OFFICIAL STATEMENT DATED FEBRUARY 7, 2018

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS:
Fitch: "AA"
Moody's: "Aa2"
As described herein

In the opinion of Co-Bond Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Co-Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Co-Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

$559,900,000
HARRIS COUNTY, TEXAS
TOLL ROAD SENIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2018A

Interest Accrues from Date of Delivery — Due: August 15 (As shown on the inside cover page)

The Harris County, Texas, Toll Road Senior Lien Revenue and Refunding Bonds, Series 2018A (the "***Bonds***") are being issued by Harris County, Texas (the "***County***"), and the pledge of the Trust Estate (defined herein) is being made pursuant to Chapters 1207 and 1371, Texas Government Code, as amended, Chapter 284, Texas Transportation Code, as amended, an order adopted on January 9, 2018, by the Commissioners Court of the County (the "***Order***"), an Officer's Pricing Certificate executed on the date of the sale of the Bonds, a Third Amended and Restated Toll Road Senior Lien Revenue Bond Trust Indenture (the "***Master Revenue Indenture***"), as supplemented and amended to date, and a Fortieth Supplemental Indenture dated as of February 1, 2018, providing for the issuance of the Bonds (the "***Fortieth Supplemental Indenture***" and, together with the Master Revenue Indenture, the "Revenue Indenture"), between the County and The Bank of New York Mellon Trust Company, National Association, as Trustee (the "***Trustee***").

The Bonds are special obligations of the County that, together with the Outstanding Toll Road Senior Lien Revenue Bonds and Parity Obligations, are secured by and payable from (i) a gross pledge of all Revenues of the County's toll road project (as further described herein, the "***Project***") and (ii) certain funds established pursuant to the Revenue Indenture. The Bonds do not constitute an indebtedness of the County, the State of Texas, or any political subdivision thereof within the meaning of any constitutional or statutory limitation on indebtedness, but are payable solely from and secured by a senior lien upon the Trust Estate. No owner of the Bonds shall ever have the right to demand payment of the Bonds or any interest or premium thereon from any funds raised or to be raised by taxation.

Interest, which accrues from the date of delivery, on the Bonds is payable on February 15 and August 15 of each year, commencing August 15, 2018, until maturity or earlier redemption, if any. The Bonds are issuable only in fully-registered form in the denomination of $5,000 principal amount, or integral multiples thereof, initially registered solely in the name of Cede & Co., a registered owner and nominee for The Depository Trust Company, New York, New York ("***DTC***"), acting as securities depository for the Bonds, until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. As long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, the Bonds shall be payable to Cede & Co., which will, in turn, remit such amounts to DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. The principal of the Bonds is payable at the principal corporate trust office of the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, National Association, or the Trustee. Certain of the Bonds are subject to redemption prior to their scheduled maturities as described herein. See "THE BONDS – Redemption Provisions."

The Bonds are being issued for the following purposes: (i) to pay costs of the Project, including costs relating to the construction of a new Ship Channel Bridge and demolition of the existing bridge (see "THE TOLL ROAD PROJECT – Sam Houston Tollway - Sam Houston Ship Channel Bridge"); (ii) to refund and defease certain outstanding Toll Road Senior Lien Revenue Bonds, as more fully described herein; and (iii) to pay costs of issuance of the Bonds.

See Inside Cover Page for Maturities, Amounts, Interest Rates, Prices or Yields and CUSIP Numbers for the Bonds.

This cover page is not intended to be a summary of the terms of, or the security for, the Bonds. Potential investors are advised to read the Official Statement in its entirety to obtain information essential to making an informed investment decision.

The Bonds are offered for delivery, when, as and if issued by the County, and received by the Underwriters, subject to the approving opinion of the Attorney General of Texas and the legal opinion of Orrick, Herrington & Sutcliffe LLP, Houston, Texas, and Bratton & Associates, Houston, Texas, Co-Bond Counsel, as to the validity of the Bonds under the Constitution and the laws of the State of Texas. Certain legal matters will be passed upon for the County by Vince Ryan, County Attorney, and Greenberg Traurig, LLP, Houston, Texas, and Bates & Coleman, PC, Houston, Texas, Co-Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Bracewell LLP, Houston, Texas and West & Associates, LLP, Houston, Texas. The Bonds are expected to be available for delivery through DTC on or about February 28, 2018 (the "***Date of Delivery***").

Goldman Sachs & Co. LLC

Piper Jaffray & Co. — **Ramirez & Co., Inc.**

Academy Securities — **Citigroup** — **FTN Financial Capital Markets** — **Jefferies**

MATURITY SCHEDULE, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS AND CUSIP NUMBERS

$559,900,000
HARRIS COUNTY, TEXAS
TOLL ROAD SENIOR LIEN REVENUE AND REFUNDING BONDS,
SERIES 2018A

Maturity (August 15)	Principal Amount[1]	Interest Rate	Initial Yield	CUSIP No.[3]
2019	$13,685,000	5.000%	1.450	41423PAA5
2020	14,535,000	5.000	1.600	41423PAB3
2021	15,435,000	5.000	1.770	41423PAC1
2022	17,860,000	5.000	1.910	41423PAD9
2023	19,535,000	5.000	2.050	41423PAE7
2024	21,350,000	5.000	2.180	41423PAF4
2025	4,010,000	5.000	2.320	41423PAG2
2026	9,170,000	5.000	2.440	41423PAH0
2027	14,420,000	5.000	2.550	41423PAJ6
2028	14,675,000	5.000	2.640[2]	41423PAK3
2029	14,910,000	5.000	2.720[2]	41423PAL1
2030	7,185,000	5.000	2.800[2]	41423PAM9
2031	38,465,000	5.000	2.860[2]	41423PAN7
2032	42,645,000	5.000	2.900[2]	41423PAP2
2033	20,850,000	5.000	2.950[2]	41423PAQ0
2034	2,295,000	5.000	2.990[2]	41423PAR8
2035	2,160,000	5.000	3.020[2]	41423PAS6
2036	16,615,000	4.000	3.350[2]	41423PAT4
2037	17,290,000	4.000	3.380[2]	41423PAU1
2038	18,000,000	4.000	3.410[2]	41423PAV9

$104,310,000 Term Bond Due August 15, 2043[1], 5.00%, Yield[2] 3.170% - CUSIP No.[3] 41423PAW7

$130,500,000 Term Bond Due August 15, 2048[1], 4.00%, Yield[2] 3.620% - CUSIP No.[3] 41423PAX5

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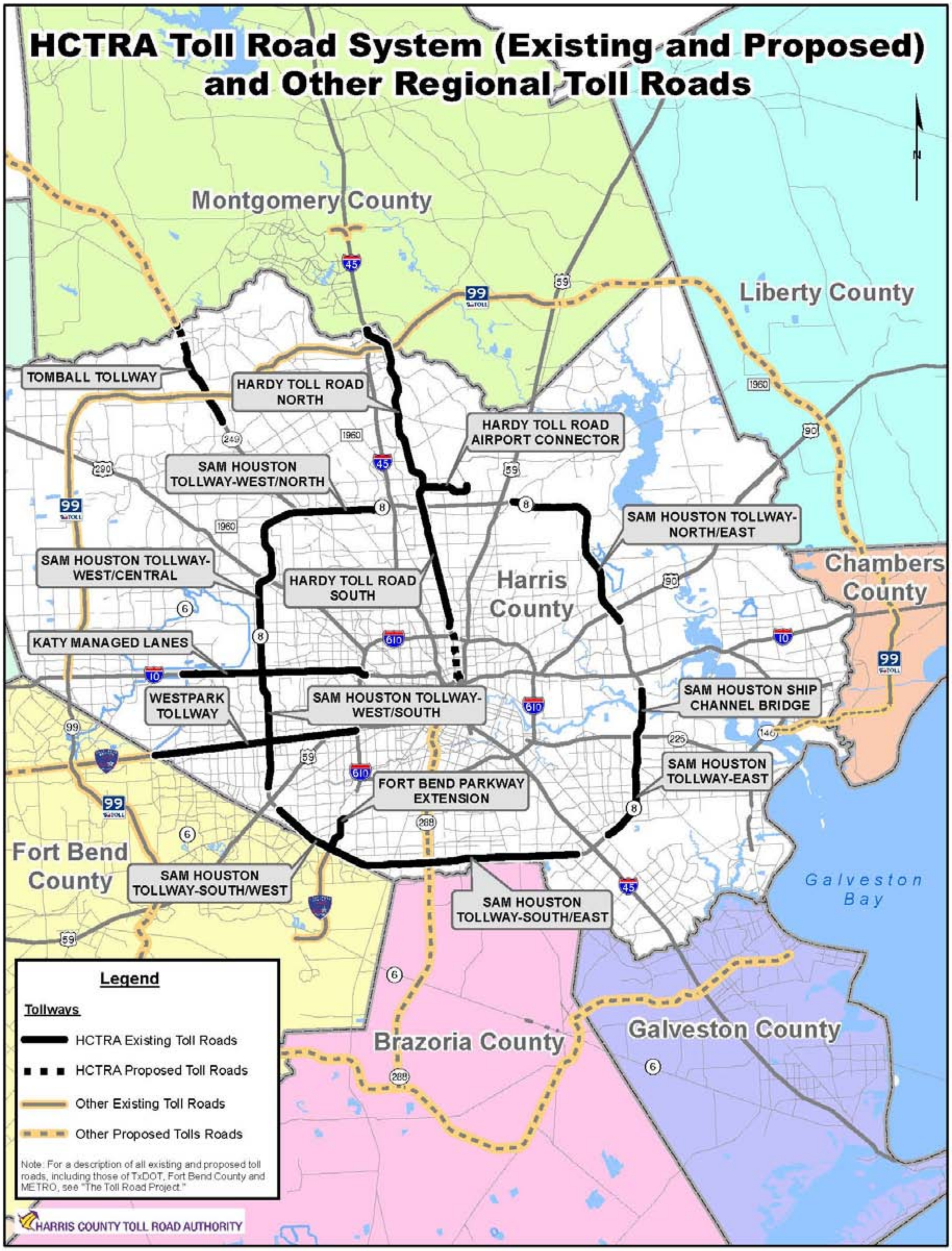
(1) The County reserves the right to redeem the Bonds maturing on or after August 15, 2028, in whole or from time to time in part, on February 15, 2028, or on any date thereafter at par plus accrued interest on the Bonds called for redemption to the date fixed for redemption. See "THE BONDS – Redemption Provisions."

(2) Yield calculated to first optional redemption date. See "THE BONDS – Redemption Provisions."

(3) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ, on behalf of The American Bankers Association, and is included solely for convenience of the holders of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. Neither the County, the Financial Advisor nor the Underwriters is responsible for the selection or correctness of the CUSIP numbers set forth herein.


HCTRA Toll Road System (Existing and Proposed) and Other Regional Toll Roads
Montgomery County
Liberty County
Chambers County
Harris County
Fort Bend County
Brazoria County
Galveston County
Galveston Bay
TOMBALL TOLLWAY
HARDY TOLL ROAD NORTH
HARDY TOLL ROAD AIRPORT CONNECTOR
SAM HOUSTON TOLLWAY-WEST/NORTH
SAM HOUSTON TOLLWAY-NORTH/EAST
SAM HOUSTON TOLLWAY-WEST/CENTRAL
HARDY TOLL ROAD SOUTH
KATY MANAGED LANES
WESTPARK TOLLWAY
SAM HOUSTON TOLLWAY-WEST/SOUTH
SAM HOUSTON SHIP CHANNEL BRIDGE
SAM HOUSTON TOLLWAY-EAST
FORT BEND PARKWAY EXTENSION
SAM HOUSTON TOLLWAY-SOUTH/WEST
SAM HOUSTON TOLLWAY-SOUTH/EAST
Legend
Tollways
HCTRA Existing Toll Roads
HCTRA Proposed Toll Roads
Other Existing Toll Roads
Other Proposed Tolls Roads
Note: For a description of all existing and proposed toll roads, including those of TxDOT, Fort Bend County and METRO, see "The Toll Road Project."
HARRIS COUNTY TOLL ROAD AUTHORITY

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THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

Certain statements in this Official Statement, which may be identified by the use of such terms as "plan," "project," "expect," "estimate," "budget" or other similar words, constitute forward-looking statements. Such forward-looking statements refer to the achievement of certain results or other expectation or performance that involves known and unknown risks, uncertainties and other factors. These risks, uncertainties and other factors may cause actual results, performance or achievements to be materially different from any projected results, performance or achievements described or implied by such forward-looking statements. Although the County currently publishes certain monthly financial reports that are available upon written request from the County to the extent permitted by applicable law, the County reserves the right to discontinue or modify this practice at any time, and the County does not plan to issue any other updates or revisions to any forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward-looking statements."

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

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

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the County or from the Financial Advisor to the County. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesperson or other person has been authorized by the County to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the County, any Underwriter or any other person. Information set forth herein has been furnished by the County and includes information obtained from other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the County or the other matters described herein since the date hereof.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after such Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT SUMMARY

This summary is furnished to provide limited introductory information regarding the terms of the Bonds and is qualified by the more detailed descriptions appearing in this Official Statement and the appendices hereto. Capitalized terms not defined in the body of this Official Statement have the meanings assigned to them in "APPENDIX A – GLOSSARY OF TERMS." The offering of the Bonds is made only by means of the entire Official Statement, and no person is authorized to make offers to sell or to solicit offers to buy the Bonds unless the entire Official Statement is delivered.

The County	Harris County, Texas (the "***County***").
The Bonds	The Harris County, Texas, $559,900,000 Toll Road Senior Lien Revenue and Refunding Bonds, Series 2018A (the "***Bonds***").
Terms of the Bonds	For a discussion of the terms of the Bonds, including the redemption provisions, see "THE BONDS."
Purpose	The Bonds are being issued pursuant to Chapters 1207 and 1371, Texas Government Code, as amended, and Chapter 284, Texas Transportation Code, as amended, for the following purposes: (i) to pay costs of the Project, including costs relating to the construction of a new Ship Channel Bridge and demolition of the existing bridge (see "THE TOLL ROAD PROJECT – SAM HOUSTON TOLLWAY - Sam Houston Ship Channel Bridge"); (ii) to refund and defease certain outstanding Toll Road Senior Lien Revenue Bonds described on Schedule I hereto; and (iii) to pay costs of issuance of the Bonds.
Project	See "THE TOLL ROAD PROJECT."
Book-Entry-Only System	The Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("***DTC***"), pursuant to its book-entry-only system. No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Principal and interest will be paid to Cede & Co., which will distribute such payments to the participating members of DTC for remittance to the beneficial owners of the Bonds. See "APPENDIX G – THE DEPOSITORY TRUST COMPANY AND BOOK-ENTRY-ONLY SYSTEM."
Paying Agent/Registrar	The initial paying agent is The Bank of New York Mellon Trust Company, National Association, and its successors in such capacity.
Trustee	The trustee is The Bank of New York Mellon Trust Company, National Association, and its successors in such capacity.
Escrow Agent	The escrow agent is The Bank of New York Mellon Trust Company, National Association, and its successors in such capacity.
Tax Exemption	In the opinion of Co-Bond Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Co-Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Co-Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS."
Security and Source of Payment	The Bonds are special obligations of the County that, together with the Outstanding Toll Road Senior Lien Revenue Bonds and Parity Obligations, are secured by and payable from (i) a gross pledge of all Revenues of the Project and (ii) certain funds established pursuant to the Revenue Indenture. See "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS."

Reserve Fund Requirement	The Reserve Fund Requirement for the Bonds is calculated as an amount that is not less than the average annual Aggregate Debt Service nor more than the maximum annual Aggregate Debt Service on Toll Road Senior Lien Revenue Bonds and Parity Obligations.
Toll Covenant	The County has covenanted to, at all times, fix, charge and collect tolls for use of the Project for each Fiscal Year as will be required to produce Revenues that will equal at least 1.25 times the Aggregate Debt Service on the Bonds, together with the Outstanding Toll Road Senior Lien Revenue Bonds and Parity Obligations, accruing in such Fiscal Year. See "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS – TOLL COVENANT."
Maintenance Covenant	The County has covenanted that so long as the Bonds and any other Toll Road Senior Lien Revenue Bonds or Parity Obligations are Outstanding, it shall in each year levy, assess and collect an annual maintenance tax on all taxable property within the County fully sufficient in each such year (taking into account delinquencies and costs of collection) to produce maintenance tax revenues sufficient to (i) pay as they become due all Project Expenses for which there are insufficient available Revenues or (ii) produce maintenance tax revenues for the Project equal to the amounts budgeted for such purpose in such year by the County, whichever is greater.
Additional Toll Road Senior Lien Revenue Bonds	The County may issue one or more series of Toll Road Senior Lien Revenue Bonds and other obligations on a parity with the Bonds (as further defined in "APPENDIX A – GLOSSARY OF TERMS," the "Parity Obligations") provided that certain tests are met. See "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS – ADDITIONAL TOLL ROAD SENIOR LIEN REVENUE BONDS AND PARITY NOTES" and "– ADDITIONAL PARITY OBLIGATIONS."
Credit Ratings	Fitch Rating, Inc. ("***Fitch***") and Moody's Investors Service, Inc. ("***Moody's***") have assigned credit ratings of "AA" and "Aa2", respectively, to the Bonds. See "RATINGS."
Payment Record	The County has never defaulted in paying the principal of or interest on any of its debt.
SEC Rule 15c2-12 Compliance	See "CONTINUING DISCLOSURE OF INFORMATION."

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OFFICIAL STATEMENT

$559,900,000
HARRIS COUNTY, TEXAS
TOLL ROAD SENIOR LIEN REVENUE AND REFUNDING BONDS,
SERIES 2018A

INTRODUCTORY STATEMENT

GENERAL

This Official Statement is provided to furnish information in connection with the issuance by Harris County, Texas (the "***County***"), of its Harris County, Texas, Toll Road Senior Lien Revenue and Refunding Bonds, Series 2018A (the "***Bonds***"). The Bonds are being issued and the pledge of the Trust Estate is being made pursuant to Chapters 1207 and 1371, Texas Government Code, as amended, Chapter 284, Texas Transportation Code, as amended, an order adopted by the Commissioners Court of the County on January 9, 2018 (the "***Order***"), an Officer's Pricing Certificate executed on the date of the sale of the Bonds, a Third Amended and Restated Toll Road Senior Lien Revenue Bond Trust Indenture (the "***Master Revenue Indenture***"), as supplemented and amended to-date, and a Fortieth Supplemental Indenture dated as of February 1, 2018, providing for the issuance of the Bonds (the "***Fortieth Supplemental Indenture***" and, together with the Master Revenue Indenture, the "***Revenue Indenture***"), between the County and The Bank of New York Mellon Trust Company, National Association, as trustee (the "***Trustee***").

Capitalized terms used herein, but not otherwise defined herein, have the meanings set forth in "APPENDIX A – GLOSSARY OF TERMS". A summary of the Revenue Indenture is included in "APPENDIX B – SUMMARY OF THE REVENUE INDENTURE". The Audited Financial Statements of the County and the Toll Road Authority Enterprise Fund for the Fiscal Year Ended February 28, 2017 are set forth in "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE COUNTY AND TOLL ROAD AUTHORITY ENTERPRISE FUND FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2017". The Outstanding Toll Road Senior Lien Revenue Bonds (hereinafter defined) are set forth in "APPENDIX D-1 — OUTSTANDING TOLL ROAD SENIOR LIEN REVENUE BONDS". The outstanding Toll Road Tax Bonds (hereinafter defined) are set forth in "APPENDIX D-2 — OUTSTANDING TOLL ROAD UNLIMITED TAX AND SUBORDINATE LIEN REVENUE BONDS". The form of Co-Bond Counsel Opinion is set forth in "APPENDIX E — FORM OF CO-BOND COUNSEL OPINION". The County's continuing disclosure schedules are set forth in "APPENDIX F — CONTINUING DISCLOSURE SCHEDULES". Information related to DTC and the Book-Entry-Only-System is set forth in "APPENDIX G — THE DEPOSITORY TRUST COMPANY AND BOOK-ENTRY-ONLY SYSTEM". A description of the Reserve Fund Surety Policy (hereinafter defined) is set forth in "APPENDIX H — DESCRIPTION OF RESERVE FUND SURETY POLICY".

Bonds authorized for issuance under the Revenue Indenture, including the Bonds, are referred to herein generally as the "***Toll Road Senior Lien Revenue Bonds***." The County also, from time to time, issues Toll Road Unlimited Tax and Subordinate Lien Revenue Bonds under a separate indenture referred to as the "***Tax Indenture***." Bonds authorized for issuance under the Tax Indenture are referred to herein generally as the "***Toll Road Tax Bonds***." The Toll Road Senior Lien Revenue Bonds and the Toll Road Tax Bonds, collectively, are referred to herein as the "***Toll Road Bonds***." The Revenue Indenture and Tax Indenture, collectively, are referred to herein as the "***Indentures***." This Official Statement in general only describes the Toll Road Senior Lien Revenue Bonds, and not the Toll Road Tax Bonds.

HURRICANE HARVEY

Hurricane Harvey made landfall on August 25, 2017 near Corpus Christi, Texas, 200 miles south of Harris County. Over the next four days, the storm dumped an average of 33 inches of rain in Harris County with some areas receiving over 50 inches of rain. This was a historic flooding event. The storm caused widespread damage to commercial and residential properties and also caused damage to properties and assets of the County, including physical damage to the County's toll road system which is operated by the Harris County Toll Road Authority (the "Authority"). The Authority operates approximately 127 centerline miles of toll road projects that comprise the County's toll road system. The toll road system suffered physical damages that required repairs in the approximate amount of $5 million dollars. The repairs have been completed, and the Authority is currently working with the Federal Emergency Management Agency for potential reimbursement. Due to regional disruptions from the storm, the entire toll road system operated on a toll-free basis for a period of sixteen (16) days. For an additional ten (10) days, certain specific segments of the toll road system operated on a toll-free basis. As of September 22, 2017, the toll road system returned to full operational status. See "TOLL ROAD FINANCIAL INFORMATION – Management Discussion of Revenues and Expenses for Fiscal Year 2018." See also "PENDING LITIGATION."

SOURCES OF PAYMENT FOR THE BONDS

The Toll Road Senior Lien Revenue Bonds, including the Bonds, are special obligations of the County that, together with the Outstanding Parity Obligations, are secured by and payable from (i) a gross pledge of all Revenues of the Project and (ii) certain funds established pursuant to the Revenue Indenture. See "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS."

The Bonds do not constitute an indebtedness of the County, the State of Texas (the "***State***"), or any political subdivision thereof within the meaning of any constitutional or statutory limitation on indebtedness, but are payable solely from and secured by a senior lien upon the Trust Estate. No owner of the Bonds shall ever have the right to demand payment of the Bonds or any interest or premium thereon from any funds raised or to be raised by taxation.

PLAN OF FINANCING

The Bonds are being issued pursuant to the Act for the following purposes: (i) to pay costs of the Project, including costs relating to the construction of a new Ship Channel Bridge and demolition of the existing bridge ("THE TOLL ROAD PROJECT – SAM HOUSTON TOLLWAY - Sam Houston Ship Channel Bridge"); (ii) to refund and defease the County's Outstanding Toll Road Senior Lien Revenue Bonds described on Schedule I hereto (the "***Refunded Bonds***"); and (iii) to pay costs of issuance of the Bonds.

