If a participant is married for at least one year at the time of his or her death, the surviving spouse will be paid 66 2/3% of the amount the participant was receiving at the time of his or her death. If the spouse is more than 10 years younger than the participant, the traditional pension benefit otherwise payable will be reduced on an actuarially equivalent basis to reflect that the spouse is exactly 10 years younger than the participant.

**The Board of Trustees of the Galveston Wharves
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Notes to Financial Statements

Note 7. Pension Plan (Continued)

Death benefit: If a participant, who has not had a termination of employment, dies prior to commencement of benefits after achieving five years of vesting service, his or her surviving spouse will be entitled to receive 66 2/3% of the participant's accrued benefit determined under normal retirement, considering the employee's average monthly compensation and years of benefit service as of his or her date of death. If the spouse is more than 10 years younger than the participant, the traditional pension benefit otherwise payable will be reduced on an actuarially equivalent basis to reflect that the spouse is exactly 10 years younger than the participant. The last payment will be made as of the first day of the month preceding the spouse's date of death or remarriage, if earlier.

Late retirement: If a participant elects to work beyond normal retirement age, the accrued benefit the participant is entitled to receive will be determined as of normal retirement age and will be recomputed on each annual anniversary thereof.

Early retirement: Early retirement is permitted on the first day of any month coinciding with or following the date as of which the participant completes at least 10 one-year periods of service and the sum of the participant's age and service equals 70. Upon reaching early retirement age prior to termination of employment, a participant may retire and elect to receive at any time up to the normal retirement date an amount equal to his or her accrued benefit payable under normal retirement, but based only on average monthly compensation and years of benefit service as of his or her early retirement date, reduced in accordance with the following table (interpolated between whole ages to completed months):

| <u>Attained Age</u> | <u>Percent of Benefits Paid</u> |
|---------------------|-------------------------------------|
| 65 | 100% |
| 64 | 95% |
| 63 | 90% |
| 62 | 85% |
| 61 | 80% |
| 60 | 75% |
| 59 | 70% |
| 58 | 65% |
| 57 | 60% |
| 56 | 55% |
| 55 | 50% |

Disability: A participant who suffers a disability prior to termination of employment and who has completed 10 or more years of vesting service will be entitled to receive a monthly amount which will be computed in the same manner as his or her normal retirement benefit considering his or her average monthly compensation and years of benefit service as of the date of his or her disability. Such benefit shall commence at the time the participant is eligible or would have been eligible (if the participant was a full-time employee) for benefits under the employer's long-term disability plan and has met the definition of disability, as defined in the Pension Plan document.

Termination: A terminated participant will be entitled to the vested portion of his or her accrued benefit, calculated under normal retirement, except that his or her benefit will be determined as of his or her termination of employment and will be payable to such participant at normal retirement date. If eligible, a participant may elect to have his or her vested accrued benefit commence at his or her early retirement date, in which event, it will be reduced to reflect such early commencement. A participant is 100% vested after five years of vesting service.

**The Board of Trustees of the Galveston Wharves
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Notes to Financial Statements

Note 7. Pension Plan (Continued)

Cash balance benefits: Prior to October 1, 2005, a cash balance account was established for each participant. No further contribution credits will be credited to a participant's cash balance account on or after September 30, 2005. An employee who is eligible for normal or late retirement will receive a lump sum payment or monthly amount equal to the actuarial equivalent of the balance of the participant's cash balance account as of the end of the month prior to the annuity starting date. The cash balance payable upon death will be determined as a single lump-sum amount equal to the participant's cash balance account as of the last day of the month coinciding with or preceding his or her date of death. However, at the option of the participant's beneficiary, such amount may be paid in the form of an actuarially equivalent benefit. The cash balance payable upon termination of employment will be payable to a participant who terminated prior to his or her normal retirement age and will be a lump sum payment or monthly life annuity equal to the actuarial equivalent of the balance of the participant's cash balance account as of the end of the month preceding his or her annuity starting date (or alternatively, the actuarial equivalent of the annuity that could be provided at normal retirement age based upon an accumulation of the cash balance at the interest rate used to determine lump-sum benefits), but no less than the participant's cash balance account.

Special benefit enhancements: Special early retirement window benefits have been offered several times in the past, the most recent of which was effective November 1, 1995. Employees who were at least age 60 with 10 years of service and who elected to retire were provided with enhanced benefits equal to their normal retirement assuming they stayed in service until their normal retirement date and their compensation remained until such date. A special minimum enhancement of 10% was provided.