The Fortieth Supplemental Indenture provides that, as described in the Officer's Pricing Certificate for the Bonds, a portion of the proceeds of the Bonds, together with other available funds, if any, will be deposited with The Bank of New York Mellon Trust Company, National Association, as escrow agent (the "***Escrow Agent***"), pursuant to an escrow agreement, dated as of February 1, 2018 (the "***Escrow Agreement***"), between the County and the Escrow Agent to provide for the payment of the Refunded Bonds and the interest due thereon. Such funds will be irrevocably held by the Escrow Agent in an escrow account (the "***Escrow Fund***") and used to purchase a portfolio of securities (the "***Escrowed Securities***") that will mature at such times and bear interest in the amounts such that, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of, premium, if any, and interest on the Refunded Bonds. The accuracy of the mathematical computations of the adequacy of the maturing principal of and interest on the Escrowed Securities, together with other available funds, if any, held in the Escrow Fund, to provide for the payment of the Refunded Bonds will be verified by Grant Thornton LLP, a firm of independent certified public accountants (the "***Verification Agent***"). See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

In the opinion of Co-Bond Counsel, by making the escrow deposits required by the Fortieth Supplemental Indenture and the Escrow Agreement, the County will have made firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds pursuant to the provisions of Chapter 1207, Texas Government Code, as amended. Thereafter, the Refunded Bonds will be deemed fully paid and no longer Outstanding except for the purpose of being paid from the funds provided therefor in the Escrow Agreement.

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SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of proceeds of the Bonds and certain other available funds:

SOURCES OF FUNDS:	
Par Amount of Bonds	$559,900,000.00
Original Issue Premium	67,519,186.35
TOTAL SOURCES	$627,419,186.35
USES OF FUNDS:	
Deposit to Project Fund/Capital Projects	$400,000,000.00
Deposit with Escrow Agent for Refunded Bonds	199,343,414.83
Deposit to Reserve Fund	25,000,000.00
Costs of Issuance	1,034,375.51
Underwriters' Discount	2,041,396.01
TOTAL USES	$627,419,186.35

THE BONDS

GENERAL

The Bonds will bear interest at the per annum rates and mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. The Bonds will bear interest from their Date of Delivery to the Underwriters. Interest on the Bonds is calculated on the basis of a 360-day year comprised of twelve 30-day months, and is payable semiannually on February 15 and August 15 of each year commencing August 15, 2018, until maturity or earlier redemption, if any.

The Bonds will be issued as fully registered bonds, in the denomination of $5,000 principal amount, or any integral multiple thereof ("Authorized Denominations"). The Bonds will be payable at the principal corporate trust office of any Paying Agent/Registrar (the "***Paying Agent/Registrar***") designated by the County, initially The Bank of New York Mellon Trust Company, National Association, or the Trustee, and payment of the interest on the Bonds will be made by the Paying Agent/Registrar to the registered owner of such Bond by check or draft mailed to such registered owner thereof (or other method of payment mutually acceptable to the Paying Agent/Registrar and the registered owner) as of the Record Date at such address as appears on the registration books maintained by the Paying Agent/Registrar. See "– Record Dates." See also "– Book-Entry-Only System" for a description of how payments of principal of, premium, if any, and interest on the Bonds will be made while the Bonds are held in book-entry form.

Record Dates. The record dates (the "***Record Dates***") for each interest payment date for the Bonds are set forth below:

Interest Payment Date	Record Date
February 15	February 1
August 15	August 1

Ownership. The County, the Trustee and the Paying Agent/Registrar may deem and treat the person in whose name any Bond is shown on the Register for the Bonds as the absolute owner of such Bond whether such Bond becomes overdue or not, for the purpose of receiving payment of, or on account of, the principal or redemption price of, and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon the registered owner's order will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and the County, the Trustee and the Paying Agent/Registrar will not be affected by any notice to the contrary.

Book-Entry-Only System. APPENDIX G 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 The Depository Trust Company, New York, New York ("***DTC***"), while the Bonds are registered in its nominee name. The information in APPENDIX G concerning DTC and the Book-Entry-Only System has been obtained from DTC for use in disclosure documents such as this Official Statement. The County believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

Transfers; Exchanges; Charges; Replacements. The Paying Agent/Registrar will keep, or cause to be kept, on behalf of the County, at the principal corporate trust office of the Paying Agent/Registrar, or such other locations as may be provided in the Revenue Indenture, the Register for the Bonds, in which, subject to such reasonable regulations as the County, the Trustee and the Paying Agent/Registrar may prescribe, the County will cause the Bonds to be registered.

Transfers. If the Bonds are not in a book-entry-only system, the Bonds will be transferable only upon the Register for such series of Bonds by the registered owner in person or by the registered owner's attorney duly authorized in writing, upon surrender thereof, together with a written instrument of transfer satisfactory to the Paying Agent/Registrar duly executed by the Owner or the Owner's duly authorized attorney. Upon the transfer of any such Bonds and payment of any required fees, the County will issue in the name of the transferee a new, fully-registered Bond of the same series, aggregate principal amount and maturity as the surrendered Bonds.

Exchanges. Upon surrender at the principal corporate trust office of the Paying Agent/Registrar (or any agent appointed to act on behalf of the Paying Agent/Registrar), together with a written instrument of transfer satisfactory to the Paying Agent/Registrar (or such agent) duly executed by the Owner or the Owner's duly authorized attorney, Bonds may, at the option of the Owner thereof, and upon payment by such Owner of any charges that the Paying Agent/Registrar or the County may make, be exchanged for an equal aggregate principal amount of Bonds of the same series and maturity and in any authorized denomination.

The Paying Agent/Registrar is not required to transfer or exchange Bonds for a period of 15 days next preceding the selection of Bonds for redemption or to transfer or exchange any Bonds called for redemption.

Charges. For every transfer of Bonds, the County, the Paying Agent/Registrar or the Authenticating Agent may make a charge equal to any expense, tax, fee or other governmental charge required to be paid with respect to such transfer. In addition, for every exchange of Bonds, the County, the Paying Agent/Registrar or the Authenticating Agent may make reasonable charges to cover the charges and costs of printing Bonds, including any Paying Agent/Registrar's charges in connection therewith. The payment of the sum or sums will be made by the Owner requesting such transfer or exchange as a condition precedent to the exercise of the privilege of making such transfer or exchange.

Replacements. The Revenue Indenture provides for the replacement of mutilated, destroyed, stolen, or lost Bonds upon certain conditions, including the provision of satisfactory indemnity and payment of expenses.

Certain Dates Not Business Days. The Revenue Indenture provides that in any case in which the date fixed for the payment of the principal or premium, if any, and interest on the Bonds, or the date fixed for the redemption of any Bond, is not on a Business Day, the payment of principal, premium, if any, interest or redemption price need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for such payment. Each reference herein made to a date that is not a Business Day must be understood to refer to the next succeeding Business Day.

REDEMPTION PROVISIONS

Optional Redemption. The Bonds maturing on or after August 15, 2028, are subject to optional redemption in whole or, from time to time, in part at any time on or after February 15, 2028, at a redemption price of 100% of the principal amount thereof plus accrued interest, if any, to, but not including, the redemption date.

Mandatory Sinking Fund Redemption. The Bonds maturing in the years 2043 and 2048 (the "***Term Bonds***") are subject to mandatory redemption prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates, in each case at a redemption price equal to 100% of their principal amount plus accrued interest to the date fixed for redemption, if any, and subject to the following conditions:

$104,310,000 TERM BONDS MATURING IN 2043

Mandatory Redemption Dates (August 15)	**Principal Requirements**
2039	$18,830,000
2040	19,795,000
2041	20,810,000
2042	21,875,000
2043 (Maturity)	23,000,000

$130,500,000 TERM BONDS MATURING IN 2048

Mandatory Redemption Dates (August 15)	**Principal Requirements**
2044	$24,055,000
2045	25,035,000
2046	26,060,000
2047	27,120,000
2048 (Maturity)	28,230,000

Notice of Redemption; Effect of Redemption. The Trustee shall give notice, in the name of the County, of the redemption of such Bonds by mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption to each Holder of Bonds to be redeemed at its address shown on the registration books kept by the Trustee; provided, however, that failure to give such notice to any Bondholder or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Bonds.

Any Bonds that have been duly selected for redemption and that are paid in accordance with the Fortieth Supplemental Indenture shall cease to bear interest on the specified redemption date.

SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS

PLEDGE OF THE TRUST ESTATE

Pursuant to the Act, including specifically Chapter 284, Texas Transportation Code, as amended, the Toll Road Senior Lien Revenue Bonds, including the Bonds, and all Parity Obligations, issued or entered into pursuant to the Revenue Indenture are secured by and payable from the Trust Estate created pursuant to the Revenue Indenture, which includes a pledge of and lien on (i) all right, title and interest of the County now owned or hereafter acquired in and to the moneys deposited or required to be deposited in the Debt Service Fund and the Debt Service Reserve Fund; all right, title and interest in and to the Investment Securities held in the Debt Service Fund and the Debt Service Reserve Fund and any Debt Service Reserve Fund Surety Policy or Debt Service Reserve Fund Liquidity Facility held in the Debt Service Reserve Fund; provided, however, that the County expressly reserves the right to transfer any or all interest and investment income earned from Investment Securities held in the Debt Service Fund (other than amounts attributable to capitalized interest on the Toll Road Senior Lien Revenue Bonds) and the Debt Service Reserve Fund to other Funds and Accounts as provided in the Revenue Indenture; (ii) all right, title and interest of the County in and to the Revenues to the extent of Revenues as collected; (iii) all right, title and interest of the County now owned or hereafter acquired in and to proceeds from the sale of Toll Road Senior Lien Revenue Bonds or Parity Notes required to be deposited in the Construction Fund and all right, title and interest in and to the Investment Securities held in the Construction Fund; provided, however, that the County may establish one or more separate accounts in the Construction Fund to be funded with proceeds of any particular series of Toll Road Senior Lien Revenue Bonds or Parity Notes, which accounts and the proceeds of the particular series of Toll Road Senior Lien Revenue Bonds or Parity Notes deposited therein (together with all investments thereof and investment income earned thereon) may be pledged solely to the payment of one or more designated series of Toll Road Senior Lien Revenue Bonds or Parity Notes or portions thereof or any other Parity Obligations for any designated periods, or otherwise, all as permitted by the Revenue Indenture; (iv) to the extent permitted by law, all right, title and interest of the County now owned or hereafter acquired in and to the proceeds from the sale of Toll Road Senior Lien Revenue Bonds and investments thereof from time to time on deposit in the Construction Fund required to be maintained pursuant to the Tax Indenture; and (v) any and all property of every kind and nature (including, without limitation, cash, obligations, securities or proceeds of Parity Hedge Obligations) which may from time to time hereafter be assigned, hypothecated, endorsed, pledged, granted, or delivered to or deposited with the Trustee as additional security by the County or anyone on its behalf, or which pursuant to any of the provisions of the Revenue Indenture may come into the possession or control of the Trustee as security, or of a receiver lawfully appointed, under the Revenue Indenture, all of which the Trustee is authorized to receive, hold and apply according to the terms of the Revenue Indenture. A summary of the Revenue Indenture is included in APPENDIX B.

The term "***Revenues***" is defined in the Revenue Indenture to mean all amounts derived from the ownership or operation of the Project which constitute revenues in accordance with generally accepted accounting principles, including any amounts derived from the ownership or operation of any project or projects with which the Project may be pooled, plus any interest income earned on all Funds and Accounts established under the Revenue Indenture and the Tax Indenture, which is required to be transferred to or maintained in the Revenue Fund, the Debt Service Fund, or the Debt Service Reserve Fund, but specifically excluding interest income attributable to capitalized interest on Toll Road Senior Lien Revenue Bonds and Parity Notes. The Toll Road Senior Lien Revenue Bonds (including the Bonds) and the Parity Obligations are secured by and payable only from the Trust Estate and are not secured by or payable from a mortgage or deed of trust on any real, personal, or mixed properties constituting the Project.

The Toll Road Senior Lien Revenue Bonds (including the Bonds) and the Parity Obligations are special obligations of the County and do not constitute an indebtedness or general obligation of the County, the State or any political subdivision thereof within the meaning of any constitutional or statutory limitation of indebtedness, but shall be payable solely from and secured by a senior lien upon the Trust Estate. No Owner of any Toll Road Senior Lien Revenue Bonds or Parity Obligations shall ever have the right to demand payment of such Toll Road Senior Lien Revenue Bonds or Parity Obligations or any interest or premium thereon from the County, the State or any political subdivision thereof or from any funds raised or to be raised from ad valorem taxation.

TOLL COVENANT

Under the Revenue Indenture, the County has covenanted that it will at all times fix, charge and collect such tolls for use of the Project as will be required to produce Revenues that will equal at least 1.25 times the Aggregate Debt Service on all Toll Road Senior Lien Revenue Bonds (including the Bonds) and Parity Obligations accruing in such Fiscal Year.

The Revenue Indenture requires that, before the beginning of each Fiscal Year, the County must review the financial status of the Project in order to estimate and determine whether Revenues for the current Fiscal Year and for the following Fiscal Year will be sufficient to comply with the toll covenant. In connection with the preparation of the annual budget for each Fiscal Year, the County is also required to prepare and file with the Trustee a copy of its estimate of Revenues and Debt Service, together with a statement of pertinent estimates and assumptions, which must take into consideration the cost of completing any uncompleted portion of the Project and the issuance of future series of Toll Road Senior Lien Revenue Bonds or Parity Obligations, if necessary, to finance the completion. If the County, in adopting any annual budget, determines that Revenues may be inadequate to meet this toll covenant, or if the audited financial reports of the County show that the County did not satisfy such covenant for the prior Fiscal Year, the County promptly must engage Independent Traffic Engineers to make a study and recommend a schedule of tolls that (except as otherwise provided in the following paragraph) will provide sufficient Revenues in the following Fiscal Year to comply with the toll covenant and that will provide additional Revenues in such following Fiscal Year and later years in order to eliminate any deficiency at the earliest practicable time. The County will place the recommended schedule of tolls in effect no later than 90 days after the receipt of the recommendation from such Independent Traffic Engineers.

Failure to comply with the toll covenant described in the first paragraph of this subcaption above will not constitute an Event of Default if either (i) the County complies with the procedures described in the preceding paragraph or (ii) its Traffic Engineers are of the opinion that a toll schedule that will comply with the toll covenant described in the first paragraph of this subcaption above is impracticable at that time, and the County therefore cannot comply with the covenant described in the preceding paragraph, and the County establishes a schedule of tolls that is recommended by its Traffic Engineers to comply as nearly as practicable with the toll covenant described in the first paragraph of this subcaption above.

MAINTENANCE TAX COVENANT

As long as any Toll Road Senior Lien Revenue Bonds (including the Bonds) or Parity Obligations are Outstanding, the County must in each year levy, assess and collect an annual maintenance tax on all taxable property within the County (within the limits prescribed by law) fully sufficient in each such year (taking into account delinquencies and costs of collection) to provide maintenance tax revenues in an amount that shall be sufficient to (i) pay as they become due all Project Expenses for which there are insufficient available Revenues or (ii) produce maintenance tax revenues for the Project equal to the amounts budgeted for such purpose in such year by the County, whichever is greater. To date, the County has not had to levy an annual maintenance tax to satisfy such covenant. **Any such maintenance tax revenues are not part of the Trust Estate and may not be applied to the payment of debt service on the Toll Road Senior Lien Revenue Bonds (including the Bonds) or Parity Obligations.**

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Flow of Funds (Application of Revenues) Under Provisions of the Revenue Indenture

Revenues Derived From the Project

Debt Service Fund

1. (i) Pay any principal and interest to become due and payable on each series of Outstanding Toll Road Senior Lien Revenue Bonds and Parity Notes; and (ii) if provided in any Supplemental Indenture, any amounts required to be paid under any other Parity Obligation, including pursuant to Parity Credit Agreements and Parity Hedge Agreements. (See "TOLL ROAD FINANCIAL INFORMATION – FINANCIAL MANAGEMENT PRODUCTS" for a discussion of regularly scheduled payments (other than termination payments and collateral posting requirements) due under the Swap Agreements.)

Debt Service Reserve Fund

2. Deposit 1/60 of the Debt Service Reserve Fund Requirement or the amount needed, if any, to attain the Debt Service Reserve Fund Requirement of not less than the average annual Aggregate Debt Service nor more than the maximum Aggregate Debt Service on Toll Road Senior Lien Revenue Bonds or Parity Obligations.

Junior Lien Obligations

3. Pay all deposits, payments or transfers required by any indenture, resolution, order or other instrument creating or evidencing any Junior Lien Obligation at the time and manner provided in such instrument.

Project Expenses

4. Pay Project Expenses, to the extent not paid from other sources. See "TOLL ROAD FINANCIAL INFORMATION – FINANCIAL MANAGEMENT PRODUCTS" for a discussion of termination payments and collateral posting requirements as Project Expenses under the Swap Agreements.

Operating Reserve

5. Pay, out of money held in the Revenue Fund, the amount, if any, required to establish and maintain the Operating Reserve.

Renewal and Replacement Fund

6. Set aside, out of money in the Revenue Fund, the amount, if any, required by the County to be deposited into the Renewal and Replacement Fund.

Subordinate Indebtedness

7. Pay all deposits, payments or transfers required by any indenture, resolution, order or other instrument creating or evidencing any subordinate indebtedness that is not payable as a first or prior charge on Revenues.

Indenture Mobility Fund

8. Transfer to the Indenture Mobility Fund. See "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS – FLOW OF FUNDS – Other Funds." See also "THE TOLL ROAD PROJECT – OTHER COUNTY ROADS – Connectivity and Mobility Program."

Surplus Fund

9. Transfer any remaining money to the Surplus Fund. See "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS – FLOW OF FUNDS – Other Funds"

FLOW OF FUNDS

The Revenue Indenture requires that, except as specifically provided, all Revenues must be deposited into the Revenue Fund, as received. All money at any time in the Revenue Fund must be applied to make transfers to the following funds or to make payments for the following purposes in the following order of priority: (i) into the Debt Service Fund; (ii) into the Debt Service Reserve Fund; (iii) to any funds or accounts established in connection with any Junior Lien Obligations; (iv) for payment or provision for payment of Project Expenses, to the extent not paid from other sources; (v) to maintain the Operating Reserve; (vi) into the Renewal and Replacement Fund; (vii) for payment of subordinate indebtedness, including all then Outstanding Toll Road Tax Bonds; (viii) transfers to the Indenture Mobility Fund; and (ix) into the Surplus Fund. The Debt Service Fund and the Debt Service Reserve Fund are held by the Trustee, while all other Funds and Accounts are held by the County.

Debt Service Fund. The Revenue Indenture provides that there must be paid from the Revenue Fund into the Debt Service Fund on or before the last day of each month, amounts which, when added to other amounts in the Debt Service Fund, will provide for the accumulation, in substantially equal monthly installments, of the amounts required to pay the following: (i) any interest to become due and payable on each series of Outstanding Toll Road Senior Lien Revenue Bonds and Parity Notes on the next Interest Payment Date for such series; (ii) any Principal Installments to become due and payable on any series of Outstanding Toll Road Senior Lien Revenue Bonds and Parity Notes on or before the next date (within the next 12 months) on which such Principal Installment is payable; and (iii) any amounts required to be paid to any bank, securities dealer, financial institution or other party in connection with any series of Toll Road Senior Lien Revenue Bonds or Parity Notes for the payment thereof and amounts due under any other Parity Obligation, including pursuant to Parity Credit Agreements and Parity Hedge Agreements, and for any other services rendered in connection with remarketing, interest rate indexing, tender agent services or otherwise as may be provided in a Supplemental Indenture.

Debt Service Reserve Fund. The Revenue Indenture further requires the establishment of a Debt Service Reserve Fund for the Toll Road Senior Lien Revenue Bonds, including the Bonds and Parity Obligations, and the maintenance therein of amounts equal to the Debt Service Reserve Fund Requirement. If the Debt Service Reserve Fund contains less than the Debt Service Reserve Fund Requirement, on or before the last day of each month, there must be transferred into the Debt Service Reserve Fund, out of the Revenue Fund, an amount equal to $1/60^{th}$ of the Debt Service Reserve Fund Requirement or the amount needed to attain the Debt Service Reserve Fund Requirement, whichever is less, which transfers must continue each month until the Debt Service Reserve Fund contains the Debt Service Reserve Fund Requirement.

The County may satisfy all or any portion of its Debt Service Reserve Fund Requirement by purchasing a reserve fund surety policy, surety bond, letter of credit or other similar instrument from a financial institution having a long-term credit rating in one of the two highest generic rating categories from at least two nationally recognized rating agencies and having a credit rating or claims-paying ability such that it will not cause any nationally recognized rating agency that has an outstanding rating on the Toll Road Senior Lien Revenue Bonds to be withdrawn or lowered. To satisfy such Reserve Fund Requirement, the County previously allocated a portion of the proceeds of earlier bond issues and acquired a Reserve Fund Surety Policy issued by a surety provider. See "RESERVE FUND" and "APPENDIX H — DESCRIPTION OF RESERVE FUND SURETY POLICY."

Provision for Junior Lien Obligations. The Revenue Indenture permits the establishment of debt service funds, debt service reserve funds and any other funds and accounts required in connection with the issuance of Junior Lien Obligations and the deposit and transfer of Revenues into such funds and accounts after making all required deposits to the Debt Service Fund and Debt Service Reserve Fund, but prior to the payment of Project Expenses. The County has not issued Junior Lien Obligations.

Project Expenses. After the required payments, provisions for payment, deposits and transfers have been made to the Debt Service Fund, the Debt Service Reserve Fund, or funds and accounts required for Junior Lien Obligations, as described above, on or before the last day of each month, to the extent not paid from other sources, Project Expenses will be paid from the Revenue Fund. The County has covenanted to levy, assess and collect an annual maintenance tax (within the limits prescribed by law) sufficient to pay as they become due all Project Expenses for which there are insufficient available Revenues. See "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS – MAINTENANCE TAX COVENANT."

See “TOLL ROAD FINANCIAL INFORMATION – FINANCIAL MANAGEMENT PRODUCTS” for a discussion of termination payments and collateral posting requirements payable as Project Expenses under the Swap Agreements.

Other Funds. The Revenue Indenture requires the establishment and maintenance of certain other funds. The Operating Reserve, which must be kept in the Revenue Fund, must retain an amount of money equal to two months of Project Expenses, as set out in the County’s current annual budget for the Project. The County also must maintain a Renewal and Replacement Fund, to be held by the County, which must contain the amount, if any, required by the County from time to time. Money in the Renewal and Replacement Fund may be used for repairs, replacements, extensions, renewals, betterments, improvements, and reconstruction of the Project that are not Project Expenses, and for transfers to the Debt Service Fund and Debt Service Reserve Fund to maintain the required balances in such funds if no other funds are available for such purpose. The County is required to maintain an Indenture Mobility Fund, to be held by the County, for deposits, payments or transfers required by any indenture, resolution, order or other instrument creating or evidencing any indebtedness that is payable from amounts on deposit in the Indenture Mobility Fund, at the time and in the manner provided for in such instrument. In addition, the County may make discretionary transfers to the Indenture Mobility Fund. Amounts in the Indenture Mobility Fund may be used (i) to pay or finance the costs of the study, design, construction, maintenance, repair or operation of roads, streets, highways or other related facilities that are not part of the Project, (ii) for transfers to the Debt Service Fund and the Debt Service Reserve Fund, (iii) for transfers to any funds and accounts established in connection with the issuance of Junior Lien Obligations, (iv) for payment or provision for payment of subordinate indebtedness issued to pay or finance costs of the Project and that is not payable as a first or prior charge on Revenues, including any indebtedness to be paid pursuant to the Tax Indenture, and (v) for transfers to any one or more of the Construction Fund, the Revenue Fund and the Renewal and Replacement Fund. The Revenue Indenture also requires the County to maintain a Surplus Fund, into which moneys will be transferred from the Revenue Fund after all prior transfers and provisions for payment, including provisions for payment of the then Outstanding Toll Road Tax Bonds, have been made. Moneys in the Surplus Fund may be used for certain expenses related to the Project, for redemption of Toll Road Senior Lien Revenue Bonds or Toll Road Tax Bonds, for toll rate stabilization, and for any other purpose relating to any other powers or functions of the County authorized by law. There is, therefore, no assurance that any surplus Revenues produced in any future period will be retained by the County or be otherwise available to offset any deficit or shortfall in Revenues from operation of the Project in any future periods. See “– SUBORDINATE LIEN REVENUE BONDS AND BONDS FOR SPECIAL TOLL ROAD PROJECTS.”

In addition, under the terms of the Revenue Indenture, and in order to facilitate compliance by the County with the covenants contained therein regarding the exclusion from federal income taxation of the interest on the Bonds, the County reserves the right to request the Trustee to establish rebate accounts with respect to the Bonds to account for the excess arbitrage profits and interest thereon that must be accounted for, or rebated to the United States of America. See “TAX MATTERS.”

ADDITIONAL TOLL ROAD SENIOR LIEN REVENUE BONDS AND PARITY NOTES

One or more series of Toll Road Senior Lien Revenue Bonds or Parity Notes in addition to and on a parity with the Outstanding Toll Road Senior Lien Revenue Bonds and other Parity Obligations may be issued under the Revenue Indenture, provided that the following conditions and tests are satisfied:

(i) If such Toll Road Senior Lien Revenue Bonds or Parity Notes are being issued to complete a Project Segment, an Independent Traffic Engineer must certify that such series of Toll Road Senior Lien Revenue Bonds is required to be issued to finance Costs of the Project for which there are not funds otherwise available and such Costs of the Project must be incurred in order to complete the Project Segment or to make such improvements, replacements or major repairs thereto as are essential to the operational and structural integrity and safety thereof;

(ii) In the case of Toll Road Senior Lien Revenue Bonds or Parity Notes issued to refund any Toll Road Senior Lien Revenue Bonds or Parity Notes or to pay Debt Service incurred in connection with the Project, the County’s Financial Advisor must provide a certificate containing either (a) a calculation showing that the Aggregate Debt Service on all Toll Road Senior Lien Revenue Bonds, Parity Notes and other Parity Obligations that will be Outstanding after the issuance of such refunding will not increase the Aggregate Debt Service in any year that such Aggregate Debt Service would be scheduled to be payable without such refunding; or (b) a statement to the effect that the issuance of such refunding series of Toll Road Senior Lien Revenue Bonds or Parity Notes is necessary or is intended to cure or prevent an Event of Default; or (c) a calculation demonstrating that such refunding is necessary to refinance and amortize one or more Principal Installments or scheduled principal maturities that cause Aggregate Debt Service in the Fiscal Year in which they are payable to exceed the average annual Aggregate Debt Service by more than 20%; or

(iii) For all additional series of Toll Road Senior Lien Revenue Bonds or Parity Notes for which the requirements of (i) or (ii) above are not met, and as an alternative to those requirements, the following must be provided:

(a) An Accountant must certify that for any 12 consecutive months out of the 24 months preceding the month in which the order is adopted authorizing the issuance of the additional series of Toll Road Senior Lien Revenue Bonds or Parity Notes, the coverage of Aggregate Debt Service for such 12 months on all Toll Road Senior Lien Revenue Bonds, Parity Notes and other Parity Obligations Outstanding prior to the issuance of such additional series was either:

(1) at least 1.25 times by Net Revenues during such period, as adjusted for any toll increases placed in effect prior to the date the order is adopted authorizing the issuance of such additional series; or

(2) at least 1.50 times by Revenues during such period, as adjusted for any toll increases placed in effect prior to the date the order is adopted authorizing the issuance of such additional series; and

(b) An Independent Traffic Engineer must provide a certificate or report to the effect that for the five-year period ending with the fifth complete Fiscal Year following the date that the Project Segment to be financed with such additional series is to be placed in service, the estimates for each Fiscal Year during such period by such Independent Traffic Engineer of the Aggregate Debt Service on all Toll Road Senior Lien Revenue Bonds, Parity Notes and other Parity Obligations (including such additional series to be issued and any additional series estimated to be required by such Independent Traffic Engineer to finance the completion of the Project Segment to be financed with such additional series), together with estimates of Revenues or Net Revenues (based upon such assumptions as set forth in such certificate or report), and will cover the estimated Aggregate Debt Service in each of such five Fiscal Years by either:

(1) At least 1.25 times by Net Revenues during such period; or

(2) At least 1.50 times by Revenues during such period.

(c) In lieu of the certificate or report described in subsection (b) above, the County may alternatively provide an Accountant's certification to the effect that for any 12 consecutive months out of the 24 months preceding the month in which the order is adopted authorizing the issuance of such additional series, either the historical Revenues or historical Net Revenues during such period were sufficient to provide the applicable level of coverage of future Aggregate Debt Service on all Toll Road Senior Lien Revenue Bonds, Parity Notes and Parity Obligations (including the series then being issued and any additional series estimated to be required to complete any Project Segment being financed with such series).

ADDITIONAL PARITY OBLIGATIONS

In addition to providing for the issuance of and security for Toll Road Senior Lien Revenue Bonds, the Revenue Indenture provides that the County may issue or incur, on a parity with Toll Road Senior Lien Revenue Bonds, other "Parity Obligations" including (i) "Parity Notes" (pursuant to commercial paper programs or otherwise), (ii) reimbursement obligations with respect to "Parity Credit Agreements" acquired to enhance the security for any Toll Road Senior Lien Revenue Bonds or Parity Notes, and (iii) payment obligations pursuant to certain qualifying "Parity Hedge Agreements" (such as the Swap Agreements) with respect to the payment of Debt

Service on any Toll Road Senior Lien Revenue Bonds or Parity Notes. See "TOLL ROAD FINANCIAL INFORMATION – TOLL ROAD COMMERCIAL PAPER NOTES" and "– FINANCIAL MANAGEMENT PRODUCTS."

Generally, the issuance or incurrence of such Parity Obligations secured on a parity with Toll Road Senior Lien Revenue Bonds will be subject to the County's compliance with the same tests (including revenue coverage tests) that must be satisfied in connection with the issuance of additional Toll Road Senior Lien Revenue Bonds and Parity Notes (see "– ADDITIONAL TOLL ROAD SENIOR LIEN REVENUE BONDS AND PARITY NOTES," above), except that (i) for purposes of calculating Debt Service on Parity Obligations, in the case of the issuance of Parity Notes (including commercial paper notes), the principal amount thereof is deemed to be continuously refinanced under a program that will provide for approximately level amortization of debt service over a period of 30 years after the expiration of any period of time for which capitalized interest is provided, (ii) the County may combine payment obligations under Parity Hedge Agreements with interest due on those Toll Road Senior Lien Revenue Bonds or Parity Notes to which such Parity Hedge Agreements relate in order to obtain a combined Debt Service calculation (e.g., synthetic rate), (iii) future payments of interest or interest components that are variable, adjustable or not ascertainable at the time of calculation will be estimated in the same manner currently provided for Toll Road Senior Lien Revenue Bonds in the Revenue Indenture (See "APPENDIX A – GLOSSARY OF TERMS" – definition of "Debt Service") and (iv) once Parity Notes are initially authorized, they may be continually refunded and refinanced through the issuance of other Parity Notes or Toll Road Senior Lien Revenue Bonds without having to resatisfy such revenue coverage tests.

SUBORDINATE LIEN REVENUE BONDS AND BONDS FOR SPECIAL TOLL ROAD PROJECTS

In addition to the Toll Road Senior Lien Revenue Bonds, Parity Notes and Parity Obligations described above, the County reserves the right to issue, for any lawful purpose, bonds, notes or other obligations secured, in whole or in part, by liens on the Revenues that are junior and subordinate to the lien on Revenues securing payment of the Toll Road Senior Lien Revenue Bonds, Parity Notes and Parity Obligations. (Such bonds, notes or other obligations may be secured by liens on the Revenues that are senior to the lien on Revenues securing payment of the Toll Road Tax Bonds.) Under such authority, the County has further secured the Toll Road Tax Bonds by a lien on Net Revenues that is subordinate to the lien on Revenues of the Toll Road Senior Lien Revenue Bonds. See "– FLOW OF FUNDS" above. To the extent that Revenues are used to pay the Toll Road Tax Bonds or other amounts required under the Tax Indenture, or for any other authorized purpose, such Revenues will not be available to offset any deficit or shortfall that may occur in Revenues from operation of the Project in any future periods.

The County also reserves the right to issue revenue bonds secured by liens and pledges of revenues and proceeds derived from special toll road projects that are not a part of the Project. A toll road facility will be deemed not to be part of the Project if it is declared by the County not to be part of the Project, the costs of construction, acquisition and improvement are paid from proceeds of a financing transaction other than the issuance of bonds payable from Revenues of the Project, and all maintenance and operation expenses are payable from sources other than Revenues of the Project, but only to the extent that and for so long as all or any part of the revenues or proceeds of the toll road facility are or will be pledged to secure the payment or repayment of such costs of construction, acquisition and improvement under such financing transaction.

AMENDMENTS TO REVENUE INDENTURE

The Revenue Indenture may be amended from time to time in accordance with the terms thereof. The requirements of the Revenue Indenture for obtaining the consent of all or a portion of the Owners of the Bonds, Parity Notes and other Parity Obligations Outstanding to an amendment to the Revenue Indenture are set forth in "APPENDIX B – SUMMARY OF THE REVENUE INDENTURE – Amendments."

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THE COUNTY

ADMINISTRATION OF THE COUNTY

Harris County is a southeast Texas county and a major component of the Houston Primary Metropolitan Statistical Area. The County's population was estimated to be 4.6 million as of July 1, 2016, according to the Bureau of the Census estimates, Harris County Appraisal District data and historical trends.

The Commissioners Court is the governing body of the County. It has certain powers expressly granted to it by the Texas Legislature (the "Legislature") and powers necessarily implied from such grant. Its duties include approval of the County budget, determination of County tax rates, approval of contracts in the name of the County, calling elections, issuance of bonds and appointments of certain County officials.

The County Judge, Ed Emmett, is the presiding officer of the Commissioners Court. The County Judge is elected county-wide by the voters to a four-year term of office.

The County Commissioners are Rodney Ellis, Jack Morman, Steve Radack and R. Jack Cagle. Each County Commissioner represents one of the four precincts into which the County is divided and is elected by the voters of the applicable precinct to a four-year term of office.

The County Treasurer, Orlando Sanchez, is an elected official of the County and the chief custodian of County funds, which duties include the receipt of all monies belonging to the County from whatever source they may be derived, the deposit of such funds in a designated depository, and the payment and application or disbursement of such funds, in such manner as the Commissioners Court may require or direct not inconsistent with law.

The County Assessor-Collector and Voter Registrar, Ann Harris Bennett, is an elected official of the County responsible for assessing and collecting ad valorem taxes and processing voter registration in the County.

The County Clerk, Stan Stanart, is an elected official of the County and serves as Ex-Officio Clerk of the Commissioners Court.

The County Attorney, Vince Ryan, an elected official of the County, advises and represents the County and its officers and employees in connection with legal matters.

The County Auditor, Michael Post, CPA, has oversight responsibility for the financial books and records of the County and its officials. The duties of the County Auditor include prescribing accounting procedures, preparing statutorily required financial reports, budgetary oversight, and performing financial and compliance audits. The County Auditor is appointed for a two-year term by the State District Judges of the County.

The County Budget Officer, William J. Jackson, is appointed by Commissioners Court and is responsible for preparing proposed annual budgets and has responsibility for both the County's investments and debt management.

HARRIS COUNTY TOLL ROAD AUTHORITY

GENERAL

The Harris County Toll Road Authority (the "***Authority***" or "***HCTRA***") was established pursuant to Chapter 284, Texas Transportation Code, as amended, by an order adopted by the Commissioners Court in September 1983. The Authority currently operates as a department of the County. Through its operating board, which is composed of the members of the Commissioners Court, the Authority may exercise, with regard to the County's toll road projects, the same power and authority as may be exercised by the Commissioners Court. Such powers include eminent domain, subject to such limitations and restrictions as are from time to time prescribed by the Commissioners Court. The Authority exists for the purpose of implementing the County's toll road projects, the various components of which comprise the Harris County Toll Road System. The Authority generally does not have responsibilities with respect to other road projects of the County, except for road projects undertaken in connection with the County's mobility and connectivity program and other non-tolled projects to the extent permitted by the Indentures and applicable State law, as Commissioners Court may determine. The Authority coordinates with other County departments, as well as outside entities, such as cities, other counties, TxDOT and METRO.

PROJECT OPERATIONS AND MANAGEMENT

The Authority is organized into multiple operating units, all of which report directly to the Executive Director, as follows: (i) Infrastructure Support; (ii) Engineering; (iii) Customer Service; (iv) Administrative Services and Toll Operations; (v) Finance; (vi) Communications; (vii) Maintenance; and (viii) Human Resources. The Authority is also provided administrative support from the County Attorney's Office for legal matters, and other support services from the County for law enforcement and traffic incident management services. The Authority currently has approximately 1,100 employees, roughly 800 of which are full-time employees. The Authority is accounted for as an Enterprise Fund of the County and relies on charges from users of the toll road system to fund operations and maintenance, debt service, capital repairs and future projects. The Authority is organized under its Executive Director, Gary K. Trietsch, P.E., who oversees the operation and management of the various operating units described above.

THE TOLL ROAD PROJECT

GENERAL

The existing network of free highways, roads and streets in the County and the greater Houston area is extensive. Nevertheless, many major thoroughfares in the area carry traffic in excess of their design capacities during commuting hours. In an election held on September 13, 1983, the voters of the County endorsed using toll roads in an effort to alleviate the County's traffic problems by authorizing the County to issue up to $900,000,000 of bonds secured by a pledge of its unlimited ad valorem taxing power. Following the bond election, the Commissioners Court created the Authority, which currently operates as a department of the County.

The existing Hardy Toll Road and the Sam Houston Tollway-West, the first two components of the Project, were completed in their entirety in 1988 and 1990, respectively. Subsequently, in May 1994, the County purchased the Jesse H. Jones Memorial Bridge toll facility, which was renamed the Sam Houston Ship Channel Bridge, and the portion of Beltway 8 approaching and spanning the Houston Ship Channel (together, the "***Ship Channel Bridge***") from the Texas Turnpike Authority (the "***TTA***"). As a part of the County's purchase of the Ship Channel Bridge, the County reached agreements with TxDOT for contributions of federal funds for construction of Sam Houston Tollway-East and Sam Houston Tollway-South and state funds for interchange construction and right-of-way for construction of the Project. Proceeds of Toll Road Bonds, together with federal and state financial participation, were used in the development of Sam Houston Tollway-East and Sam Houston Tollway-South. To comply with the requirements of federal funding, the County, the State and the Federal Highway Administration ("***FHWA***") entered into an agreement in 1994 (the "***1994 Tri-Party Agreement***"). In the 1994 Tri-Party Agreement, the County agreed, among other things, to use toll revenues derived from the Sam Houston Tollway-East and Sam Houston Tollway-South segments of the Project (i) first, for debt service, (ii) then, for a reasonable return on investment of any private person financing the Project, and (iii) finally, for the costs of operating and maintaining the Project. The 1994 Tri-Party Agreement provides that toll revenues from such segments shall be applied as provided in the Indentures, and that revenues deposited into the Surplus Fund from such segments pursuant to the Indentures may be used by the County for any other purpose as permitted by the Indentures, subject to certain restrictions on the use of such revenues for purposes for which federal funds may be obligated.

The Indentures permit the County to acquire and construct other portions of the Project, including all or any portion of Beltway 8 (which encircles a major portion of the Houston area of which the Sam Houston Tollway is a part) and to make improvements, extensions and betterments to the Project. In addition, the Indentures allow the County to pool the Project, in whole or in part, with one or more other projects or systems and to issue additional Toll Road Tax Bonds (defined herein) or Toll Road Senior Lien Revenue Bonds (defined herein), as well as commercial paper notes, for all such purposes.

POOLING AND PAST PRIORITIZATION OF PROJECTS

In September 2001, the Commissioners Court adopted a resolution that pooled certain projects with the Beltway 8 and Hardy Toll Road components of the Project.

In June 2005, in connection with its consideration of the capital improvement program for the Authority, the County undertook an analysis that resulted in a reevaluation and prioritization of the future development of the toll road system. This reevaluation resulted in a prioritized list of six projects selected from the projects included in the September 2001 pooling resolution: (1) Beltway 8 Tollway East (between US 59 North and US 90 East) (this project is also commonly referred to as the Sam Houston Tollway-North/East project); (2) the Hardy Downtown Connector; (3) the US 290 Toll Lanes (from IH 610 West to then proposed SH 99, or the Grand Parkway); (4) State Highway 288 (between US 59 and Grand Parkway) ("***SH 288***"); (5) Fairmont Parkway East; and (6) the South Post Oak Road Extension. The prioritized list also included a portion of the proposed Grand Parkway project. The reevaluation in June 2005 recognized that as of that time the County had undertaken two components identified in the September 2001 pooling resolution (the IH 10 West Toll Lanes and the Westpark Tollway) and that the Fort Bend County Toll Road Authority had undertaken two other components (the Fort Bend Parkway Tollway and the Fort Bend Westpark Tollway). The reevaluation also resulted in a decision that the County would not pursue three other components identified in the pooling resolution (the State Highway 87 Toll Bridge, proposed thoroughfares across Barker Reservoir and the Southern Pacific Rail Corridor), and the County subsequently determined that it would no longer pursue the Fairmont Parkway East project.

Out of the 2005 prioritized list of projects, the County has financed and developed the Sam Houston Tollway-North/East project, which opened in February 2011 and completed the Beltway 8 loop, and continues to work on development and financing plans for the Hardy Downtown Connector. However, as discussed in more detail below, following a change in State law that resulted in the County's being granted "local primacy" (i.e., a statutory first option right) on all toll projects within its boundaries and subsequent negotiations with TxDOT, the County rescinded primacy on the US 290 Toll Lanes, the SH 288 toll project and the portions of the Grand Parkway located in Harris County. See "—Memorandum of Understanding with TxDOT and Subsequent Actions and Proposals." The rescinding of primacy on those toll projects has allowed TxDOT to move forward with plans for the financing and development of the projects separate and apart from the County's toll road system, and it permitted the County to evaluate the viability of certain other projects listed in the September 2001 pooling resolution, but not included in the 2005 prioritized list of projects, including the Northwest Corridor Tollway. As an alternative to the Northwest Corridor Tollway, the County moved forward with plans to finance and develop the Tomball Tollway in northwest Harris County. Phase I of the Tomball Tollway opened in April 2015 and construction of Phase II began in early 2017. See "- Tomball Tollway."

LOCAL PRIMACY

In 2007, during the 80th Regular Session, the Legislature passed Senate Bill 792 ("***SB 792***"), which modified the Texas Transportation Code to include a framework for cooperation between local toll entities and TxDOT with regard to the future development and financing of toll roads and other transportation projects, including provisions relating to access to and use of state highway right-of-way by local toll entities. This framework is sometimes referred to as "local primacy." During the 82nd Regular Session, which concluded on May 30, 2011, the Legislature adopted Senate Bill 19 ("***SB 19***"), which streamlined the primacy process in SB 792 and codified the new process in Chapter 373, Texas Transportation Code.

Under the local primacy framework, local toll entities, such as the Authority, have a statutory first option right to develop toll projects in their respective boundaries. Local toll entities also have the right to use State right-of-way and access the State highway system, with a cap on payments to TxDOT for such use based on the historic acquisition value of the right-of-way.

In connection with the local primacy legislation, the County was provided with a number of other powers to develop toll roads, free roads and other transportation projects. The County has the authority to enter into public-private partnership agreements – referred to under Texas law as comprehensive development agreements ("***CDAs***"). Harris County also has the same powers as a regional mobility authority, if the County affirmatively determines to use such powers and, subject to toll road bond covenants, the County may use surplus revenues of its toll road system for free roads.

STATUS OF THE GRAND PARKWAY PROJECT

Description of the Grand Parkway Project. The Grand Parkway project is a circumferential, scenic highway of approximately 180 miles. The entire project is being constructed as 11 segments traversing seven counties (Harris, Fort Bend, Brazoria, Galveston, Montgomery, Liberty and Chambers Counties) and encircling the greater Houston region. Approximately 24% of the proposed lane miles of the project are located in Harris County, consisting largely of Segments E, F-1, F-2 and G. The remainder of the proposed Grand Parkway is located in one or more of the adjacent counties.

Harris County and the adjacent counties participated in an evaluation of the Grand Parkway in 2008 and 2009. The counties, TxDOT and the Houston-Galveston Area Council agreed to business terms for the development of the Grand Parkway project. The business terms consist of an agreed-upon project scope, as well as an initial toll rate and a toll rate escalation methodology that is consistent with the County's tolling practices and procedures. In March 2009, the business terms were incorporated into an agreement among the counties and TxDOT that governs the development of the Grand Parkway project. The agreement requires that the Grand Parkway be developed as a "single project" with surplus revenues, if any, from toll viable segments expected to be used to assist the development of the remaining segments. The agreement further requires that the Grand Parkway be operated independently of any other project or system.

Under the local primacy legislation, each county had first option development rights for the portion of the Grand Parkway located within its respective boundaries. On January 11, 2011, pursuant to action of its Commissioners Court, Harris County rescinded its primacy development rights for the portions of the Grand Parkway located in Harris County, including Segments E, F-1, F-2 and G. Commissioners Court took action confirming its decision to rescind primacy on June 21, 2011. As a result of this action, development rights for those segments of the project transferred to TxDOT.

Financing and Development Plans for the Grand Parkway Project. TxDOT has created a surface transportation corporation under Chapter 431, Transportation Code, as amended ("***Chapter 431***"), for the purpose of financing and developing various segments of the Grand Parkway. TxDOT has completed construction of Segments E, F-1 and F-2 in Harris County, Segment G in Harris County and Montgomery County and Segment I-2 in Chambers County. These segments are currently open to traffic. TxDOT is in the process of developing Segments H and I-1 in Montgomery County, Harris County, Liberty County and Chambers County.