At the December 31, 2022, measurement date, the following employees were covered by the benefit terms:

| | |
|--|------------|
| Inactive plan members and beneficiaries currently receiving benefits | 79 |
| Inactive employees entitled to, but not yet receiving benefits | 38 |
| Active plan members | 15 |
| | <u>132</u> |

Contributions: The Port will pay contributions for a plan year as determined by the actuary to fund plan benefits and at such times as the Port may decide. Employees do not make contributions under this Pension Plan. All contributions under the Pension Plan shall be paid or transferred into the Trust Fund to be held, managed, invested and distributed in accordance with the provisions of the Pension Plan. The Port reserves the right to reduce, suspend or discontinue contributions to the plan. Currently, the Port is making monthly contributions such that payments equal to the prior-year funding requirement are met. Contributions made after the measurement date of the net position liability but before the end of the reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than in the current fiscal period. In the event the funding requirement exceeds monthly contributions, an additional contribution is normally scheduled to fund the annual required contribution. The Port's contribution in 2023 was \$480,884 and the Port funded an additional \$24,116 in January of 2024 to reach the Board-approved 2023 contribution amount of \$505,000. A receivable of \$24,116 was recorded in the December 31, 2023, pension plan financial statements.

Net pension liability: The Port's net pension liability was measured as of December 31, 2022, and the pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions: The net pension liability was determined through an actuarial valuation performed as of December 31, 2022. The actuarial assumptions used are as follows:

**The Board of Trustees of the Galveston Wharves
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Notes to Financial Statements

Note 7. Pension Plan (Continued)

| | |
|------------------------|--|
| Valuation date | December 31, 2022 |
| Actuarial cost method | Individual entry age cost method |
| Asset valuation method | Market value of assets |
| Interest rates | Discount rate 7.25% |
| | Expected long-term rate of return 7.25% |
| | Municipal bond rate N/A |
| Inflation | 2.75% |
| Annual pay increases | 3.00% |
| Mortality rates: | PubG-2010 Mortality Tables Projected Generationally from 2010 with the Mortality Improvement Scale MP-2021 |
| Retirement rates | The latter of attainment of age 65 or the completion of five years of vesting service |
| Experience study | An experience study was completed in 2017 to review the interest rate and mortality assumption. There has not been a recent experience study to review the demographic assumptions. As the plan is not large enough to have credible experience, demographic assumptions are determined based on the results of the broad population trends. |

The following changes in actuarial assumptions occurred since the last actuarial valuation:

- None

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Discount rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term rate of return on assets: The long-term rate of return on the Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation.

Target allocation percentages and best estimates of arithmetic real rates of return for each major asset class included in the Pension Plan's target asset allocation as of December 31, 2022, are summarized in the following table:

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Notes to Financial Statements

Note 7. Pension Plan (Continued)

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------------------|-------------------|--|
| Fixed income equities securities | 10% | 3.25% |
| Common stock | 60% | 7.00% |
| Domestic equities—large cap | 5% | 7.10% |
| Domestic equities—mid cap | 3% | 7.10% |
| Domestic equities—small cap | 5% | 6.70% |
| International equities | 10% | 4.60% |
| Natural resources | 1% | 5.50% |
| Emerging markets | 1% | 5.10% |
| Cash | 5% | 2.50% |

Sensitivity of net pension liability to changes in the discount rate: The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.25%) or 1 percentage-point higher (8.25%) than the current rate:

| | Current | | |
|-----------------------|---------------------------|--------------------------|---------------------------|
| | 1.00% Decrease (6.25%) | Discount Rate (7.25%) | 1.00% Increase (8.25%) |
| Net pension liability | \$ 4,922,099 | \$ 3,399,295 | \$ 2,099,510 |

Changes in the net pension (asset) liability: The following presents the changes in net pension liability (asset) as of December 31, 2023.