Fort Bend County created a local government corporation under Chapter 431 for the purpose of financing and developing Segments C and D. Segment D is now complete and open to traffic.

Plans for the financing and development of the remaining segments A, B, and C of the Grand Parkway project have not yet been determined.

The Grand Parkway is not part of the Project and is independent of the County's toll road system.

MEMORANDUM OF UNDERSTANDING WITH TXDOT AND SUBSEQUENT ACTIONS AND PROPOSALS

In April 2012, the County approved a memorandum of understanding with TxDOT (the "***MOU***") that contains a general outline for the development, funding, construction, operation and maintenance of certain transportation projects within the County, including the reconstruction of the US 290 corridor, the development of toll lanes within right-of-way of the existing SH 288 corridor and the operation of tolled segments of the Grand Parkway. The County's responsibilities were further clarified in subsequent actions and proposals with TxDOT, including a proposal with respect to the ownership and operation of the Katy Managed Lanes, discussed below. Below is a summary of the terms of the MOU and the current status of the subsequent agreements and actions.

US 290/Katy Managed Lanes. The MOU specified that Harris County would provide $400 million toward TxDOT's reconstruction of US 290 from IH 610 to SH 99 and that the County would waive its primacy development rights for and decline to develop a toll facility along the Hempstead corridor of US 290. As initially contemplated, the reconstruction would include building a two to three lane reversible managed lane facility to accommodate both High Occupancy Vehicle ("***HOV***") and toll traffic, as well as adding one general purpose lane in each direction. The MOU further provided that the County would operate and maintain the managed lanes facility and TxDOT would maintain the remainder of the US 290 facility. Harris County would retain all toll revenues for use on projects at the County's discretion.

In August 2014, TxDOT and Harris County agreed to remove the managed lanes component and to reallocate responsibilities and resources for the US 290 reconstruction program. The County's commitment toward the US 290 project was reduced from $400 million to $155 million, which was paid in multiple installments in 2014 and 2015. The project scope for the US 290 reconstruction program was reduced to reflect the removal of the proposed reversible managed lanes component, and $45 million originally committed by the County to the US 290 project was reallocated to the SH 249 corridor to pay certain costs of the State for construction of frontage road and watershed improvements. See "– Tomball Tollway." Similar to the funding the County committed toward the IH 10/Katy corridor reconstruction program in 2003, the installments for the US 290 project were funded with revenues from the County's toll road system. With the removal of the managed lanes component, there is no longer a revenue generating component of the project and the County has no further obligation or responsibility for the development, construction, installation, or operation of a toll facility in connection with the US 290 project. The County further waived its primacy rights for development of toll facilities in the US 290 and Hempstead Highway corridors. In connection with the renegotiation of the County's commitment toward the US 290 project, the County and TxDOT agreed to negotiate, subject to certain legal requirements, including those specified in the Indentures, the potential transfer of ownership and/or responsibility for operation, maintenance and enforcement of the Katy Managed Lanes to the State. Negotiations on a definitive agreement with respect to the Katy Managed Lanes project occurred throughout 2015 and 2016, with the parties approving amendments to the terms governing the US 290 commitment with various target deadlines for completion of the proposed Katy Managed Lanes transaction, all of which have elapsed, as noted below. If a transfer of ownership were to occur while bonds on the project remain outstanding, prior to any transfer being effective, TxDOT and the County would need to satisfy certain legal requirements, including an adoption by the County of a finding that the transfer is in the best interests of the Project and will not be materially adverse to the rights of the Owners of the Bonds, Parity Notes or other Parity Obligations. As an alternative to a transfer of ownership, the County and TxDOT have discussed joint-ownership possibilities with the County agreeing to provide operation, maintenance and enforcement services for the Katy Managed Lanes and associated Diamond Lanes. To date, however, the parties have been unable to reach a definitive agreement and the various target deadlines for a transaction have all elapsed.

State Highway 288. As specified in the MOU, Harris County agreed to waive its primacy development rights for and declined to develop a toll facility along the SH 288 corridor between US 59 and a logical terminus at or near the Brazoria County line, for a distance of approximately 10 miles. In September 2012, the County formally waived its primacy development rights for the SH 288 toll facility in Harris County. After the County's waiver of primacy, TxDOT initiated a procurement process for the financing and development of the SH 288 toll facility and eventually awarded the project to, and entered into a long-term concession agreement with, the Blueridge Transportation Group, LLC ("***BTG***"), which was created by a consortium of development partners for the sole purpose of financing and developing the project. The financial close for the transaction occurred in May 2016, and the project is currently under construction. It is expected to open as a toll facility in mid-2019. Harris County and BTG are currently discussing terms under which the County would provide tolling services for the BTG portion of the SH 288 toll facility. An additional segment of the SH 288 toll facility, known as the Brazoria Expressway, is being financed and constructed by Brazoria County, and will continue south into Brazoria County for approximately 5 miles. It is expected to open at the same time as the BTG portion of the SH 288 toll facility. Harris County and Brazoria County have entered into a tolling services agreement pursuant to which Harris County will provide tolling services on the Brazoria Expressway. **The BTG portion of the SH 288 toll facility in Harris County and the Brazoria Expressway in Brazoria County are not part of, and are independent from, Harris County's toll road system**.

Grand Parkway. In the MOU, the County agreed, subject to a fee mutually agreeable between the County and TxDOT, to provide tolling services for TxDOT on all tolled segments of the Grand Parkway being constructed by TxDOT. The County and TxDOT are currently discussing terms under which the County would provide tolling services for the TxDOT portions of the Grand Parkway, although the scope of services and the compensation terms of the tolling services agreement have not been determined and are subject to negotiation between the parties.

FEASIBILITY STUDIES

From time to time, Harris County will commission the preparation of traffic and revenue studies for the Project, future components of the Project and possible non-system toll projects. Such studies may be used to evaluate alternative rate structures and pricing strategies to enhance revenue and assist with the management of traffic demand. Such studies may also be used as management tools to assist the County in prioritizing the development of projects. The County may post completed traffic and revenue studies on the EMMA website of the Municipal Securities Rulemaking Board. The most recent system-wide study, dated July 2017, was posted on EMMA in October 2017.

FUTURE COMPONENT FACILITIES

Development plans for future component facilities include replacement of the Ship Channel Bridge and construction of Phase II of the Tomball Tollway, both discussed in more detail below. See also, "– Hardy Toll Road" and "– Sam Houston Tollway" for discussions about planned improvements or extensions to certain existing components of the County's toll road system.

HARDY TOLL ROAD

General. The Hardy Toll Road extends northward from Spur 548, a 1.2 mile highway segment connecting the toll road and IH 610 (the inner "loop" surrounding Houston's central business district), along an alignment generally adjacent and parallel to Hardy Road, to a northern terminus with IH 45 near the Harris-Montgomery county line, a distance of 21.7 miles. The southern end of the Hardy Toll Road is approximately five miles north of downtown Houston. Downtown Houston is accessible from the Hardy Toll Road by way of IH 610 to or from IH 45 or US 59 (Eastex Freeway), by way of surface streets or, in the future, by way of the Downtown Connector (as described below). The Hardy Toll Road passes west of the Houston Intercontinental Airport, which is accessible by means of the Airport Connector. Completed in January 2000, the Airport Connector provides a direct link to John F. Kennedy Boulevard and the George Bush Intercontinental Airport. In September 2013, the City of Houston and the County agreed for the County to share 24.5% of all toll revenue collected on the Airport Connector with the City of Houston, in recognition of the City's financial contribution towards the construction of this facility. Alternative free travel choices to the airport are US 59/IH 69-North and IH 45-North.

The northern section of the Hardy Toll Road ("***Hardy Toll Road-North Section***"), which has four lanes, from the Grand Parkway to IH 45, and six lanes, from Beltway 8-North to the Grand Parkway, extends 13.3 miles and opened in September 1987. The southern section of the Hardy Toll Road ("Hardy Toll Road-South Section"), which has six lanes, extends 8.4 miles from IH 610 to Beltway 8-North and opened in June 1988. There are multiple access points along the Hardy Toll Road, which provide either ingress to or egress from the toll road or, in some instances, both ingress and egress.

Widening and Conversion to All-ETC. In 2016, the Authority constructed an additional lane of the Hardy Toll Road in each direction from FM 1960 to the Grand Parkway and converted the Hardy Toll Road to an entirely automated, or "All-ETC", toll facility requiring an EZ TAG, or a transponder issued by another tolling entity within the State, for proper passage. See " – Integrated Toll Collection System."

Planned Expansion - Hardy Downtown Connector. The Authority has studied and is currently designing a connection from the southern terminus of the Hardy Toll Road to the central business district of the City of Houston. This project is referred to as the Hardy Downtown Connector. Construction of the Collingsworth bridge, the first phase of the overall project's construction, began in late 2016. Construction of the Hardy Downtown Connector's mainlanes is scheduled to begin in late 2019, at a total estimated cost for development of $400 million.

SAM HOUSTON TOLLWAY

General. The Sam Houston Tollway is located in the right-of-way of Beltway 8. Overall, the Sam Houston Tollway extends west from IH 45 North to US 59 North for a distance of approximately 71 miles in length. The Sam Houston Tollway was constructed and opened or acquired in several sections and currently consists of the components described below.

Sam Houston Tollway-West/North. The Sam Houston Tollway-West/North extends for an approximate distance of 12 miles. This section opened in July 1990, has eight mainlanes, and extends from approximately US 290, north and east to the vicinity of IH 45 at Beltway 8-North near Greenspoint, a major commercial retail and office development. Access to Houston Intercontinental Airport is located adjacent to this section.

Sam Houston Tollway-West/Central. The Sam Houston Tollway-West/Central extends for an approximate distance of 6 miles. This section opened in June 1989, has eight mainlanes, and extends from approximately IH 10, north to US 290.

Sam Houston Tollway-West/South. The Sam Houston Tollway-West/South extends for an approximate distance of 8 miles. This section opened in June 1988, has eight mainlanes, and extends from its southern interchange with US 59 (Southwest Freeway), north to IH 10.

Sam Houston Tollway-South/West. The Sam Houston Tollway-South/West extends for an approximate distance of 11 miles. This section opened in May 1997, has eight mainlanes, and extends from approximately US 59 (Southwest Freeway), east to SH 288.

Sam Houston Tollway-South/East. The Sam Houston Tollway-South/East extends for an approximate distance of 10 miles and is currently under reconstruction. When reconstruction is complete, scheduled for mid-2019, this section will have four mainlanes in each direction, for a total of eight mainlanes, between SH 288 and IH 45 (Gulf Freeway). This project has a current estimated total cost of $200 million.

Sam Houston Tollway-East. The Sam Houston Tollway-East extends for an approximate distance of 7.8 miles and began reconstruction in mid-2017. When reconstruction is complete, scheduled for mid-2021, this section will have four mainlanes in each direction, for a total of eight mainlanes, between IH 45 and SH 225. This project has a current estimated total cost of $275 million.

Sam Houston Ship Channel Bridge. The Sam Houston Ship Channel Bridge opened in May 1982. The Ship Channel Bridge is located approximately seven miles east of IH 610 and on the route of Beltway 8, approximately 12 miles east of Houston's central business district. It crosses the Houston Ship Channel (the "***Ship Channel***") to connect IH 10 with SH 225, a distance of approximately 3 miles, including the current bridge structure of approximately 10,450 feet. The Ship Channel Bridge provides two traffic lanes in each direction and includes approaches, interchanges, toll plazas, equipment, buildings and other facilities. From its southern terminus at an interchange with SH 225, the Ship Channel Bridge extends northward, crossing over the Southern Pacific and Port Terminal Railroad tracks and Tenneco Road. It then rises over the Ship Channel and returns to near grade on the north side of the Ship Channel, where toll collection facilities are located. The Ship Channel Bridge continues in a northerly direction, crossing over the Missouri Pacific Railroad and Jacintoport Boulevard to its northern terminus, an interchange connection with IH 10. The main channel unit of the Ship Channel Bridge is of the concrete box girder design which provides for three spans of 375 feet, 750 feet and 375 feet. The Ship Channel Bridge, which forms a link in the eastern section of Beltway 8, was constructed to alleviate traffic congestion in the highly industrialized petrochemical complex along the Ship Channel. It serves both industrial and commuter traffic moving between the areas of South Houston, Deer Park and Pasadena on the south and Galena Park, Jacinto City and unincorporated areas of the County on the north.

In January 2016, the Ship Channel Bridge was converted to an All-ETC toll facility. See "—Integrated Toll Collection System."

In February 2013, the Authority was authorized by Commissioners Court to begin the planning and development process for a new bridge crossing adjacent to the current bridge. In March 2015, a project schematic for the new bridge was approved by Commissioners Court, which set the project alignment and authorized the final design of the project to proceed. The current estimated total project cost is $962 million. During the construction phase of the project, estimated to begin in early-2018, at least two travel lanes in each direction across the Ship Channel will be maintained. When this project is complete and fully open to traffic in 2024, two new bridge spans will replace the existing bridge. Each bridge span will include four 12-foot traffic lanes, with 10-foot inside and outside safety shoulders, for a combined total of eight traffic lanes across the Ship Channel, and all bridge support columns will reside outside of the Ship Channel's navigable waterway. A portion of the proceeds of the Bonds will be used to pay for costs relating to the new Ship Channel Bridge project. See "PLAN OF FINANCING."

Sam Houston Tollway-North/East. The Sam Houston Tollway North/East extends for an approximate distance of 13 miles. This section opened in February 2011, has six mainlanes, and extends from approximately US 90A, north to Old Humble Road. This section is an All-ETC roadway, requiring an EZ TAG, or a transponder issued by another tolling entity within the State, for proper passage.

WESTPARK TOLLWAY

The Westpark Tollway is a four-lane, All-ETC toll road that extends from IH 610 West to the Harris County Line for a distance of approximately 13 miles. The project opened in two phases, with the first phase opening in 2004 and the second phase opening in 2005. An additional segment of toll facilities, known as the Fort Bend Westpark Tollway, continues west into Fort Bend County for approximately 6 miles. **This 6-mile segment in Fort Bend County is not part of, and is independent from, Harris County's toll road system**.

FORT BEND PARKWAY EXTENSION (SPUR 90A)

The Fort Bend Parkway Extension extends for an approximate distance of 2 miles. This tollway opened in March 2005, has four mainlanes, and extends from approximately the Sam Houston Tollway-South/West, north to Spur 90A. This component segment was converted to an All-ETC toll facility requiring an EZ TAG, or a transponder issued by another tolling entity within the State, for proper passage. See " – Integrated Toll Collection System." An additional segment of toll facilities, known as the Fort Bend Parkway, continues south into Fort Bend County for approximately 8 miles. **This 8-mile segment in Fort Bend County is not part of, and is independent from, Harris County's toll road system**.

KATY MANAGED LANES

General. The Katy Managed Lanes are located in the IH 10 West right-of-way between IH 610 West and SH 6 for a distance of approximately 12 miles. The Katy Managed Lanes combine several transportation options – High Occupancy Vehicle (HOV) lanes, mass transit and tolled lanes. During HOV hours, drivers pass through designated lanes based on the occupancy of their vehicle. For all other vehicles and at all other times, an EZ TAG is required to use this all-electronic toll system. Toll rates for these lanes are based on "time of day" pricing and occupancy of a vehicle. The project was opened as a HOV lane in October 2008 and operation of the toll lanes began in April 2009.

2003 Tri-Party Agreement. The County entered into a tri-party agreement in March 2003 with TxDOT and the FHWA that provided for the joint funding and development of the Katy Managed Lanes and related corridor improvements (the "***2003 Tri-Party Agreement***"). The agreement contained a commitment of up to $250 million of Authority funds for the development of the project. From this commitment, the Authority paid $237.5 million to TxDOT for project development costs and incurred an additional $12.5 million in design costs and costs relating to the installation of the tolling facilities for the Katy Managed Lanes. This toll facility is currently operated and maintained by the Authority. For additional discussion about the Katy Managed Lanes, see "– Memorandum of Understanding with TxDOT and Subsequent Agreements and Actions."

TOMBALL TOLLWAY

The Tomball Tollway project is a six-lane, All-ETC toll road within the State Highway 249 corridor, and currently extends from Spring-Cypress Road to north of FM 2920, on the northwest side of Harris County, for a distance of over 6 miles. This project opened to traffic in April 2015, with an estimated total project cost of $155 million, which was funded with a combination of bond proceeds and accumulated system revenues. Certain costs of the State relating to frontage road and watershed improvements were funded with money originally committed by the County to costs of the US 290 reconstruction project that were reallocated to the SH 249 corridor in connection with the renegotiation of the MOU by the County and TxDOT described in "– Memorandum of Understanding with TxDOT and Subsequent Agreements and Actions". The Authority is currently constructing Phase II of the Tomball Tollway, which will be an extension from the current northern terminus at FM 2920 to Spring Creek (Harris-Montgomery county line) for a distance of approximately 2 miles. When construction is complete, scheduled for late-2019/early-2020, this section of the Tomball Tollway will have three mainlanes in each direction, for a total of six mainlanes, and will operate as an All-ETC toll road. This project has a current estimated total cost of $200 million.

SYSTEM-WIDE IMPROVEMENTS

Capital maintenance, safety, and efficiency improvements have been planned to accommodate increased traffic on the system. The Authority expects to spend approximately $44.5 million in Fiscal Year 2018 on such improvements, which will include adding additional entrance and exit lanes, drainage improvements, and traffic safety improvements at toll plazas.

PROJECT COOPERATION WITH STATE AND LOCAL GOVERNMENTS

From time to time, the County may enter into arrangements with other governmental entities to provide for funding or joint participation in the development of projects that are part of, connect to, or otherwise relate to the usage or operation of the toll road system. The County's interest in facilities undertaken in conjunction with other governmental entities may result in the County being entitled to only portions or none of the revenues of such facilities. For a discussion of the County's contribution of funding to TxDOT's US 290 project, see "—Memorandum of Understanding with TxDOT and Subsequent Actions and Proposals."

MAINTENANCE OF FACILITIES

As required by the Indenture, the Authority annually engages independent consulting engineers to inspect the Project in order to prepare reports making recommendations with respect to the maintenance, repair and operation of the Project. The Authority files copies of such reports with the Trustee and undertakes to implement the recommendations of such reports.

MONTGOMERY COUNTY

In March 2015, Harris County approved a tolling services agreement with the Montgomery County Toll Road Authority for the Authority to provide tolling services for a fee for tolled entrance and exit ramps between IH 45 and SH 242 in Montgomery County. These tolled ramps became operational for tolling in July 2015. In 2019, the Montgomery County Toll Road Authority is projected to begin construction on a portion of the Tomball Tollway in Montgomery County that will connect to the Authority's Phase II construction, all within the State Highway 249 corridor, from Spring Creek (Harris–Montgomery county line) to approximately one mile south of the intersection of SH 249 and FM 1774, for a total of approximately 3.2 miles. When construction is complete, scheduled for late-2019, this section of the Tomball Tollway in Montgomery County will have two mainlanes in each direction, for a total of four mainlanes, and will operate as an All-ETC toll road. This project has a current estimated total cost of $80 million. Once operational, it is possible that the Authority will provide tolling services for this section of the Tomball Tollway in Montgomery County for a fee. **The Montgomery County toll projects are not part of, and are independent from, Harris County's toll road system.**

BRAZORIA COUNTY

In June, 2017, Harris County approved a tolling services agreement with Brazoria County for the Authority to provide tolling services for a fee for the southern segment of the SH 288 toll facility, known as the Brazoria Expressway. The Brazoria Expressway is being financed and constructed by Brazoria County and the Brazoria County Toll Road Authority. This segment will continue south into Brazoria County from the terminus of the BTG portion of the SH 288 toll facility in Harris County, for approximately 5 miles. It is expected to open at the same time as the BTG portion of the SH 288 toll facility, in mid-2019. **The Brazoria Expressway in Brazoria County is not part of, and is independent from, Harris County's toll road system.**

FORT BEND COUNTY

Fort Bend County owns and operates two separate toll road systems, the Fort Bend County Toll Road System, which includes the Fort Bend Parkway and the Fort Bend Westpark Tollway, and the Fort Bend County Grand Parkway System, which includes Segment D of the Grand Parkway. Harris County does not provide tolling services to Fort Bend County for any such toll facilities. **The Fort Bend County toll facilities are not part of, and are independent from, Harris County's toll road system.**

SCHEDULE OF PROJECT COMPONENTS AND SEGMENTS

The Project has been opened or acquired in multiple components and segments, as follows:

Component/Segment	Date Initially Opened/Acquired	Approximate Lane Miles	Approximate Center-Line Miles
Hardy Toll Road-North	September 1987	75	13
Hardy Toll Road-South	June 1988	49	8
Hardy Toll Road-Airport Connector	January 2000	11	3
Sam Houston Tollway-West/North	July 1990	99	12
Sam Houston Tollway-West/Central	June 1989	58	6
Sam Houston Tollway-West/South	June 1988	66	8
Sam Houston Tollway-South/West	May 1997	85	11
Sam Houston Tollway-South/East	March 1997	42	10
Sam Houston Tollway-East	July 1996	34	7
Sam Houston Ship Channel Bridge	May 1994	14	3
Sam Houston Tollway-North/East	February 2011	79	13
Westpark Tollway (IH 610 West to SH 1464)	May 2004	50	13
Fort Bend Parkway Extension (Spur 90A)	March 2005	10	2
Katy Managed Lanes	April 2009	44	12
Tomball Tollway	April 2015	37	6
Total		**753**	**127**

INTEGRATED TOLL COLLECTION SYSTEM

In 1992, the Authority began implementation of an automatic vehicle identification ("***AVI***") program that allows motorists non-stop passage through toll collection sites with the use of a transponder (sometimes referred to as an "***EZ TAG***" or "***toll tag***"). The AVI system enables the Authority to manage its roadways and operations through automated revenue audit and reconciliation processes, consolidated reporting functions, a violation-loss recovery system, customer account management system, and system and operation management and maintenance functions.

In October 2003, the Authority began implementation of an electronic toll collection interoperability service that allows patrons of both the Authority and the North Texas Tollway Authority ("***NTTA***") to utilize the AVI systems, or toll tags, of both entities, while maintaining one account at either entity for payment and monitoring. The interoperability service has subsequently been expanded multiple times to provide interoperability functions for other participating toll entities, with the inclusion of the Kansas Turnpike Authority in 2017 and the expected inclusion of the Oklahoma Turnpike Authority in 2018. All toll agencies in Texas are interoperable with the development of a common tag technology provided that users of the respective toll systems have a tag on their vehicles.

All toll facilities on the Authority's system are equipped for electronic collection of tolls through the AVI system, while certain facilities, including most segments of the Sam Houston Tollway, use varying combinations of both AVI and cash toll lanes. Users of the Authority toll road system have to pay at the cash lanes, where available, or are required to have a transponder or authorized account and the transactions are processed electronically through the AVI system. The Authority system does not utilize video billing or pay-by-mail as a toll collection method. In order to encourage EZ TAG penetration in the region, the Authority's Toll Policy (defined below) provides for lower toll rates, when compared to the cash rates, for users of the system who have an EZ TAG or other interoperable transponder.

Certain facilities on the Authority system, including the Hardy Toll Road, the Tomball Tollway, the Katy Managed Lanes, the Westpark Tollway, the Fort Bend Parkway Extension, and the Sam Houston Tollway – North/East and the Ship Channel Bridge, are "All-ETC" and utilize electronic toll collection through the AVI system only.

The variance between traffic using a toll facility and the tolls actually collected is an issue for all modern toll systems that seek to maximize "throughput" and vehicular safety with increasing reliance on toll lanes that are All-ETC. When converting a toll facility to All ETC, in the long run, the Authority expects to improve throughput, as well as safety conditions, and reduce operating expenses on the All-ETC roadway, after experiencing an expected initial decline in revenues at the converted toll facility when compared to the prior toll collection system that allowed for in-lane cash payments. In such instances, on a year-to-year basis for a converted toll facility, the decline in revenues may be substantial as users adjust to the change in collection method and use alternative routes or pay the lower transponder toll rate. Toll violations may also increase. Toll violations are substantially more expensive to pursue and collect than tolls paid with a transponder or at a toll booth or automatic coin machine. Management of the Authority does not believe that any such transition of a particular toll facility to All-ETC will have a material adverse effect on the overall finances and operations of the Authority system. The Authority may convert other existing facilities of the Authority system to All-ETC, and the Authority expects that new projects, such as Phase II of the Tomball Tollway, will open as All-ETC.

THIRD PARTY CASH-BASED PAYMENT SYSTEM

In June 2015, Commissioners Court approved a contract with a third party vendor, BancPass Inc., that provides an alternative "cash-based" payment option for users of the toll road system. The contract has an initial term of one year and four one-year renewal options. Pursuant to the contract, the vendor is selling and distributing to the general public throughout Harris County and the surrounding counties EZ TAG transponders that are capable of being funded through a cash-based account system that is managed and maintained by the vendor.

UPGRADES AND IMPROVEMENTS TO THE TOLL COLLECTION SYSTEM

In January 2010, the Authority began the process of replacing and enhancing its toll collection equipment and software. The estimated total cost for the project is approximately $125 million, which has been paid with toll road funds of the County available for such purpose. Below is a discussion of the various components that have been replaced to date.

Roadside Toll Collection System. The Roadside Toll Collection System ("RTCS") project is now complete, and this project replaced the prior lane equipment and supporting systems. The new system is designed to capture additional transactional data, improve accuracy and increase auditability overall, all of which should allow the Authority to pursue more financial transactions.

Back Office System. The Back Office System ("BOS") is a single system replacement for various legacy applications including the Customer Service Center, Host, and Violation Process System applications. The legacy applications were independent systems with interfaces that allowed certain functions to cross between one or many systems, and required multiple interfaces to reconcile and audit. The BOS is a single account management system which became operational in June 2017. Typically, a toll system back office replacement project of this magnitude is expected to experience some process interruptions or malfunctions. As a result, the Authority experienced some revenue loss resulting from the transition to the new BOS. See "TOLL ROAD FINANCIAL INFORMATION – Management Discussion of Revenue and Expenses for Fiscal Year 2018."

Data Center. The data center has been upgraded to accommodate the new toll systems with current technology. The data center has been designed to reduce risk of exposure of sensitive customer information, improve system availability and add additional functionality and increased efficiency.

Back Up Data Center. A redundant data center began operations in mid-2017. This additional environment provides disaster recovery supporting the toll environment for not only natural disasters, but also infrastructure failure, disastrous bugs and failed change implementations.

FUNDING OF SYSTEM IMPROVEMENTS

The planned capital improvements to and maintenance of the County's toll road system and other financial commitments discussed above, including (i) the planned construction of the new Ship Channel Bridge spans, (ii) the development and construction of the Hardy Downtown Connector and Phase II of the Tomball Tollway, (iii) various system-wide improvements to accommodate increased traffic and (iv) the upgrades and improvements to the toll collection system are expected to be funded with accumulated system revenues, to the extent available, the issuance of additional Toll Road Bonds, subject to the satisfaction of the additional bonds test in the Indentures, commercial paper or a combination of these sources, all to the extent permitted and authorized by the Indentures.

OTHER COUNTY ROADS

County Road System. In addition to the toll road system, the system for other highways and roads in the County is extensive. Such system consists of interstate and other federal highways, State-supported highways, farm-to-market roads and city streets. With respect to such systems, the County pays all costs incurred in acquiring right-of-way for County roads, streets, highways and bridges and related outfall ditches necessary to drain water. The County also is required to pay all engineering and construction expenses relating to these roads, streets, highways, bridges and related ditches.

Each of the four County Commissioners has jurisdiction over County roads, streets, highways and bridges in the respective precinct of each Commissioner. The Commissioners Court appoints a County Engineer, who furnishes planning and engineering services for road, street, highway and bridge construction and maintenance programs of the County. When certain roads are to be constructed within the County by the State, the County acquires right-of-way and pays a proportionate share of the direct costs of the acquisition of such right-of-way. The State is required to pay engineering, construction and maintenance costs of State highways. In addition to the County and State roads described above, the State constructs and maintains numerous roads called "farm-to-market" roads. The County pays the costs incurred in acquiring right-of-way for farm-to-market roads while the State pays all engineering, construction and maintenance costs for such roads.

Connectivity and Mobility Program. In Fiscal Years 2002 and 2003, the Commissioners Court authorized an allocation of $20 million of Authority net income, distributed in the amount of $5 million per precinct, for the funding of non-toll County roads that connect to or otherwise enhance the Project. In Fiscal Year 2004, the amount per precinct for such purpose was increased to $15 million and an additional $7.5 million was allocated to the Public Infrastructure Department for other Project-related purposes for an aggregate Fiscal Year total of $67.5 million. In Fiscal Years 2005 and 2006, the amount allocated to each precinct for such connectivity projects was approximately $5 million for an aggregate Fiscal Year total of approximately $20 million. In Fiscal Year 2007, the amount allocated to each precinct to enhance such connectivity projects was $7.1 million for an aggregate Fiscal Year total of $28.4 million. The allocation of funds for connectivity projects, together with other transportation and mobility projects authorized by state law following the passage of SB 792, was increased to $120 million, in the aggregate for all precincts, for Fiscal Years 2008 through 2018, inclusive. The Fiscal Year 2019 budget also includes an aggregate allocation of $120 million for all precincts for connectivity and mobility projects. In addition, as referenced in Footnote (b) to "Schedule 3 – Selected Financial Information" of the Authority's audited financial statements, for the last several Fiscal Years additional amounts, above the $120 million allocation for connectivity and mobility projects, were transferred to fund various County transportation infrastructure needs. In all cases, such transfers are derived from surplus toll revenues only after the payment of debt service and all other required payments and deposits in the Indentures have been satisfied. The transfers are not mandatory and may be eliminated, reduced, or increased if the Commissioners Court makes the determination to take any such action.

COMPETING HIGHWAYS AND TRANSPORTATION FACILITIES

Additional non-toll highways, roads and streets, or improvements and expansions to existing free highways, roads and streets that may adversely affect usage of the Project may be constructed by the County, TxDOT, the City of Houston or other public entities. TxDOT continues to improve and expand highways in the Houston region that offer both free highway and tolled competition to the Project. Under certain circumstances, TxDOT, METRO (discussed in more detail below) and other entities may have the legal authority under Texas law to construct competing projects, including competing toll projects, which could adversely affect the usage of the Project. In particular, Segments D, E, F-1, F-2 and G of the Grand Parkway, which have recently been completed and are open to traffic, provide competitive alternatives to portions of the County's toll road system. Although to date, competition from such projects has not had a material adverse impact on the Project, the County cannot predict with any certainty the future impact, if any, of the Grand Parkway on operations of the Authority.

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS ("METRO")

METRO is a regional transit authority and currently operates an extensive bus fleet serving Harris County (other than certain eastern portions) and all of the City of Houston (including portions located outside the County). METRO offers "park-and-ride" services, which include predominantly free automobile parking at suburban METRO lots and bus service to and from Houston's central business district and other locations throughout the County in competition with the Project. METRO's "park and ride" service from these suburban lots to downtown Houston and other locations throughout the County, utilizing free high occupancy vehicle lanes, competes for a portion of the traffic that could otherwise be expected to utilize certain segments of the Project.

In March 2009, METRO began the process to convert five HOV corridors into High Occupancy Toll (HOT) lanes, including the following: IH 45 North, IH 45 South, US 59 North, US 59 South and US 290. In January 2012, Commissioners Court approved an interlocal agreement between the County and METRO, pursuant to which the County has agreed to provide certain tolling services to METRO for a fee, including providing access to toll interoperability for the operation of METRO's HOT lanes. The METRO HOT lanes are operational and provide additional competitive alternatives to the Project. Although the County does not expect that the METRO HOT lanes will have a materially adverse effect on the operations of the Project, the County cannot predict with any certainty the ultimate impact on the Authority's operations.

In November 2003, voters in the METRO service area approved the construction of extensions of METRO's rail system known as "METRORail," including an additional 64.8 miles of light rail to complement the existing Red Line, which is a 7.5 mile segment that extends from the University of Houston-Downtown to south of the NRG Park Complex (formerly the Reliant Park Complex) (such segment is referred to as "Phase I" of METRORail). Construction of Phase I did not require voter approval, and service commenced on such segment in January 2004.

Since 2004, METRO has opened service on an additional 5.5 miles to the Red Line, extending the line from the University of Houston-Downtown Campus north to Northline Commons Mall. Two additional lines opened in May 2015. The Purple Line serves the Southeast Corridor from downtown Houston 6.6 miles to Martin Luther King Boulevard at Griggs Road. The Purple Line connects the University of Houston Main Campus to the rest of the network. The Green Line serves the east end from downtown Houston 3.3 miles to the Magnolia Transit Center. Future construction on the rest of the system is unfunded at this time.

Management of the Authority believes that to date the METRORail plan has not had a materially adverse effect on the operations of the Authority. At this time, however, management is unable to predict what effect, if any, later phases of the METRORail plan will have on Authority operations.

SCHEDULE 1 – TRAFFIC COUNT TABLE

The following schedule sets forth the numbers of toll payment transactions for each component/segment of the Project for Fiscal Years 2013-2017:

Component/Segment	2013	2014	2015	2016	2017
Hardy Toll Road-North	18,433,687	19,745,713	22,526,309	23,173,858	20,423,602
Hardy Toll Road-South	21,237,338	22,582,166	25,781,244	27,556,761	24,539,597
Sam Houston Tollway-South	71,992,571	73,769,141	77,815,638	81,778,671	82,262,865
Sam Houston Tollway-Central	58,778,449	60,951,356	64,822,097	66,791,573	64,859,879
Sam Houston Tollway-North	74,244,587	76,250,824	79,759,184	81,246,956	77,225,677
Sam Houston Ship Channel Bridge	16,443,541	17,274,970	18,944,058	19,328,018	18,652,445
Sam Houston Tollway-North/East	15,432,417	17,038,513	19,844,104	22,237,159	24,612,792
Sam Houston Tollway-East	22,701,821	23,071,940	25,109,427	26,722,662	26,997,127
Sam Houston Tollway-South/East	29,131,296	29,153,299	32,873,557	35,249,831	35,817,656
Sam Houston Tollway-South/West	33,477,773	31,343,137	36,796,203	41,311,089	42,815,881
Westpark Tollway	43,575,876	45,957,937	48,915,625	51,855,139	52,372,241
Spur 90A	3,456,988	3,728,952	4,013,391	4,338,216	4,603,753
Katy Managed Lanes(a)	19,320,467	22,388,942	28,243,333	31,615,049	32,611,540
Tomball Tollway(b)	--	--	--	10,744,952	15,995,964
Total	428,226,811	443,256,890	485,444,170	523,949,934	523,791,019

Source: The Authority
(a) Katy Managed Lanes include High Occupancy Vehicle non-toll transactions.
(b) Tomball Tollway opened April 2015.

TOLL RATE SETTING POLICY

The County has had a toll policy in place since 2007 which establishes a process for an annual review and adjustment of toll rates based on changes to the consumer price index ("***CPI***") that correlates with the Harris County economy (the "***Toll Policy***"). Multiple toll rate adjustments have occurred pursuant to the policy over the past decade. In order to simplify the rate setting methodology going forward and to provide for greater differentiation between EZ TAG and NON-TAG rates, management is preparing recommendations for modifications to the Toll Policy for consideration by Commissioners Court in calendar year 2018. Management had previously planned to recommend the Toll Policy changes in calendar year 2017. However, those plans were delayed in an effort to better manage customer experiences and to limit potential disruptions as the Authority transitioned to a new regional interoperability hub in May 2017 and a new Back Office System in June 2017. See "TOLL ROAD FINANCIAL INFORMATION – Management's Discussion of Revenues and Expenses for Fiscal Year 2018." The Toll Policy modifications would be aimed at encouraging greater EZ TAG usage and would be designed to better reflect the cost differential between processing EZ TAG and NON-TAG toll transactions. It is anticipated that the modified Toll Policy would retain an annual adjustment factor based on changes to the CPI although to date no decision has been made about whether to include or defer a CPI adjustment factor for calendar year 2018.

The Toll Policy does not supersede toll rate covenants in existing or future bond documents. In the event a conflict exists, the covenants in the bond documents will prevail in determining the toll rates used on the Authority's toll facilities.

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SCHEDULE 2 – TOLL RATE SCHEDULE

The following schedule sets forth the current toll rate schedule for the Project. See "THE TOLL ROAD PROJECT — Toll Rate Setting Policy."

	Cash/ Attended/Automatic Coin Machine Lanes[(a)]	EZ TAG Lanes[(b)]
Two Axle Vehicles		
Sam Houston Tollway and Hardy Toll Road Plazas	$1.00 - 1.75	$0.50 - 1.50
Sam Houston Ship Channel Bridge	N/A	$1.50
Westpark Tollway	N/A	$0.40 - 1.50
Fort Bend Parkway Extension (Spur 90A)	$1.75	$1.50
Katy Managed Lanes	N/A	$0.30 - 3.20
Tomball Tollway	N/A	$0.90 – 1.50
Three to Six Axle Vehicles		
Sam Houston Tollway and Hardy Toll Road Plazas	$2.00 - 8.75	$1.25 – 8.75
Sam Houston Ship Channel Bridge	N/A	$3.50 – 8.75
Westpark Tollway	N/A	$1.00 – 8.75
Fort Bend Parkway Extension (Spur 90A)	N/A	$3.50 – 8.75
Katy Managed Lanes	N/A	$7.00
Tomball Tollway	N/A	$2.00 – 8.75

Source: The Authority

(a) This column consolidates the columns "Attended Lanes" and "Exact Change Lanes" in previously published versions of Schedule 2.

(b) These rates do not include amounts charged for toll violations.

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TOLL ROAD FINANCIAL INFORMATION

SCHEDULE 3 – SELECTED FINANCIAL INFORMATION

The following schedule sets forth the revenues and expenses of the Authority for Fiscal Years 2013-2017:

	2013	2014	2015	2016	2017
Operating Revenues					
Toll revenues	$ 560,079,182	$ 609,965,677	$ 688,920,884	$ 759,275,927	$ 774,025,958
Intergovernmental Revenues	633,607	215,786	--	2,995,091	19,175,649
Total Operating Revenues	$560,712,789	$610,181,463	$688,920,884	$762,271,018	$793,201,607
Operating Expenses					
Salaries	$49,586,864	$51,181,705	$52,791,017	$57,562,773	$65,351,353
Materials and supplies	9,937,433	13,289,189	12,468,384	12,595,180	20,875,511
Services and fees	81,449,680	90,902,682	95,914,299	150,321,298	151,572,050
Utilities	3,413,625	3,400,019	3,115,952	3,540,001	3,788,013
Transportation and travel	2,791,510	3,132,094	3,008,253	3,043,332	6,979,787
Depreciation	88,186,025	90,149,522	94,431,249	101,301,061	106,852,470
Total Operating Expenses	$235,365,137	$252,055,211	$261,729,154	$328,363,645	$355,419,184
Income from Operations	$325,347,652	$358,126,252	$427,191,730	$433,907,373	$437,782,423
Nonoperating Revenues					
Investment income	$27,068,382	$5,051,716	$20,471,612	$15,965,906	$7,000,884
Lease revenues	24,100	26,700	21,814	18,900	18,900
Miscellaneous Income	766,331	1,061,250	1,922,228	46,073,792	3,031,204
Total Nonoperating Revenues	$27,858,813	$6,139,666	$22,415,654	$62,058,598	$10,050,988
Nonoperating Expenses					
Interest expense	$99,123,166	$92,818,557	$91,521,555	$87,107,618	$75,454,167
Bond Issuance Costs	--	--	--	1,744,844	3,233,525
Amortization expense	51,260,387	40,487,937	14,966,359	2,880,926	4,051,144
Other nonoperating expenses[(a)]	298,582	642,823	224,360,951	3,163,575	327,654
Total Nonoperating Expenses	$150,682,135	$133,949,317	$330,848,865	$94,896,963	$83,066,490
Net Income Before Contributions and Transfers Out	$202,524,330	$230,316,601	$118,758,519	$401,069,008	$364,766,921
Transfers In	86,523	--	157,037	--	--
Transfers Out[(b)]	(120,035,799)	(121,047,886)	(121,925,426)	(124,031,107)	(134,000,000)
Change in Net Position[(c)]	$82,575,054	$109,268,715	$ (3,009,870)	$277,037,901	$230,766,921

(a) The increase in this category in 2015 is the result of a $200 million payment to the State for the County's commitment toward the TxDOT US 290 and SH 249 projects. It also includes the County's agreement to forego reimbursement of related assets.

(b) Commissioners Court annually authorizes the transfer of Authority net income for funding of County thoroughfares that enhance traffic flow to current and proposed toll facilities and to increase mobility. See "THE TOLL ROAD PROJECT – Other County Roads – Connectivity and Mobility Program.

(c) For review of current (but unaudited) monthly financial statements, please see the Harris County Auditor's website (http://www.harriscountytx.gov/Auditor). See "OTHER FINANCIAL INFORMATION."

Source: Authority's audited financial statements for the Fiscal Year ended February 28, 2017

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MANAGEMENT'S DISCUSSION OF REVENUE AND EXPENSES FOR FISCAL YEAR 2018

Revenues and expenses of the County's toll road system can be impacted by a variety of factors including, among other things, (i) the volume of traffic, (ii) time savings experienced by motorists utilizing the toll facilities, which may be adversely affected while system improvements are under construction, (iii) the ability of the County's computer systems to accurately process data, (iv) the ability of the County to implement effective toll collection and enforcement practices, (v) the ability of the County to control expenses, (vi) the level and escalation of toll rates and (vii) weather-related events such as Hurricane Harvey. For additional information regarding such factors, see "INVESTOR CONSIDERATIONS."

When management prepared revenue estimates for Fiscal Year 2018, which ends February 28, 2018, it assumed that revenues would be flat compared to the prior fiscal year. This assumption was based, in part, on projected adverse revenue impacts resulting from (i) plans for implementing a new Back Office System ("BOS"), (ii) ongoing system-wide improvements, including widening projects on the Sam Houston Tollway that were expected to reduce traffic volume during construction, and (iii) the implementation of new toll rate methodology changes. The goal of the new methodology was to encourage greater EZ TAG usage, but it included a temporary deferral of the annual Consumer Price Index ("CPI") escalator on toll rates for EZ TAG transactions.

The implementation of the new BOS and the ongoing system-wide improvements occurred during Fiscal Year 2018 as expected. The Authority implemented the new BOS with a single account management system, in order to replace various independent legacy applications with upgraded technology and streamlined functionality for the processing, reconciliation and auditing of transactions. During Fiscal Year 2018 management made the decision to defer implementation of the toll rate methodology changes, as well as all CPI related toll rate increases (rather than just EZ TAG rate increases), until Fiscal Year 2019, which includes the last 10 months of calendar year 2018. This was done to help better manage customer experiences and to limit potential disruptions that were expected to result from the transition to the new BOS in June 2017.

In planning for the new BOS implementation, management expected that the new account management system would experience processing interruptions and malfunctions, and a short-term loss in revenues would result, as the new system was brought online and the legacy applications were decommissioned. The BOS transition was complicated by an additional factor. It occurred one month after all toll agencies in Texas transitioned to a new regional Central United States interoperability ("IOP") hub designed to accommodate toll users from Kansas and Oklahoma in preparation for eventual nationwide toll interoperability. While management was adjusting to the operational challenges resulting from the implementation of the new BOS and the transition to the new regional hub, Hurricane Harvey hit the Texas Gulf Coast in August 2017. The storm caused catastrophic flooding in the Houston region and widespread damage to commercial and residential properties. The toll road system suffered physical damages that required repairs of approximately $5 million dollars. The Authority is currently working with FEMA for potential reimbursement. Due to regional disruptions from the storm, the entire toll road system operated on a toll-free basis for a period of 16 days. For an additional 10 days, certain specific segments of the toll road system operated on a toll-free basis.

Collectively, the events described above have had a negative impact on toll road system revenues for Fiscal Year 2018. Revenues have been lower than projected amounts. At the start of Fiscal Year 2018, management projected revenues would be approximately $769.2 million for the 12-month period. Management now estimates that by the end of Fiscal Year 2018, revenues will amount to approximately $732.6 million. Actual revenues were approximately $549.5 million for the 9-month period from March 1, 2017 to November 30, 2017. For the comparable 9-month period during Fiscal Years 2016 and 2017, actual revenues were $567.5 million and $585.5 million, respectively. Because of the adverse impact on revenues from the events described above, the County has managed operations and maintenance expenses for Fiscal Year 2018 by controlling costs. Operations and maintenance expenses for Fiscal Year 2018 are now estimated to total $220 million, a decline of $14 million from the original estimate of $234 million at the start of the Fiscal Year.

SCHEDULE 4 – HISTORICAL TOLL ROAD PROJECT OPERATING RESULTS AND COVERAGES

The following schedule sets forth historical operating results and cash flow coverages for the Project for Fiscal Years 2013-2017:

Fiscal Year Ended	Project Revenues[(a)]	Other Earnings[(b)]	Toll Road Senior Lien Revenue Bonds Debt Service[(f)]	Coverage Ratio on Toll Road Senior Lien Revenue Bonds[(c)]	O&M Expenses[(d)]	Revenues Available for Toll Road Tax Bonds	Toll Road Tax Bonds Debt Service	Coverage Ratio on Toll Road Tax Bonds[(e)]
2013	$560,079,182	$27,721,804	$139,230,673	4.222	$126,516,150	$322,054,163	$84,627,966	3.806
2014	609,965,677	5,293,713	147,728,476	4.165	136,373,150	331,157,764	73,812,290	4.486
2015	688,920,884	20,493,426	141,159,484	5.026	154,740,075	413,514,751	82,855,667	4.991
2016	759,275,927	18,979,897	142,199,571	5.473	203,809,584	432,246,669	58,516,811	7.387
2017	774,025,958	26,195,433	148,479,580	5.389	215,238,531	436,503,280	42,799,012	10.199

(a) Consists of toll revenues.
(b) Total investment income less interest revenue from the Authority's office building, which includes lease revenue income and intergovernmental income and does not constitute revenues under the Indentures.
(c) Revenues available for Toll Road Senior Lien Revenue Bonds divided by Toll Road Senior Lien Revenue Bonds Debt Service.
(d) Operation and maintenance expenses are paid from the Authority's operations and maintenance funds.
(e) Revenues available for Toll Road Tax Bonds divided by Toll Road Tax Bonds Debt Service.
(f) The Debt Service Senior Lien Revenue amount for fiscal years 2013-2015 has been restated to include swap interest and certain other interest payments that were not previously included, to reflect debt service as defined in the Indentures.