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension (Asset) Liability (a) - (b) |
|---|-----------------------------------|---------------------------------------|---|
| Balance at December 31, 2022 | \$ 16,610,319 | \$ 16,713,180 | \$ (102,861) |
| Changes for the year: | | | |
| Service cost | 65,944 | - | 65,944 |
| Interest | 1,162,633 | - | 1,162,633 |
| Difference between expected and actual experience | (243,803) | - | (243,803) |
| Contributions—employer | - | 399,996 | (399,996) |
| Net investment loss | - | (2,876,194) | 2,876,194 |
| Benefit payments, including refunds of employee contributions | (1,283,191) | (1,283,191) | - |
| Administrative expenses | - | (40,406) | 40,406 |
| Other changes | - | (778) | 778 |
| Balance at December 31, 2023 | \$ 16,311,902 | \$ 12,912,607 | \$ 3,399,295 |

**The Board of Trustees of the Galveston Wharves
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Notes to Financial Statements

Note 7. Pension Plan (Continued)

Pension expense: For the year ended December 31, 2023, the Port recognized a decrease in pension expense of \$275,148 due to GASB 67 & 68 adjustments.

Deferred outflows and deferred inflows of resources related to pension: At December 31, 2023, the port reported deferred outflows and inflows of resources related to pension from the following sources:

| | Deferred Outflows of Resources |
|--|-----------------------------------|
| Contributions subsequent to the measurement date | \$ 399,996 |
| Difference between projected and actual earnings on pension plan investments | <u>1,752,044</u> |
| | \$ 2,152,040 |

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$399,996 will be recognized as a reduction of the net pension liability for the year ending December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

| Years | Net Deferred Outflows (Inflows) of Resources |
|-------|---|
| 2024 | \$ 373,500 |
| 2025 | 567,641 |
| 2026 | <u>810,903</u> |
| | <u>\$ 1,752,044</u> |

Deferred outflows related to the net difference between projected and actual earnings are amortized over a five-year period.

Note 8. Deferred Compensation Plan and Defined Contribution Plans

Deferred Compensation Plan—Section 457 Plan: The Port offers all full-time employees a deferred compensation plan created in accordance with section 457 of the Internal Revenue Code (IRC 457). The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseen emergency. Active plan members contributed \$81,992 to the 457 Plan as of December 31, 2023.

Defined Contribution Plan—Employees Retirement Accumulation Plan:

A. Plan Description

The Employees Retirement Accumulation Plan, a defined contribution plan was established under Internal Revenue Service (IRS) section 401(a) and is administered by Mission Square Retirement (formerly International City/County Management Association (ICMA)) for the employees of the Port. The plan is employee-directed, whereby employees may choose from various investment options available to plan participants.

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Notes to Financial Statements

Note 8. Deferred Compensation Plan and Defined Contribution Plans (Continued)

The Port and employee contributions are immediately vested. Contributions required under the plan by both the employee and employer are established by the plan document.

Amounts in the defined contribution plan are available to participants in accordance with IRS guidelines for such plans.

B. Plan Funding Policy

Active plan members must contribute 7.65% of their earnings and the Port is required to contribute 5.42% of participant earnings. The plan members contributed \$678,702 and the Port contributed \$482,167 during the year ended December 31, 2023.

Defined Contribution Plan—Galveston Wharves 2010 Plan:

A. Plan Description

On January 1, 2010, the Port initiated the Galveston Wharves 2010 Plan (the 2010 Plan). Employees hired prior to January 1, 2010, were given the option to remain in the defined benefit plan or opt for the new plan. Employees hired after January 1, 2010, were automatically enrolled in the 2010 Plan. The 2010 Plan, a defined contribution plan was established under IRS section 401(a) and is administered by Mission Square Retirement (formerly ICMA) for the employees of the Port. The 2010 Plan is employee-directed, whereby employees may choose among various investment options available to participants.

Employees are vested in the plan after three years of service. Upon termination of employment, employees are eligible for the following benefits:

- Life annuity
- Lump-sum payment
- Rollover
- Combination of percentages direct payment and percentages rollover

B. Plan Funding Policy

The contributions made by the Port is a percentage of compensation based on years of service as follows:

| | |
|---------------|----|
| 0-4.99 years | 3% |
| 5-9.99 years | 6% |
| 10 plus years | 9% |

The Port contributed \$323,063 during the year ended December 31, 2023. The employees do not have a required contribution rate.

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Notes to Financial Statements

Note 9. Commitments, Contingencies and Uncertainties

A substantial portion of the Port's facilities and operating assets are subject to federal, state and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does management expect such compliance to have, any material effect upon the capital expenditures, net income, financial condition or competitive position of the Port. However, due to the nature of the industry in which it operates, the risk of possible fines, penalties and liability claims exists. Management believes its current practices and procedures for the control and disposition of waste comply with applicable federal and state requirements, and the Port is insured against claims arising from environmental hazards.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Port expects such amounts, if any, to be immaterial to the financial statements of the Port.