Source: County Auditor's Office.

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SCHEDULE 5 – REVENUES BY TOLL ROAD COMPONENTS/SEGMENTS

The following schedule sets forth the amount of toll revenues collected for each component/segment of the Project for Fiscal Years 2013-2017:

Component/Segment	2013	2014	2015	2016	2017
Hardy Toll Road-North	$ 23,105,024	$ 26,087,773	$ 30,484,767	$ 31,084,565	$ 26,437,979
Hardy Toll Road-South [(a)]	26,149,867	28,888,653	32,934,474	35,037,979	31,638,787
Sam Houston Tollway-South	87,599,580	94,450,310	100,818,123	105,326,514	105,453,467
Sam Houston Tollway-Central	76,180,460	82,725,157	89,664,185	92,621,249	89,313,891
Sam Houston Tollway-North	93,172,078	100,831,887	107,823,763	108,921,231	102,728,300
Sam Houston Ship Channel Bridge	28,611,706	29,956,041	32,543,323	32,232,095	27,783,262
Sam Houston Tollway-East	29,687,922	31,564,555	34,727,037	37,370,417	37,318,341
Sam Houston Tollway-South/East	37,535,888	39,360,926	44,281,024	48,811,909	49,393,072
Sam Houston Tollway-South/West	39,284,945	37,485,698	47,003,729	53,267,187	55,138,612
Sam Houston Tollway-North/East	17,649,388	20,156,797	23,900,271	26,825,495	30,091,751
Westpark Tollway	46,825,290	51,442,972	54,735,176	57,980,110	58,972,968
Spur 90A	4,405,854	4,950,869	5,343,739	5,772,065	6,172,055
Katy Managed Lanes	10,331,568	13,924,091	17,428,859	18,344,245	18,442,791
Tomball Tollway [(b)]	-	-	-	14,479,134	21,488,181
Administration [(c)]	22,633,355	25,901,055	36,301,290	50,166,867	56,521,738
IOP-FBCTRA [(e)]	1,687,739	1,774,907	2,950,781	3,330,295	3,675,862
MCTRA [(d)]	-	-	-	180,767	340,662
IOP-NTTA [(e)]	6,810,725	8,627,655	10,497,290	13,339,753	15,586,467
IOP-TTA [(e)]	8,231,949	11,249,883	16,585,363	23,106,134	35,208,801
IOP-CTRMA [(e)]	75,103	125,714	221,296	322,873	428,410
IOP-METRO [(e)]	100,741	460,734	676,394	755,043	815,826
Banc Pass [(f)]		-	-	-	1,074,735
Total	$ 560,079,182	$ 609,965,677	$ 688,920,884	$ 759,275,927	$ 774,025,958

(a) Includes toll revenues collected for the Airport Connector.
(b) Tomball Tollway opened April 2015.
(c) Consists of EZ TAG fees, video enforcement center deposits, unpaid tolls, bank debits and credits and replacement identification fees.
(d) Interlocal Agreement with Montgomery County Toll Road Authority to collect tolls as of July 2015.
(e) Revenues attributable to the Statewide Toll Interoperability Program, pursuant to various agreements.
(f) Revenues attributable to County's agreement with Banc Pass.
Source: The Authority

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Schedule 6 – Toll Road Bonds Debt Service Requirements

The following table sets forth the County's existing aggregate debt service requirements for all Toll Road Bonds that (i) includes the principal of and interest on the Bonds; and (ii) does not include the principal of and interest on the Refunded Bonds. Actual debt service requirements will depend upon various factors and investment income on and amounts on hand in the funds held under the Indentures relating to the Toll Road Bonds.

Period Ending (February 28)	Senior Lien Projected[(1)] Debt Service	Tax and Subordinate Lien Revenue Projected Debt Service	Bonds Principal	Bonds Interest	Combined Total Projected Debt Service
2018	$148,008,066	$41,737,731	--	--	$189,745,797
2019	137,347,182	41,187,050	--	$25,225,888	203,760,120
2020	121,957,129	40,622,563	$13,685,000	25,828,825	202,093,516
2021	121,226,381	40,049,775	14,535,000	25,123,325	200,934,481
2022	121,904,431	28,930,613	15,435,000	24,374,075	190,644,119
2023	94,199,219	28,689,022	17,860,000	23,541,700	164,289,940
2024	93,456,969	28,084,903	19,535,000	22,606,825	163,683,697
2025	92,666,844	27,462,059	21,350,000	21,584,700	163,063,603
2026	110,640,719	17,500,338	4,010,000	20,950,700	153,101,756
2027	105,806,825	16,886,138	9,170,000	20,621,200	152,484,162
2028	101,149,000	16,275,756	14,420,000	20,031,450	151,876,206
2029	101,622,519	15,659,194	14,675,000	19,304,075	151,260,787
2030	102,124,544	15,046,450	14,910,000	18,564,450	150,645,444
2031	110,401,519	14,432,394	7,185,000	18,012,075	150,030,987
2032	80,262,169	13,817,025	38,465,000	16,870,825	149,415,019
2033	78,113,169	13,205,213	42,645,000	14,843,075	148,806,456
2034	101,492,919	12,586,956	20,850,000	13,255,700	148,185,575
2035	120,628,667	--	2,295,000	12,677,075	135,600,742
2036	120,874,169	--	2,160,000	12,565,700	135,599,869
2037	50,820,500	--	16,615,000	12,179,400	79,614,900
2038	39,560,000	--	17,290,000	11,501,300	68,351,300
2039	39,564,875	--	18,000,000	10,795,500	68,360,375
2040	24,819,750	--	18,830,000	9,964,750	53,614,500
2041	24,444,750	--	19,795,000	8,999,125	53,238,875
2042	16,760,500	--	20,810,000	7,984,000	45,554,500
2043	19,783,125	--	21,875,000	6,916,875	48,575,000
2044	19,623,875	--	23,000,000	5,795,000	48,418,875
2045	19,468,750	--	24,055,000	4,738,900	48,262,650
2046	19,413,500	--	25,035,000	3,757,100	48,205,600
2047	19,158,875	--	26,060,000	2,735,200	47,954,075
2048	19,000,750	--	27,120,000	1,671,600	47,792,350
2049	3,337,500	--	28,230,000	564,600	32,132,100
2050	3,280,000	--	--	--	3,280,000
TOTAL[(2)]	$2,382,919,185	$412,173,178	$559,900,000	$443,585,013	$ 3,798,577,377

(1) Interest on Series 2007B Bonds is assumed at a rate of 4.398% until February 15, 2035, and 4.750% thereafter. Interest on the Series 2012A Bonds is assumed based on the applicable spread for each maturity, plus 3.626%. Interest on the Series 2012B-1 Bonds is assumed at a rate of 4.326% through August 15, 2018, 4.626% through August 15, 2019, and 4.750% thereafter. Interest on the Series 2012B-2 Bonds is assumed at a rate of 4.076% through August 15, 2018, 4.626% through August 15, 2019 and 4.750% thereafter.

(2) Totals may reflect a variance due to rounding.

TOLL ROAD COMMERCIAL PAPER NOTES

General. The Revenue Indenture provides that the County may issue or incur, on a parity with its Toll Road Senior Lien Revenue Bonds, other "Parity Obligations," including "Parity Notes." In 2017, the County established an aggregate $400 million Series E-1 and Series E-2 commercial paper program for the issuance of Parity Notes. The Series E-1 Notes and E-2 Notes are structured as a revolving program, and the County expects to issue Series E-1 Notes and Series E-2 Notes from time to time to finance capital projects of the Authority.

The timely payment of the principal of and interest on the Series E-1 Notes at maturity are supported by a letter of credit issued by Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch, pursuant to the terms of a reimbursement agreement (the "***Series E-1 Letter of Credit***"). Unless extended or terminated earlier upon the occurrence of certain events, the expiration date of the Series E-1 Letter of Credit is May 2, 2022. The timely payment of principal of and interest on the Series E-2 Notes at maturity are supported by the letter of credit issued by Barclays Bank PLC pursuant to the terms of a reimbursement agreement (the "***Series E-2 Letter of Credit***"). Unless extended or terminated earlier upon the occurrence of certain events, the expiration date of the Series E-2 Letter of Credit is May 15, 2020.

The Series E-1 Letter of Credit and the Series E-2 Letter of Credit do not relate to the County's Series A-1, B, C, D, F or H commercial paper programs, which are secured by ad valorem tax revenues and not Revenues of the Project.

FINANCIAL MANAGEMENT PRODUCTS

As part of the County's management of its debt portfolio, and consistent with the guidelines set forth in its financial management products policy adopted by the County on June 29, 2004, as readopted on February 10, 2015 (the "***Financial Management Products Policy***"), the County considers and uses various financial management products such as interest rate swaps, caps and floors (collectively, "***Financial Management Products***") in connection with debt issued by the County. The County may enter into such Financial Management Products as authorized by Commissioners Court and approved by the Attorney General of the State of Texas. For certain information related to such financial management products being used by the County, investors may review information that is available in the audited financial statements, including the notes thereto, which are included as APPENDIX C hereto, and the unaudited monthly financial statements of the County, which are available upon request. See "OTHER FINANCIAL INFORMATION."

Financial Management Products Policy. Pursuant to the Financial Management Products Policy, the County will evaluate the use of Financial Management Products by comparing them to traditional financing vehicles and structures and will only use a Financial Management Product if it produces significant quantifiable value or reduces the risk exposure in management of its debt portfolio. The Financial Management Products Policy limits the County's use of financial management products as follows: the County may not have fixed rate swaps or basis swaps in effect with an aggregate notional amount in excess of 35% of the aggregate outstanding principal amount of debt and bonds issued by the County.

The Financial Management Products Policy provides that the County may choose counterparties for entering into Financial Management Products provided such counterparties are rated at least "AA-" by Fitch Ratings, Inc. ("***Fitch***") or Standard & Poor's Ratings Services, a division of Standard and Poor's Financial Services LLC ("***S&P***"), or "Aa3" by Moody's Investors Service, Inc. ("***Moody's***"), or the obligations of such counterparties are guaranteed by a person with such rating or the obligations of such counterparties are collateralized by obligations with such rating, all as required by Commissioners Court, and other applicable regulations. In addition, any uncollateralized counterparty's termination exposure shall not exceed $75 million per any single counterparty.

The County tracks and regularly reports on the financial implications of the Financial Management Products it enters into. In addition, the County's Financial Management Products Committee performs such monitoring and reporting as is required by the rating agencies or for compliance with GASB requirements.

Tax Indenture Swap Agreements. Currently, the County does not have any swap agreements entered into in connection with the Toll Road Tax Bonds; however, the County may in the future enter into such swap agreements.

Revenue Indenture Swap Agreements.

General. The County has entered into the interest rate hedge agreements described below (each a "***Swap Agreement***" and, collectively, the "***Swap Agreements***") with the counterparties described below (each a "***Counterparty***" and collectively the "***Counterparties***"). The Swap Agreements do not provide a source of security or other credit for the Toll Road Senior Lien Revenue Bonds, including the Bonds. The holders of the Toll Road Senior Lien Revenue Bonds have no rights under the Swap Agreements or any claims against the Counterparties. The Swap Agreements do not alter the County's obligation to pay principal of and interest on the Toll Road Senior Lien Revenue Bonds.

Regularly scheduled payments due under the Swap Agreements and any related payments (other than a termination payment or a requirement to post collateral) are required to be paid or otherwise satisfied from funds on deposit in the Debt Service Fund on parity with the Outstanding Toll Road Senior Lien Revenue Bonds and Parity Notes on the dates and in the manner specified in the Swap Agreements. Subject to the rights of a Counterparty to declare an event of default under certain circumstances, termination payments and collateral posting requirements under the Swap Agreements are generally subordinated to debt service payments under the flow of funds in the Revenue Indenture. See "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS – Flow of Funds (Application of Revenues) Under Provisions of the Revenue Indenture" herein.

There are risks inherent in any derivative transaction. The County has credit risk under the Swap Agreements to the extent that, if either of the Counterparties fails to make payments under the Swap Agreements or upon the occurrence of certain events of default or termination events thereunder, the County could be required to make net annual payments, termination payments or post collateral under the Swap Agreements, and the payments and collateral posting requirements could be substantial. As a result, the liquidity of the County's toll road system could be adversely affected. The County and the Counterparties could terminate the Swap Agreements under certain circumstances as provided in the Swap Agreements, including for an event of default (including defaults under other specified transactions and indebtedness) as specified in the Swap Agreements or as a result of certain acts of insolvency, or if a party is not able to legally perform its obligations under the Swap Agreements, or if a party's ratings are downgraded below certain specified levels. Under Texas law, the County's obligation to make a termination payment under a Swap Agreement may be financed by the issuance of additional Toll Road Senior Lien Revenue Bonds. For additional information regarding the Swap Agreements, see Note 7I to the Basic Financial Statements of the Harris County Toll Road Authority Enterprise Fund attached hereto as APPENDIX C.

Series 2007B Bonds Swap Agreements. In connection with the issuance of the Toll Road Senior Lien Revenue Refunding Bonds, Series 2007B (LIBOR-Index Floating Rate) (the "***Series 2007B Bonds***") secured by revenues of the Project, the County entered into two separate cost of funds swaps (the "***Series 2007B Swap Agreements***") supporting $145,570,000 in outstanding principal amount of the Series 2007B Bonds split equally between Citibank, N.A., New York ("***Citibank***"), and JPMorgan Chase Bank, National Association ("***JPMorgan***") (Effective Date: June 14, 2007; Termination Date: February 15, 2035). The intent of the Series 2007B Swap Agreements was to create a fixed cost of funds on certain maturities of the Series 2007B Bonds lower than the fixed cost achievable in the cash bond market. See "INVESTOR CONSIDERATIONS – Interest Rate Hedge Agreements."

Series 2012B Bonds Swap Agreement. The County entered into a forward starting floating rate to fixed rate swap (the "***Series 2012B Bonds Swap Agreement***") with Citibank, supporting $199,915,000 in original principal amount of bonds (Effective Date: August 15, 2009; Termination Date: August 15, 2019). The Series 2012B Swap Agreement hedges the County's interest rate exposure on its Toll Road Senior Lien Revenue Refunding Bonds, Series 2012B-1 and Toll Road Senior Lien Revenue Refunding Bonds, Series 2012B-2. See "INVESTOR CONSIDERATIONS – Interest Rate Hedge Agreements."

Collateral Posting Requirements. The terms of the Swap Agreements require the County to post collateral (in cash or securities) in the event the fair value of the swaps is negative to the County and exceeds a threshold in the amount of $15,000,000 for each of the Swap Agreements. Each of the Swap Agreements includes a provision (the "***Counterparty Ceiling***") that limits the maximum amount of collateral the County is required to post under the Swap Agreements. The maximum aggregate counterparty ceiling is $67 million, consisting of a $45 million Counterparty Ceiling for Citibank and a $22 million counterparty ceiling for JPMorgan. As of February 28, 2017, the posting requirement for the County under all of the Swap Agreements was $5,960,815, and the County has posted securities to satisfy such requirement. This amount can change based on a variety of factors.

RETIREMENT PROGRAM

The County provides retirement, disability and death benefits for eligible employees (including employees of the Authority) through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System ("***TCDRS***"). The County also administers a post-employment healthcare plan that covers certain retired employees of the County. For a description of the retirement plan and the post-employment healthcare plan, see Note 8 and Note 9, respectively, to the Basic Financial Statements of the Harris County Toll Road Authority Enterprise Fund attached hereto as APPENDIX C. The County's net pension liability at February 28, 2017 was $741,699,679, of which $26,341,183 has been allocated to the Authority.

RESERVE FUND

RESERVE FUND REQUIREMENT

The aggregate Reserve Fund Requirement for the all Toll Road Senior Lien Revenue Bonds Outstanding following the issuance of the Bonds is $145,000,000. A portion of the proceeds of the Bonds, in the amount of $25,000,000, have been deposited in the Reserve Fund and the balance.

In order to satisfy the Reserve Fund Requirement for the Outstanding Toll Road Senior Lien Revenue Bonds, the County previously allocated a portion of the proceeds from an earlier bond issue, and also has acquired a Reserve Fund Surety Policy from National Public Finance Guarantee Corporation (formerly held by Financial Guaranty Insurance Company). On the date of issuance of the Bonds, taking into account the deposit of a portion of the proceeds of the Bonds into the Reserve Fund, the amount of cash and investments on deposit in the Reserve Fund exceeds the aggregate Reserve Fund Requirement for all Toll Road Senior Lien Bonds Outstanding following the issuance of the Bonds. The Reserve Fund Surety Policy requires that, prior to a draw on such policy, the County must first draw cash and investments from the Reserve Fund to make up a debt service shortfall. See "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS – Flow of Funds – Reserve Fund". The amount of cash and investments on deposit in the Reserve Fund and the amount of the Reserve Fund Surety Policy is as follows:

	Amount	Termination Date
Cash and Investments as of December 31, 2017	$120,197,880.51	Not Applicable
National Reserve Fund Surety Policy	60,000,000.00	August 15, 2024
Total	$180,197,880.51	

For a discussion of the Reserve Fund Surety Policy and the provider of such policy, see "APPENDIX H – DESCRIPTION OF RESERVE FUND SURETY POLICY."

PENDING LITIGATION

The County is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of the performance of governmental functions, certain of which seek substantial damages. Such litigation includes lawsuits claiming damages that allege personal injuries, wrongful deaths and property damage and lawsuits alleging discriminatory hiring and firing practices; various claims from contractors for amounts under construction contracts; inverse condemnation claims; and various other liability claims. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal.

The County and the Harris County Flood Control District (the "***Flood Control District***") are defendants in a lawsuit that was originally filed in 1999 by landowners and former landowners alleging inverse condemnation and nuisance theories. The plaintiffs allege that the construction of certain of the Flood Control District's facilities caused widespread flooding in the White Oak Bayou watershed. The plaintiffs originally filed suit in district court. After the Court of Appeals held that the district court had no jurisdiction to hear the case, the plaintiffs refiled in County Civil Court at Law in 2005. The County and the Flood Control District filed a Plea to the Jurisdiction in 2005 and in November 2009, the court denied such plea. In March 2013, the First Court of Appeals affirmed the court's denial of the Plea to the Jurisdiction. In June 2013, the County and the Flood Control District filed a petition for review, which was argued before the Texas Supreme Court. In July 2015, the Texas Supreme Court remanded the case to the trial court and the plaintiffs filed a motion for rehearing. The Texas Supreme Court granted rehearing on February 19, 2016. On June 17, 2016, the Texas Supreme Court released its opinion in Harris County Flood Control District vs. Kerr, 499 S.W.3d 793 (Tex, 2016), in which it ruled in favor of the County and dismissed the case.

As a result of flooding related to Hurricane Harvey, the County and the Flood Control District are defendants in several lawsuits recently filed by landowners alleging claims similar to those raised in the Harris County Flood Control District vs. Kerr case described above.

The County and the Flood Control District intend to defend themselves against these suits vigorously. The County cannot predict, as of the date hereof, the final outcome of any of such claims and suits. In the opinion of management of the County, it is improbable that lawsuits now outstanding against the County that are associated with the operation of the County could become final in a time and manner so as to have a material adverse financial impact upon the operations of the County or the Authority.

INVESTOR CONSIDERATIONS

The Bonds are special obligations of the County that, together with the Outstanding Toll Road Senior Lien Revenue Bonds and Parity Obligations, are secured by and payable from (i) a gross pledge of all Revenues of the Project and (ii) certain funds established pursuant to the Revenue Indenture. The Bonds do not constitute an indebtedness of the County, the State or any political subdivision thereof within the meaning of any constitutional or statutory limitation on indebtedness, but are payable solely from and secured by a senior lien upon the Trust Estate. No owner of the Bonds shall ever have the right to demand payment of the Bonds or any interest or premium thereon from any funds raised or to be raised by taxation.

The following is a discussion of certain risk factors that should be considered in evaluating an investment in the Bonds. This discussion does not purport to be either comprehensive or definitive. The order in which risks are presented is not intended to reflect either the likelihood that a particular event will occur or the relative significance of such an event. Moreover, there are other risks associated with an investment in the Bonds in addition to those set forth herein. Prospective investors should read the entire Official Statement, including the appendices.

GENERAL

The information set forth in this Official Statement has been obtained from records, financial reports and other sources of the County that are considered to be reliable. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

No opinion or representation is rendered as to whether any forecast will approximate actual results, and all opinions, estimates, and assumptions, whether or not expressly identified as such, should not be considered statements of fact. Inevitably, some underlying assumptions and estimates will not be realized, and unanticipated events and circumstances may occur. Therefore, actual results will vary, and such differences may be material.

Unless expressly stated to the contrary, information on internet websites referenced in this Official Statement is not incorporated into this Official Statement, and such information is dated as indicated therein. The

County, the Financial Advisor and the Underwriters make no assurances that any such information will be updated in the future. The County, the Financial Advisor and the Underwriters disclaim any responsibility regarding other internet sites that may be accessed through any website referenced in this Official Statement.

LEGISLATIVE SESSION

The Texas Legislature may consider bills that could have a direct impact on the County, the Project, their operations or the administrative agencies that oversee the County and the Project. The County can make no representations or predictions concerning the substance or the effect of any legislation that may be passed in the future or how any such legislation could affect the Project. Changes in the scope and standards for public agencies, such as the Project, may lead to increasingly stringent operating requirements and the imposition of administrative orders issued by State regulators. Future compliance with such requirements and orders may impose substantial additional costs on the Project. In addition, claims against the County for failure to comply with applicable laws and regulations applicable to the Project could be significant.

In odd-numbered years, the Texas Legislature meets in a regular session lasting 140 days. The most recent regular session of the Texas Legislature ended on May 29, 2017. When the Texas Legislature is not in regular session, the Governor of Texas may call one or more special sessions, at the Governor's discretion, each lasting no longer than 30 days, and for which the Governor sets the agenda. The most recent special session of the Texas Legislature ended on August 15, 2017.

OPERATING RISKS

The collection of toll revenues will be subject to the risks inherent in the establishment and operation of any toll facility including, among other things, the volume of traffic that utilizes the County's toll facilities, the ability of the County and its computer systems to accurately process data and the ability of the County to manage toll evasion and implement effective toll collection and enforcement practices.

Other operating risks that could impact revenues include (i) the ability of the County to control expenses, (ii) the availability of adequately-trained personnel, (iii) population, employment and income trends within the region, (iv) congestion on alternative freeways, highways and streets, (v) time savings experienced by motorists utilizing the toll facilities, (vi) the level and escalation of toll rates, (vii) the availability and price of fuel and (viii) the construction of new or improved competitive roadways or transit facilities. See "TOLL ROAD FINANCIAL INFORMATION – Management Discussion of Revenues and Expenses for Fiscal Year 2018."

PROJECT EXPENSES

The County has covenanted that, as long as any Toll Road Senior Lien Revenue Bonds or Parity Obligations are Outstanding, it shall in each year levy, assess and collect an annual maintenance tax on all taxable property within the County fully sufficient in each such year (taking into account delinquencies and costs of collection) to produce maintenance tax revenues sufficient to (i) pay as they become due all Project Expenses for which there are insufficient available Revenues or (ii) produce maintenance tax revenues for the Project equal to the amounts budgeted for such purpose in such year by the County, whichever is greater.

Any such maintenance tax revenues are not part of the Trust Estate and may not be applied to the payment of debt service on the Toll Road Senior Lien Revenue Bonds or Parity Obligations (including the Bonds).

Although historically Revenues have been sufficient for the payment of Project Expenses, no assurance can be made that sufficient Revenues will be available in the future to maintain the Project adequately over the long term or that the County will not have to levy, assess and collect the annual maintenance tax for the payment of Project Expenses in the future. The continued successful operation of the Project will require timely and adequate maintenance and replacement of components of the Project. Any significant deterioration in the Project may result in increased Project Expenses and in reduced usage including temporary lane closures.

TOLL RATES

The County has covenanted to, at all times, fix, charge and collect tolls for use of the Project for each Fiscal Year as will be required to produce Revenues that will equal at least 1.25 times the Aggregate Debt Service on Outstanding Toll Road Senior Lien Revenue Bonds and Parity Obligations, accruing in such Fiscal Year.

The Commissioners Court has adopted the Toll Policy that establishes a process for an annual review and adjustment of toll rates. The Toll Policy provides guidelines for the systematic implementation of future rate increases, although from time to time based on recommendations from management, Commissioners Court may elect to defer or cancel an annual rate increase. The Toll Policy does not supersede toll rate covenants in existing or future bond documents, and in the event a conflict exists, the bond covenants prevail. See "THE TOLL ROAD PROJECT – Toll Rate Setting Policy." The County's willingness and ability to raise toll rates or to implement alternative toll pricing strategies in the future may be influenced by a variety of factors, including the toll rates charged by the owners or operators of other toll facilities in the region, local and regional economic conditions and political sensitivities.

In addition, when a toll rate increase is implemented, a portion of travelers may discontinue use of a toll facility in favor of alternative routes. Accordingly, future increases in toll rates could result in reduced usage of the County's toll facilities which could result in decreased Revenues.

ALTERNATIVE ROUTES

There are a number of non-tolled roadways in the County and certain existing and planned toll projects of other entities in the County and surrounding region that can, and do, serve as alternative routes for current and prospective users of the Project. Factors that could affect use of the Project include cost, time of day, day of the week, speed and delay. For additional information, see "THE TOLL ROAD PROJECT – Competing Highways and Transportation Facilities"; and "– Metropolitan Transit Authority of Harris County, Texas."

USE OF TOLL REVENUES ON NON-TOLL PROJECTS

The County agreed with TxDOT to contribute $200 million to TxDOT's US 290 corridor program $45 million of which was re-allocated to TxDOT's costs for frontage roads and watershed detention facilities for SH 249. See "THE TOLL ROAD PROJECT – Memorandum of Understanding with TxDOT and Subsequent Agreements and Actions."

Also, the County maintains a connectivity and mobility program for non-toll County road projects. The program is funded with transfers of Revenues of the Project after the payment of debt service and other Revenue Indenture requirements have been satisfied. The transfers are not mandatory and may be eliminated, reduced or increased at any time. The funding of the program is subject to applicable law, including the requirements of Chapter 284, Texas Transportation Code, the covenants and requirements of the Indentures and ultimately the discretion of Commissioners Court, which may make a determination to modify or discontinue the program at any time, including if Commissioners Court were to determine that such action would be in the best interest of the County, the Authority or the Project. For additional information, see "THE TOLL ROAD PROJECT – Other County Roads – Connectivity and Mobility Program."

MOTOR FUEL PRICES AND TAXES

There is no assurance that motor fuel will remain in adequate supply or that motor fuel prices and federal and State motor fuel taxes will not increase. Increases in motor fuel pump prices could negatively impact the use of the Project and Revenues of the County.

MARKET DISRUPTIONS, RELIANCE ON CAPITAL MARKETS

The credit markets experience substantial disruption from time to time. There can be no assurance as to the timing of any disruption or the extent of any recovery that may be made by credit markets. The County's capital plans include raising additional funds through bond financings for various projects, including the proposed Ship Channel Bridge project. If the County is unable to access the credit markets as a result of any such disruption, it is likely to have to delay the completion of certain projects until such time as the capital markets rebound. The effect of such delays could result in increased costs for such projects, which could negatively impact the Revenues of the County.

INTEREST RATE HEDGE AGREEMENTS

For a discussion of the County's policy related to Financial Management Products and the Swap Agreements entered into in connection with the Toll Road Senior Lien Revenue Bonds, see "TOLL ROAD FINANCIAL INFORMATION – Financial Management Products." The County has certain risks associated with the Swap Agreements, including but not limited to credit risk, and could be required to make net annual payments and termination payments to the Counterparties and post collateral. Such payments and collateral posting requirements could be substantial.

RISKS ASSOCIATED WITH SURETY PROVIDER

The amount of cash and investments on deposit in the Reserve Fund exceeds the aggregate Reserve Fund Requirement for all Outstanding Toll Road Senior Lien Bonds. The Reserve Fund Surety Policy was issued by a surety provider that was downgraded by the rating agencies subsequent to the date the policy was obtained. Prior to a draw on such policy, the Reserve Fund Surety Policy requires that the County must first draw cash and investments from the Reserve Fund to make up a debt service shortfall. For a discussion of the Reserve Fund Surety Policy and the provider of such policy, see "RESERVE FUND" and "APPENDIX H – DESCRIPTION OF RESERVE FUND SURETY POLICY."

RETIREMENT PROGRAM

For a discussion of the County's retirement program, see "TOLL ROAD FINANCIAL INFORMATION – Retirement Program" and Notes 8 and 9 in the Basic Financial Statements of the Harris County Toll Road Authority Enterprise Fund attached hereto as APPENDIX C. See also footnote (b) to "Schedule 3 – Selected Financial Information" under the heading "TOLL ROAD FINANCIAL INFORMATION."

ENVIRONMENTAL IMPACT ON COUNTY AND PROJECT

The County is subject to the environmental regulations of the State and the United States. These laws and regulations are subject to change, and the County may be required to expend substantial funds to meet the requirements of such regulatory authorities. Failure to comply with these laws and regulations may result in the imposition of administrative, civil and criminal penalties.

In addition, air quality control measures required by the United States Environmental Protection Agency (the "***EPA***") and the Texas Commission on Environmental Quality (the "***TCEQ***") may curtail new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990 ("***CAA***"), the eight county Houston-Galveston-Brazoria Area ("***HGB Area***") has been designated by the EPA as a severe non-attainment area under the EPA's ozone standards. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with EPA's standards is achieved. Transportation projects, including those of the Authority, must comply with and conform to the CAA.

Even though existing air emissions controls are quite stringent, studies have indicated that even more stringent air emissions controls will be necessary in order for the HGB Area to achieve compliance with the ozone standards. Due to the magnitude of air emissions reductions required as well as a shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community.

If the HGB Area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA's one-hour and eight-hour ozone standards by the initial deadline for serious non-attainment areas (June 15, 2019), EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of hydrocarbon emissions for which construction has not already commenced. It is also possible that non-attainment, a lapse in conformity under the CAA or other environmental issues may result in litigation involving injunctive or other relief that could affect the operation of the Project or give rise to delays in the construction of proposed toll projects.

PERIODIC FLOODING

Due in part to its relatively flat topography and moist coastal climate, and partly due to the effects of subsidence, certain areas of Harris County are subject to periodic flooding and associated severe property damage as a result of rain events, tropical storms and hurricanes. See "INTRODUCTORY STATEMENT – Hurricane Harvey." The County and most of the municipalities located within the County participate in the National Flood Insurance Program administered by the Federal Emergency Management Agency ("FEMA"). Communities participating in the National Flood Insurance Program are required by FEMA to adopt restrictions on development in designated flood-prone areas. In exchange, the National Flood Insurance Program makes federally subsidized flood insurance available to property owners located in the participating communities.

Given the ongoing effects of subsidence as well as increased development and urbanization within the County, FEMA periodically updates and revises its maps designating the areas of Harris County that are subject to special flood hazards. Properties that are currently located outside of a designated flood-prone area may suffer a reduction in value if they are placed within the boundaries of a special flood hazard area the next time FEMA updates and revises its flood maps.

POTENTIAL TO ISSUE ADDITIONAL BONDS

The County is currently evaluating the issuance of additional bonds or other obligations for the purpose of financing the costs of capital projects. See "THE TOLL ROAD PROJECT – Funding of System Improvements." For a discussion of the County's ability to issue additional bonds or other obligations under the Indentures, see "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS – Additional Toll Road Senior Lien Revenue Bonds and Parity Notes," "– Additional Parity Obligations" and "– Subordinate Lien Revenue Bonds and Bonds for Special Toll Road Projects."

BONDHOLDERS' REMEDIES

TOLL ROAD SENIOR LIEN REVENUE BONDS

Remedies available under the Revenue Indenture to an owner of Toll Road Senior Lien Revenue Bonds, including the Bonds, if a default occurs, are described in APPENDIX B under the caption "Defaults and Remedies."

SPECIAL RIGHTS OF BOND INSURERS AND CREDIT PROVIDERS

The Revenue Indenture provides that any Supplemental Indenture may provide that issuers of municipal bond insurance, letters of credit or other instruments that guaranty the payment of the principal of and interest on any Toll Road Senior Lien Revenue Bonds or Parity Notes may exercise the rights of the Owners thereof, including to direct the exercise of any remedies in the event of default or to consent to any future amendments to the Revenue Indenture, except with respect to any change in the terms of redemption, maturity of principal amount of such Toll Road Senior Lien Revenue Bonds or Parity Notes or any installment of interest thereon or any reduction in the principal amount or redemption price thereof or the rate of interest thereon.

ABSENCE OF LITIGATION REGARDING THE BONDS

On the Date of Delivery of the Bonds to the Underwriters, the County will execute and deliver to the Underwriters a certificate to the effect that no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or that would affect the provisions made for the repayment or security, or in any manner question the validity of the Bonds.

REGISTRATION, SALE AND DISTRIBUTION

The Bonds have not been registered under the federal Securities Act of 1933, as amended (in reliance upon an exemption therefrom), or the blue sky laws of any jurisdiction. The Indentures have not been qualified under the federal Trust Indenture Act of 1939, as amended (in reliance upon an exemption therefrom).

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments; are investment securities governed by Chapter 8, Texas Business and Commerce Code; and are legal and authorized investments for insurance companies, fiduciaries and trustees, and for the sinking fund of municipalities or other political subdivisions or public agencies of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in the State that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas, Government Code, as amended), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. No review by the County has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

The County has not made any investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Bonds.

TAX MATTERS

TAX EXEMPTION

In the opinion of Co-Bond Counsel to the County ("Co-Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Co-Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Co-Bond Counsel is set forth in APPENDIX E hereto.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Co-Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Co-Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Co-Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Co-Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Co-Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Co-Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Bond Counsel is expected to express no opinion.

The opinion of Co-Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Co-Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Co-Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The County has covenanted, however, to comply with the requirements of the Code.

Co-Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Co-Bond Counsel is not obligated to defend the County or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the County and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the County or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the unqualified approving opinion of the Attorney General of the State and the opinion of Orrick, Herrington & Sutcliffe LLP and Bratton & Associates, Co-Bond Counsel, in substantially the form attached hereto as APPENDIX A. The opinion of Co-Bond Counsel will be based upon an examination of transcripts of certain proceedings taken by the County incident to the issuance and authorization of the Bonds. The payment of the fees of Co-Bond Counsel for their services with respect to the Bonds is contingent upon the sale and delivery of the Bonds.

Certain legal matters will be passed upon for the County by its Co-Disclosure Counsel, Greenberg Traurig, LLP and Bates & Coleman, PC. The legal fees to be paid to Co-Disclosure Counsel for their services with respect to the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Bracewell LLP and West & Associates, LLP.

Orrick, Herrington & Sutcliffe LLP, Bratton & Associates, Greenberg Traurig, LLP and Bates & Coleman, PC represent the Underwriters from time to time in matters unrelated to the issuance of the Bonds. Bracewell LLP represents the County from time to time in matters unrelated to the issuance of 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 that 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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations of the adequacy of the maturing principal of and interest earned on the Escrowed Securities, together with other available funds held in the Escrow Fund, to provide for the payment of the Refunded Bonds, will be verified by the Verification Agent. The Verification Agent will verify that the scheduled payments of principal and interest on the Escrowed Securities are in such amounts and become due at such times so as to provide, together with the initial cash deposit by the County (if any), sufficient funds to pay all principal of and interest on the Refunded Bonds when due, without reinvestment.

These computations will be based upon information and assumptions supplied by the Underwriters on behalf of the County. The Verification Agent has restricted its procedures to recalculating the computations provided by the Underwriters and has not evaluated or examined the assumptions or information used in the computations.

UNDERWRITING

Goldman Sachs & Co. LLC, as representative of the Underwriters, has agreed, subject to certain conditions, to purchase the Bonds at a price of $625,377,790.34 (reflecting the par amount of the Bonds, plus original issue premium of $67,519,186.35 and less an underwriting discount of $2,041,396.01). The Underwriters will be obligated to purchase all of the Bonds if any such Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the respective Underwriters and other dealers depositing 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 County has also agreed to reimburse the Underwriters for certain expenses in connection with the offering.

The offering of the Bonds by the Underwriters is subject to receipt and acceptance and subject to the Underwriters' right to reject any order in whole or in part.

The Bonds are a new issue of securities with no established trading market. The County has been advised by the Underwriters that they intend to make a market in the Bonds but are not obligated to do so and may discontinue market-making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Bonds.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the County as Underwriters) for the distribution of the Bonds at the original issue prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers. See APPENDIX I – UNDERWRITER DISTRIBUTION AGREEMENTS.

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 County and to persons and entities with relationships with the County, 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 County (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the County. 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.

The County intends to use a portion of the proceeds of the Bonds to refund the Refunded Bonds. Goldman Sachs & Co. LLC, or other Underwriters for this offering, or an affiliate thereof, may hold certain of the Refunded Bonds and, as a result, would receive a portion of the proceeds from this offering in connection with such Refunded Bonds.

FINANCIAL STATEMENTS

APPENDIX C to this Official Statement contains the basic financial statements of the County and the Toll Road Authority Enterprise Fund for the Fiscal Year ended February 28, 2017. These financial statements of the County and the Toll Road Authority Enterprise Fund, as of and for the Fiscal Year ended February 28, 2017 included in this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports included with such financial statements in APPENDIX C. The report on the County's financial statements contains a reference to other auditors.

The basic financial statements of the County have been prepared in accordance with generally accepted accounting principles in the United States of America and, in addition to financial information with respect to the County and the Toll Road Authority Enterprise Fund, include financial information with respect to the Harris County Flood Control District, Harris County Juvenile Board, the Harris County Sports & Convention Corporation, Harris County Redevelopment Authority, Harris County Hospital District (dba Harris County Health System), Harris County Housing Finance Corporation, Mental Health and Mental Retardation Authority of Harris County, Harris County Industrial Development Corporation, Children's Assessment Center Foundation, Inc., Harris County Health Facilities Development Corporation, Harris County Cultural Education Facilities Finance Corp., and Friends of County Pets, all of which are separate entities that are not obligated for the payment of the Bonds. Accordingly, financial and statistical information with respect to such separate legal entities is generally not included in this Official Statement. Notwithstanding anything to the contrary contained in APPENDIX C, the Bonds are solely special obligations of the County payable from and secured as described in the section captioned "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS."

FINANCIAL ADVISOR

Hilltop Securities, Inc. ("***Hilltop***") has been retained by the County as its Financial Advisor in connection with the issuance of the Bonds and, in such capacity, has assisted the County in the preparation of documents. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is not contingent upon the issuance and delivery of the Bonds. Additionally, an affiliate of Hilltop, FirstSouthwest Asset Management, has been retained by the County to provide assistance with calculations related to arbitrage and rebate. Further, Hilltop has in the past been retained by the County to advise the County in connection with employment of financial management products in accordance with the County's Financial Management Product Policy.

Although the Financial Advisor has read and participated in the preparation of this Official Statement, such firm has not independently verified any of the information set forth herein. The information contained in this

Official Statement has been obtained primarily from the County's records and from other sources that are believed to be reliable, including financial records of the County and other entities that may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

RATINGS

Fitch and Moody's have assigned credit ratings of "AA" and "Aa2", respectively, to the Bonds. A rating reflects only the view of the rating agency assigning such rating, from whom an explanation of the procedure and methodology used by such rating agency may be obtained. The County is not obligated to maintain the current ratings on the Bonds and there is no assurance that ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of any or all of the Bonds. The County will undertake no responsibility to oppose any withdrawal or revision of such ratings or to notify the owners of the Bonds of any such revisions or withdrawals of ratings. A securities rating is not a recommendation to buy, sell or hold the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Fortieth Supplemental Indenture, the County has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The County is required to observe this agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the Fortieth Supplemental Indenture, the County will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events, to the Municipal Securities Rulemaking Board ("***MSRB***"). The MSRB intends to make such information available to the public free of charge.

ANNUAL REPORTS

The County 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 County of the general type included in this Official Statement in APPENDIX C and under the Schedules listed in APPENDIX F. The County will update and provide this information within six (6) months after the end of each Fiscal Year.

The County may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "***Rule***"). The updated information will include audited financial statements, if the County commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the County will provide unaudited financial information and operating data that is customarily prepared by the County by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the County may be required to employ from time to time pursuant to State law or regulation.

The County's current Fiscal Year end is the last day of February. Accordingly, it must provide updated information by August 31 in each year, unless the County changes its Fiscal Year. If the County changes its Fiscal Year, it will notify the MSRB of the change.

CERTAIN EVENT NOTICES

The County will provide to the MSRB timely notice, not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Bonds: (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, 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 County; (13) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional Trustee or the change in the name of the Trustee, if material. In addition, the County will provide timely notice of any failure by the County to provide financial information or operating data in accordance with its agreement described above under "– Annual Reports."

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 County in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the County, 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 County.

AVAILABILITY OF INFORMATION

The County has agreed to provide the foregoing information only to the MSRB. Such information will be available from the MSRB via the Electronic Municipal Market Access ("***EMMA***") system at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS

The County has agreed to update information and to provide notices of certain events only as described above. The County 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 County makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The County disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the County to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the County's duties under federal or state securities laws.

The County may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law or a change in the identity, nature, status or type of operations of the County, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby in compliance with the Rule, and either the holders of a majority in aggregate principal amount of the Outstanding Toll Road Senior Lien Revenue Bonds consent or any person unaffiliated with the County (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The County may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, and the County may amend the agreement in its discretion in any other circumstance or manner, but in either case only to the extent that its right to do so would not prevent the Underwriters from purchasing the Bonds in the offering described herein in compliance with the Rule, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the County so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "CONTINUING DISCLOSURE OF INFORMATION – Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of any change in the type of financial information and operating data so provided.

OTHER FINANCIAL INFORMATION

The County intends to provide certain unaudited monthly financial statements for the benefit of the holders and beneficial owners of the Bonds. This financial information will be made available at the website of the County Auditor (www.harriscountytx.gov/Auditor). The information on such website is not incorporated into this Official Statement and is dated as indicated therein. The County makes no assurances that the information will be updated in the future.

The County disclaims any responsibility regarding other internet sites that may be accessed through the website of the County Auditor.

AUDITED FINANCIAL REPORT OF THE COUNTY

The County requires that an annual audit be performed by an independent public accounting firm in accordance with generally accepted auditing standards. The Fiscal Year 2017 audited financial report, and additional financial information are available for public inspection, or copies may be obtained by written request to the extent permitted by law, addressed to the County Auditor.

TRUSTEE AND PAYING AGENT

The Bank of New York Mellon Trust Company, National Association, is acting as the Trustee and Paying Agent/Registrar. The County may replace the Trustee and Paying Agent in accordance with the terms of the Fortieth Supplemental Indenture. The County pays the fees and expenses of the Trustee and Paying Agent/Registrar.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the County, that are not purely historical are forward-looking statements, including statements regarding the County'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 County on the date hereof, and the County assumes no obligation to update any such forward-looking statements. It is important to note that the County'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 County. 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 DATA AND OTHER INFORMATION

The information set forth herein has been obtained from records, financial reports and other sources of the County that are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statement of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

MISCELLANEOUS

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof. In particular, no opinion or representation is rendered as to whether any forecast will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Copies of the Tax Indenture and Revenue Indenture are available upon request from Amy Perez, Director, Financial Management, Harris County Administration Building, 1001 Preston, Suite 500, Houston, Texas 77002, (713) 274-1157, upon the payment of reasonable reproduction and postage costs.

The County's annual audited financial statements are available from Michael Post, CPA, MBA, County Auditor, Harris County Administration Building, 1001 Preston, 8th Floor, Houston, Texas 77002, (832) 972-4600, upon the payment of reasonable reproduction and postage costs, and posted on the County website at www.harriscountytx.gov/Auditor.

THIS OFFICIAL STATEMENT was approved on behalf of the County by the Commissioners Court.

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

Senior Lien Refunding Bonds, Series 2007A	Maturity Date (August 15)	Interest Rate	Principal Amount	Call Date	Call Price
Serial Bonds:	2019	5.000%	$15,830,000	04/02/2018	100%
	2020	4.500	16,765,000	04/02/2018	100
	2021	4.500	17,715,000	04/02/2018	100
	2022	4.500	18,710,000	04/02/2018	100
	2023	4.500	19,740,000	04/02/2018	100
	2024	4.500	20,835,000	04/02/2018	100
	2025	4.500	945,000	04/02/2018	100
	2026	4.500	990,000	04/02/2018	100
	2027	4.500	1,035,000	04/02/2018	100
Term Bond Maturing 2032:	2031	4.750	16,430,000	04/02/2018	100
	2032	4.750	18,630,000	04/02/2018	100
Term Bond Maturing 2033:	2028	5.000	1,085,000	04/02/2018	100
	2029	5.000	1,140,000	04/02/2018	100
	2030	5.000	1,195,000	04/02/2018	100
	2031	5.000	16,000,000	04/02/2018	100
	2032	5.000	17,000,000	04/02/2018	100
	2033	5.000	14,325,000	04/02/2018	100

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APPENDIX A

GLOSSARY OF TERMS

The following sets forth certain definitions used in this Official Statement. Reference is made to the Revenue Indenture, copies of which may be obtained from the County, for a full and complete statement of its provisions. A summary of the Revenue Indenture is included in APPENDIX B.