The Port is subject to claims and lawsuits arising from the normal course of business. The Port's legal counsel routinely evaluates such claims and management may make provisions for probable losses if deemed appropriate. There were no provisions recorded as of December 31, 2023.

Note 10. Risk Management

The Port is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions and natural disasters, for which the Port carries commercial insurance. The Port is also exposed to the risk of loss resulting from operation of equipment; general, professional and law enforcement liability and workers' liability for which it carries commercial insurance. For the amounts deductible from the loss coverage amounts, the Port is self-insured. The Port has not significantly reduced insurance coverage for the past two years or had settlements that exceeded coverage amounts for the past three fiscal years.

The Port also provides for losses ranging from \$1 million to \$50 million by carrying excess/umbrella liability insurance coverage.

The Port provides all active, regular full-time employees with group life, medical and dental insurance coverage and flexible benefit program. Medical, dental and flexible benefit plans are obtained through third-party insurance carriers.

Note 11. Concentration of Credit Risk

One customer generated operating revenues of \$14.7 million and another customer generated \$7.0 million, which comprised approximately 22% and 10% respectively of total operating revenues for the year ended December 31, 2023. In the normal course of business, the Port extends unsecured credit to its customers.

Note 12. Related Party

The Port made payments to the City of Galveston and affiliates in the ordinary course of business in the amount of \$2,496,262 in 2023.

Subsequent to Moody National Bank becoming the Port's depository bank, the President and CEO of Moody National Bank was appointed a trustee of The Board of Trustees of the Galveston Wharves by the City of Galveston City Council. In the Fall of 2022, the Board of Trustees of the Galveston Wharves elected the President and CEO of Moody National Bank Chairman. As of December 31, 2023, deposits at Moody National Bank totaled \$36,186,824.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 13. Arbitrage Compliance

Per section 148 of the Internal Revenue Code of 1986 as amended (the Code), the Port must meet certain criteria with regard to interest earnings on its proceeds from long-term debt issuances in order for the interest income paid on those obligations to be considered tax-exempt for the debt holders. Related U.S. Treasury regulations promulgated under that same Code section generally provide that the initial determination of the taxable or tax-exempt status of an obligation is made as of the date such obligation is issued, based on reasonable expectations regarding the use of the resulting proceeds.

Long-term debt that does not initially meet, and continue to meet, the minimum criteria of section 148 of the Code and the related Treasury regulations, and particularly the requirement to rebate certain arbitrage profits to the federal government, is considered “arbitrage bonds” and forfeits its tax-exempt status. The Port’s obligation to calculate and, if necessary, make rebate payments continues as long as proceeds of debt remain unexpended.

Arbitrage profits result when the interest rate earned on invested debt proceeds is materially greater than that paid to holders of that debt, as calculated beginning on the third anniversary of the debt’s issuance. Accordingly, any proceeds unexpended more than three years after debt issuance is subject to yield restriction. The yield restriction may be satisfied, if any, by making yield-reduction payments pursuant to Treasury Regulation Section 1.148-5(c).

Note 14. Due to FEMA/TDEM-IKE

Texas Hurricane IKE—Public Assistance Grant 1791

On January 10, 2022, the Port was issued notice from the Texas Department of Emergency Management (TDEM) of a FEMA Administrative Closeout on Grant Number 1791 (Texas Hurricane IKE). This notice is essentially a “call” of several Hurricane Ike disaster related projects that are still under FEMA review. In consultation with legal counsel, management of the Port believes it is allowed certain statutory rights under the Stafford Disaster Relief and Emergency Assistance Act and FEMA regulations promulgated thereunder. The Port recorded this liability in 2021. The notice from TDEM continues to proceed through FEMA review and final closeout.

The requested information has been provided to FEMA several times over the past 12 years in compliance with FEMA’s appeal and project closeout requirements. The Port consulted with its legal counsel and believes TDEM’s unilateral action prohibits its legal rights to pursue the FEMA appeal and project closeout process.

The Port has provided documentation related to these projects within the times specified in its regulations. These regulations outline FEMA’s review process. The TDEM demand notice requiring the Port replicate submittal documents in a period of less than 30 days circumvents the FEMA review process which gives the Port the right to complete the FEMA review process for these projects.

As of December of 2023, the Port has \$14,028,299 in potential future claims against Grant Number 1791, including Direct Administrative Cost for Public Assistance Grant 1791 pending outcome of the appeal process totaling \$1,973,854, the West End Erosion Alternate Project PW 15828 totaling \$10,301,161, and Erosion Project Work at Piers 28, 34, and 35 Project PW 15835 totaling \$1,753,284. Alternate Projects PW 15828 and PW 15835 have expected completion dates in 2025.

As of December 31, 2022, the Port showed a payable to FEMA/TDEM related to Ike in the amount of \$10,745,473. TDEM issued a letter to the Port increasing the de-obligated amount by \$686,960 and accepted and applied \$325,717 from Alternate Project PW 15835 to Grant Number 1791 in 2023, resulting in the payable changing to \$11,106,716 as of December 31, 2023. The initial \$10,745,473 was recognized as a reduction to the non-operating income section of the Statement of Revenues, Expenses and Changes in Net Position and a short-term liability reflected in the State of Net Position in 2021. There was no change in 2022. The de-obligated amount of \$686,960 with offsetting application of \$325,717 to Grant Number 1791 was recognized in the same manner in 2023 as in 2021.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 15. Subsequent Events

The Port has evaluated subsequent events through April 26, 2024, the date the financial statements were available to be issued.

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

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BRACEWELL

[CLOSING DATE]

We have represented the City of Galveston, Texas (the “City”) as its bond counsel in connection with an issue of bonds described as follows:

CITY OF GALVESTON, TEXAS WHARVES AND TERMINAL FIRST LIEN REVENUE BONDS, SERIES 2024A (AMT) in the aggregate principal amount of \$ _____, dated August 1, 2024 (the “Series 2024A Bonds”); and

CITY OF GALVESTON, TEXAS WHARVES AND TERMINAL FIRST LIEN REVENUE BONDS, SERIES 2024B (NON-AMT) in the aggregate principal amount of \$ _____, dated August 1, 2024 (the “Series 2024B Bonds,” and collectively with the Series 2024A Bonds, the “Bonds”).

The Bonds are being issued pursuant to that certain Amended and Restated Trust Indenture dated as of October 1, 2023 (the “Original Indenture”), as supplemented by the Second Supplemental Amended and Restated Trust Indenture dated as of August 1, 2024 (the “Second Supplemental Indenture” and together with the Original Indenture, the “Indenture”), each between the City and The Bank of New York Mellon Trust Company, National Association (the “Trustee”). The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds, the Indenture and the ordinance adopted by the City Council of the City authorizing their issuance (the “Bond Ordinance”) and the pricing certificate relating to the Bonds executed pursuant thereto (the “Pricing Certificate,” and together with the Bond Ordinance, the “Ordinance”).

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 the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein. Capitalized terms used herein and not otherwise defined are used with the meanings assigned to such terms in the Indenture.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds, on which we have relied in giving our opinion.

The transcript contains certified copies of certain proceedings of the City, the Board of Trustees of the Galveston Wharves (the “Wharves”) and the Trustee; customary certificates of officers, agents, and

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representatives of the City, the Wharves, public officials and other participants in the issuance of the Bonds; and other certified showings relating to the authorization and issuance of the Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions contained herein. Moreover, we have examined executed Bond No. I-1 of each issue.

In providing the opinions set forth herein, we have relied on representations and certifications of the City and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the City and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Indenture, including, but not limited to, covenants relating to the tax-exempt status of the Bonds.

Based on such examination, it is our opinion that:

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 effective and, therefore the Bonds constitute valid and legally binding obligations of the City.

2. The Bonds are equally and ratably secured by a first lien on and pledge of the Net Revenues from the operation of the City's port and harbor facilities, as defined and provided in the Indenture, which Net Revenues are required, in the manner provided in the Indenture, to be set aside and pledged to the payment of the Bonds and any additional parity obligations hereafter issued, in the Debt Service Reserve Fund maintained for such purpose pursuant to the Indenture.

3. Interest on the Series 2024A Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except for any period during which a Bond is held by a person who is a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" of such a "substantial user," each within the meaning of section 147(a) of the Code. In addition, interest on the Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax on individuals. We observe that interest on the Bonds is taken into account in computing the alternative minimum tax on certain corporations.

4. Interest on the Series 2024B Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax on individuals, but we observe that such interest is taken into account in computing the alternative minimum tax on certain corporations.

The rights of the owners of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally and may be limited by general principles of equity which permit the exercise of judicial discretion.

[CLOSING DATE]

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We express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of the Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations of the City or other parties upon which we have relied are determined to be inaccurate or incomplete or the City fails to comply with the covenants of the Indenture, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

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