"Account" or "Accounts" means any one or more, as the case may be, of the accounts from time to time created in any of the Funds required to be maintained pursuant to the Indentures.

"Accountant" means any certified public accountant or firm of certified public accountants or accounting corporation of recognized experience and qualifications, selected by the County, and may be the accountant or firm of accountants that regularly audits the books of the County.

"Act" means, collectively, Chapter 284, Texas Transportation Code, and Chapters 1201, 1207, 1371 and 1431, Texas Government Code, as they may be amended from time to time.

"Aggregate Debt Service" means, for any Fiscal Year or other period, as of the date of calculation, the sum of the amounts of Debt Service for such Fiscal Year or other period with respect to all Toll Road Senior Lien Revenue Bonds and Parity Obligations then Outstanding.

"Airport Connector" means the direct connection from the Hardy Toll Road north of Beltway 8-North to John F. Kennedy Boulevard serving George Bush Intercontinental Airport.

"Authenticating Agent" means any agent of the Trustee designated to authenticate Toll Road Bonds of any series, as provided in any Supplemental Indenture, and its successor or successors, which may include the Trustee. The current Authenticating Agent for the Toll Road Bonds is The Bank of New York Mellon Trust Company, National Association.

"Authorized Representative" shall mean the Executive Director/County Budget Office of the Budget Management Department, Senior Director of Finance and Budget or the Director of Financial Management of the County, acting on behalf of the County, or such person(s) designated in writing by either the Executive Director, Budget Management Department of the County, or the Director/County Budget Officer, Office of Financial Management of the County, to serve in such capacity on behalf of the County.

"Authority" means the Harris County Toll Road Authority, a department of Harris County, Texas.

"Bankruptcy Code" means Title 11 of the United States Code, as amended, and any successor statute.

"Beneficial Owner" means any Person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any Person holding a Bond through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

"Bond Counsel" or "Co-Bond Counsel" means Orrick, Herrington & Sutcliffe LLP and Bratton & Associates or any other attorney at law or firm of attorneys selected by the County of nationally recognized standing in matters pertaining to the validity of and the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

"Bondholder" or "Holder" means, as of any time, the registered owner of any Bond as shown in the register kept by the Trustee as bond registrar.

"Business Day" means any day other than a Saturday, Sunday or other day on which the New York Stock Exchange is closed or on which banks are authorized or required to be closed in any of the City of Houston, Texas, the City of New York, New York or any other municipality in which the Principal Office of the Trustee is located.

"Code" means the Internal Revenue Code of 1986, as from time to time amended, and any regulations promulgated thereunder which are applicable to the Bonds, including without limitation any Treasury Regulations or Temporary or Proposed Regulations, as the same shall from time to time be amended including (until modified, amended or superseded) Treasury Regulations or Temporary or Proposed Regulations under the Internal Revenue Code of 1954, as amended, as applicable to the Toll Road Senior Lien Revenue Bonds.

"Commissioners Court" means the Commissioners Court of Harris County, Texas, which is the governing body of the County.

"Construction Fund" means the Toll Road Senior Lien Revenue Bond Construction Fund required to be maintained by the County pursuant to the Revenue Indenture and any separate accounts required to be maintained in the Construction Fund pursuant to the terms of any Supplemental Indenture.

"Consulting Engineers" shall mean the County Engineer or the engineering firm or firms at the time employed by the County pursuant to the provisions of the Revenue Indenture to carry out the duties imposed by the Revenue Indenture on the Consulting Engineers.

"Cost" or "Cost of the Project" or "Project Development Cost" means all costs of acquisition, construction, improvement, operation, and maintenance of the Project or any project or projects with which the Project is proposed to be pooled which meets the definition of cost of the project under the Act. Such costs shall include all reasonable costs of marketing and providing public information to inform the public of the services and facilities provided by the Project.

"County" means Harris County, Texas, a body politic and corporate and a political subdivision of the State of Texas.

"Debt Service" means, with respect to any particular Fiscal Year or other period and any series of Toll Road Senior Lien Revenue Bonds or Parity Obligations, an amount equal to the sum of (a) all interest accruing on such Toll Road Senior Lien Revenue Bonds and Parity Notes during such period, except to the extent that such interest is to be paid from amounts (including any investment earnings thereon) deposited in the Debt Service Fund, Construction Fund, or elsewhere for the purpose of providing capitalized interest, and except to the extent that such accruing interest on such Toll Road Senior Lien Revenue Bonds or Parity Notes is payable only at maturity or redemption (as with capital appreciation bonds), in which case the entire amount of such interest shall be deemed to accrue in the same manner as Principal Installments, plus (b) that portion of the Principal Installment or Installments of such Toll Road Senior Lien Revenue Bonds or Parity Notes which would accrue during such period if such Principal Installment or Installments were deemed to accrue monthly from a date one year prior to its due date or from the date of issuance of the respective series, whichever is later, plus or minus (c) net amounts payable or receivable under any Parity Hedge Agreements, which accrue during such period. For purposes of calculating Debt Service for Toll Road Senior Lien Revenue Bonds and Parity Obligations, the following rules shall apply:

(A) Interest and Principal Installments for any series of Toll Road Senior Lien Revenue Bonds or Parity Notes shall be calculated on the assumption that no such Toll Road Senior Lien Revenue Bonds or Parity Notes of any series Outstanding on the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

(B) Interest and Principal Installments for any series of Parity Notes shall be calculated on the assumption that all Parity Notes shall be continuously refinanced with other Parity Notes or Toll Road Senior Lien Revenue Bonds so as to permit approximately equal annual amortization of Debt Service on such series of Parity Notes over a period of 30 years following depletion of any amounts provided for capitalized interest on such Parity Notes.

(C) Except as provided in (D) below, future Debt Service for any series of Toll Road Senior Lien Revenue Bonds or Parity Notes which bears interest at variable rates or which will at some future date bear interest at a rate or rates to be determined or which will be subject to conversion to an interest rate or interest rate mode such that rates cannot currently be ascertained shall be calculated using a rate which shall be estimated and certified by the financial advisor to the County as the rate that would have been borne by such Toll Road Senior Lien Revenue Bonds or Parity Notes if they were at the date of certification issued (or remarketed as the case may be) as bearing a fixed rate of interest to their scheduled final maturity date. The final scheduled maturity date for Parity Notes shall be assumed to be 30 years.

(D) Amounts payable and/or receivable by the County under Parity Hedge Agreements may be combined with payments of Debt Service on any series of Toll Road Senior Lien Revenue Bonds or Parity Notes to which the Parity Hedge Agreement relates. In such event, the financial advisor to the County shall prepare a combined calculation of Debt Service with respect to the amounts payable and/or receivable under the Parity Hedge Agreement and the amounts of interest payable under the Toll Road Senior Lien Revenue Bonds or Parity Notes to which it relates, and in such calculation may offset amounts receivable by the County under the Parity Hedge Agreement against interest payable on related Toll Road Senior Lien Revenue Bonds or Parity Notes. Any remaining (i.e., not offset) payment obligations of the County under the Parity Hedge Agreement shall be treated as payments of interest for purposes of computing Debt Service and shall be calculated at the rate provided in such Parity Hedge Agreement the same as if it were an interest rate on Toll Road Senior Lien Revenue Bonds or Parity Notes, and if such rate is variable or otherwise not ascertainable at the time of calculation, shall be estimated by such financial advisor to the County in the same manner as provided for the estimation of Debt Service on Toll Road Senior Lien Revenue Bonds or Parity Notes bearing interest at variable rates or rates not ascertainable at the time of calculation. If not combined with payments of Debt Service on Toll Road Senior Lien Revenue Bonds or Parity Notes as set forth above, amounts payable and/or receivable by the County under Parity Hedge Agreements shall include only the net amount payable and/or receivable for purposes of computing Debt Service.

"Debt Service Fund" means the County Toll Road Senior Lien Revenue Bond Debt Service Fund established pursuant to the Revenue Indenture.

"Debt Service Reserve Fund" means the County Toll Road Senior Lien Debt Service Reserve Fund required to be maintained pursuant to the Revenue Indenture.

"Debt Service Reserve Fund Requirement" or "Reserve Fund Requirement" means the amount established and stipulated in each Supplemental Indenture, which shall be not less than the average annual Aggregate Debt Service nor more than the maximum Aggregate Debt Service in the current or any future Fiscal Year based upon calculations of Aggregate Debt Service for each such Fiscal Year performed as of the date of issuance of each series, which calculations shall take into account the issuance of the series of Toll Road Senior Lien Revenue Bonds or Parity Obligations being issued as of the date of calculation; provided, however, that if any series of Toll Road Senior Lien Revenue Bonds or Parity Obligations will for any period of time beginning on the date of issuance be fully secured as to the payment of principal or purchase price thereof and interest thereon during such period by the pledge of funds pursuant to a written escrow or trust agreement with the Trustee, Paying Agent or any tender agent, then the Debt Service Reserve Fund Requirement with respect to such series of Toll Road Senior Lien Revenue Bonds or Parity Obligations shall not begin to apply until such date as such series of Toll Road Senior Lien Revenue Bonds or Parity Obligations is no longer fully secured pursuant to such agreement. See "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS – FLOW OF FUNDS – Reserve Fund".

"Downtown Connector" means the proposed direct connection from the Hardy Toll Road southern terminus at Loop 610 to downtown Houston.

"DTC" means The Depository Trust Company, New York, New York.

"EPA" means the United States Environmental Protection Agency.

"Event of Default" means an Event of Default as such term is defined in the Revenue Indenture as set out in APPENDIX B under the caption "– Defaults and Remedies."

"Financial Advisor" means Hilltop Securities, Inc..

"Fiscal Year" means the fiscal year as established by the County which is currently the 12-month period ending the last day of February, but which may be changed from time to time.

"Fitch" means Fitch Ratings, Inc. a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, shall be deemed to refer to any other nationally recognized securities rating agency designated by the County by notice to the Trustee.

"Fortieth Supplemental Indenture" means the Fortieth Supplemental Toll Road Senior Lien Revenue Bond Trust Indenture between the County and the Trustee dated as of February 1, 2018, authorizing the issuance of the Bonds.

"Funds" means any one or more, as the case may be, of the separate special funds created and established or required to be maintained pursuant to the Indentures.

"Hardy Toll Road" means that toll road described under "THE TOLL ROAD PROJECT – HARDY TOLL ROAD."

"Indenture" and "Indentures" shall mean, collectively, the Revenue Indenture and the Tax Indenture as from time to time supplemented and amended, including by the Fortieth Supplemental Indenture to the Revenue Indenture.

"Indenture Mobility Fund" shall mean the Harris County, Texas, Toll Road Mobility Fund required to be maintained by the County pursuant to Section 502 of the Indenture.

"Independent Traffic Engineer" shall mean an engineering firm or corporation retained by the County pursuant to the provisions of the Indentures to carry out the duties supposed by the Indentures on the Independent Traffic Engineer.

"Interest Payment Date" shall have the meaning set forth in the Officer's Pricing Certificate.

"Investment Security" or "Investment Securities" means those specified as Investment Securities in APPENDIX B, including currently (1) direct, noncallable obligations of the United States of America including obligations that are unconditionally guaranteed by the United States of America and (2) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the County, are rated as to investment quality by a nationally recognized investment firm not less than "AAA" or its equivalent. The County has the right, subject to satisfying the requirements of (1) and (2) above to substitute other Investment Securities for the Investment Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the County moneys in excess of the amount required for such defeasance.

"Junior Lien Obligations" shall mean bonds or other obligations issued under the Revenue Indenture with a lien on Revenues junior to the lien securing Senior Lien Obligations. There are currently no Junior Lien Obligations outstanding.

"Master Revenue Indenture" means the Third Amended and Restated Toll Road Senior Lien Revenue Bond Trust Indenture, dated as of December 1, 2015, as from time to time supplemented and amended, including by this Fortieth Supplemental Indenture.

"METRO" means the Metropolitan Transit Authority of Harris County, Texas, a regional transit authority created pursuant to Chapter 451, Texas Transportation Code, as amended.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the County by notice to the County and the Trustee.

"Net Revenues" means, for any Fiscal Year or other period of time, the Revenues less the Operating Expenses.

"Officer's Pricing Certificate" shall mean a certificate or certificates to be signed by the Authorized Representative setting forth the final terms of the Bonds.

"Operating Expenses" means only so much of the Project Expenses as shall constitute the County's expenses for operation, maintenance, repairs, ordinary replacement and ordinary reconstruction of the Project and ordinary acquisition of equipment and any other current expenses or obligations required to be paid by the County under the provisions of the Revenue Indenture or by law, all to the extent properly and directly attributable to the operation of the Project, but not any costs or expenses for new construction or any allowance for depreciation.

"Operating Reserve" means, as of any particular time of calculation, an amount of money to be retained in the Revenue Fund pursuant to the Revenue Indenture which is equal to two months of Project Expenses, as set out in the County's annual budget for the Project.

"Order" means the order adopted by the Commissioners Court dated January 9, 2018 authorizing issuance of the Bonds.

"Outstanding" means as of any date, Toll Road Senior Lien Revenue Bonds or Parity Obligations, theretofore or thereupon being authenticated and delivered pursuant to the Revenue Indenture except: (i) Toll Road Senior Lien Revenue Bonds or Parity Obligations canceled by the Trustee or delivered to the Trustee for cancellation at or prior to such date; (ii) Toll Road Senior Lien Revenue Bonds or Parity Obligations in lieu of or in substitution for which other Toll Road Senior Lien Revenue Bonds or Parity Obligations shall have been authenticated and delivered pursuant to the Revenue Indenture; (iii) Toll Road Senior Lien Revenue Bonds or Parity Obligations deemed to have been paid or defeased as provided in the Revenue Indenture or as provided by law; and (iv) as otherwise provided in any Supplemental Indenture.

"Owner," "Owners," "Bondholder," or "Bondholders" means the registered owner or owners of any of the Bonds.

"Parity Credit Agreement" as defined in the Revenue Indenture means any agreement between the County and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, municipal bond insurance policy, line of credit, standby purchase agreement, surety policy, surety bond, or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the County's obligations pursuant to any Toll Road Senior Lien Revenue Bonds, Parity Notes or Parity Hedge Agreements; and in consideration for which the County may agree to pay certain fees and to reimburse and repay any amounts advanced under such Parity Credit Agreement, together with interest and other stipulated costs and charges.

"Parity Hedge Agreement" as defined in the Revenue Indenture means any agreement between the County and a qualifying financial institution (as described in the following sentence) for the purpose of providing an interest rate swap, cap, collar, floor, forward or other hedging mechanism, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on any portion of any Toll Road Senior Lien Revenue Bonds or Parity Notes. A Parity Hedge Agreement may only be entered into with a financial institution which (a) for a transaction having a term of less than ten years, has long-term credit ratings in one of the three highest generic rating categories by at least two nationally recognized rating services or (b) for a transaction having a term of ten years or longer, has at the time of entering into such transaction long-term credit ratings in one of the two highest generic rating categories by at least two nationally recognized rating services; provided, however, that such rating requirement may be satisfied by an affiliated entity of such financial institution or a third party with the requisite rating with whom the financial institution and/or the County have a contractual arrangement pursuant to which such affiliated entity or third party provides credit support for the Parity Hedge Agreement.

"Parity Notes" means any note or notes, as the case may be, issued pursuant to a commercial paper program and authenticated and delivered under and pursuant to the Revenue Indenture, and secured by the Trust Estate. The Series E-1 Notes and the Series E-2 Notes are Parity Notes under the Revenue Indenture.

"Parity Obligations" means any of the following obligations of the County issued or incurred pursuant to the Revenue Indenture:

(a) Parity Notes;

(b) Any and all repayment, reimbursement or other obligations arising pursuant to any Parity Credit Agreement; and

(c) Any and all payment obligations arising pursuant to any Parity Hedge Agreements which may be netted against amounts, if any, due the County pursuant to such Parity Hedge Agreements.

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

"Paying Agent" means The Bank of New York Mellon Trust Company, National Association, or such other bank or trust company or national banking institution as the County may designate from time to time which meets the requirements of the Indentures.

"Person" or "person" means an individual, a corporation, firm, association, partnership, limited liability company, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Pooled Project" means the Beltway 8 and Hardy Street Project, together with the component facilities pooled with the Beltway 8 and Hardy Street Project pursuant to resolutions adopted by Commissioners Court, and such Pooled Project shall constitute the Project for purposes of the Indentures. See also definition of "Project."

"Principal Installment" or "Principal Installments" means (a) with respect to Toll Road Senior Lien Revenue Bonds of a particular series, an amount of money equal to the aggregate of (i) the principal amount of Outstanding Toll Road Senior Lien Revenue Bonds of such series which mature on a single future date, reduced by the aggregate principal amount of such Outstanding Toll Road Senior Lien Revenue Bonds of such series which would at or before said future date be retired as a result of Sinking Fund Installments applied in accordance with the Revenue Indenture or a Supplemental Indenture plus (ii) the amount of any Sinking Fund Installment payable on said future date for the retirement of any Outstanding Toll Road Senior Lien Revenue Bonds of said series; and (b) with respect to Parity Notes, except to the extent actually paid from the Trust Estate (and not from the proceeds of other Parity Notes or Toll Road Senior Lien Revenue Bonds issued for refunding or refinancing purposes), each series shall be deemed to have Principal Installments in each of the 30 consecutive Fiscal Years beginning in the Fiscal Year following the depletion of any amounts provided as capitalized interest for such series of Parity Notes, which Principal Installments shall be in such amounts as shall be calculated by the County's financial advisor to achieve an approximately equal annual amortization of Debt Service on such series of Parity Notes over such 30 year period.

"Project"[(1)] shall mean all of the County's right, title and interest (whether such interest is fee, easement, leasehold, contractual or otherwise) in and to (i) the Beltway 8 and the Hardy Street Project and (ii) such other

[(1)] Since the adoption of the pooling resolution in September 2001, the County has declined to develop items (8), (9), (11) and (13), and items (1), (2), (3), (6A), (6B), (6C) and (10) have been or will be developed by other parties and are no longer considered to be part of the project or projects, or interest therein, with which the Project may be pooled pursuant to the Act or other applicable law (each of which shall be a "Pooled Project"). "Beltway 8 and Hardy Street Project" shall mean: (1) the Beltway 8, which will consist of the road or turnpike encircling Loop 610; and (2) Hardy Street, which will consist of the road or turnpike running from North Loop 610 on the south to the Montgomery/Harris County line on the north.

Pursuant to resolutions adopted by Commissioners Court, the following projects, including each component facility, have been pooled with the Beltway 8 and Hardy Street Project:

(1) *State Highway 288*,[(1)] between US 59 and Grand Parkway South (State Highway 99) for a distance of approximately 18½ miles;

(2) *Fort Bend Parkway Tollway*,[(1)] between the Harris County-Fort Bend County line near the intersection of Beltway 8 South and Hillcroft and the Grand Parkway South (State Highway 99) south of State Highway 6 for a distance of approximately 14½ miles;

(3) *Fort Bend Westpark Tollway*,[(1)] between FM 1464 and the Grand Parkway West (State Highway 99) for a distance of approximately 5 miles;

(4) *IH 10 West Toll Lanes*, between IH 610 West and FM 1463 in Katy for a distance of approximately 22½ miles and between IH 610 and Highway 6 for a distance of approximately 12 miles;

(5) *Northwest Corridor Tollway*, between IH 610 North and the Grand Parkway North (State Highway 99) near Tomball for a distance of approximately 20½ miles (see "THE TOLL ROAD PROJECT – TOMBALL TOLLWAY");

(6A) *Grand Parkway Tollway Northwest*,[(1)] between IH 10 West near Katy and US 59 North, crossing US 290, State Highway 249 and IH 45 North, for a distance of approximately 53 miles;

(6B) *Grand Parkway Tollway South*[(1)], between US 59 South and the Fred Hartman Bridge (State Highway 146) for a distance of approximately 62 miles;

(6C) *Grand Parkway Tollway East*[(1)], between IH 10 East and US 59 North for a distance of approximately 39½ miles;

(7) *Beltway 8 Tollway East*, between US 59 North and US 90 East for a distance of approximately 14 miles (See "THE TOLL ROAD PROJECT – SAM HOUSTON TOLLWAY – Sam Houston Tollway-North/East");

(8) *State Highway 87 Toll Bridge*,[(1)] from the east end of Galveston Island to the Bolivar Peninsula for a distance of approximately 7 miles;

(9) *Proposed Thoroughfares Across Barker Reservoir*,[(1)] as follows:

(A) *Kingsland Blvd. Thoroughfare*, between Barker Cypress Road and State Highway 6 for a distance of approximately 3½ miles;

(B) *Briar Forest Extension*, between the intersection of Briar Forest and State Highway 6 and the west side of the Barker Reservoir for a distance of approximately 5 miles; and

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County's toll road system. See "THE TOLL ROAD PROJECT – Pooling and Past Prioritization of Projects." In particular, the County rescinded primacy on the SH 288, US 290 and Grand Parkway toll projects in Harris County, and TxDOT has the development rights for those projects. The northern portion of the SH 288 project in Harris County is being developed by a private concessionaire under a comprehensive development agreement with TxDOT. The southern portion, in Brazoria County, is being developed by the Brazoria County Toll Road Authority. TxDOT is currently re-constructing the US 290 corridor without a managed toll road component. TxDOT has financed and developed several segments of the Grand Parkway and is currently development additional segments. None of the projects are or will be part of the Authority's system. In addition, Fort Bend County, through its toll road authority, financed and developed the Fort Bend Parkway Tollway and the Fort Bend Westpark Tollway. The Fort Bend projects are not part of the Authority's system. See "THE TOLL ROAD PROJECT– Fort Bend Parkway Tollway and Fort Bend Westpark Tollway." METRO also operates five HOV lanes in Harris County that were converted to High Occupancy Toll Lanes (or HOT lanes). The METRO HOT lanes are not part of the Authority's system. See "THE TOLL ROAD PROJECT – Metropolitan Transit Authority of Harris County, Texas."

(C) *Barker Cypress Thoroughfare*, between IH 10 West and the Westpark Tollway for a distance of approximately 5 miles;

(10) *US 290 Toll Lanes*,[(1)] between IH 610 West and the Grand Parkway Northwest (State Highway 99) for a distance of approximately 24 miles;

(11) *Southern Pacific Railroad Corridor*,[(1)] between US 90A (South Main Street) and IH 610 North for a distance of approximately 9½ miles;

(12) *State Highway 35 South*, between Old Spanish Trail and Grand Parkway South (State Highway 99) for a distance of approximately 20 miles;

(13) *Fairmont Parkway East*,[(1)] between Beltway 8 East and Grand Parkway East (State Highway 99) for a distance of approximately 9½ miles;

(14) *Westpark Tollway*, between IH 610 West and FM 1464 west of State Highway 6 for a distance of approximately 14 miles;

(15) *South Post Oak Road Extension*, between IH 610 South and near the intersection of Beltway 8 and Hillcroft in the vicinity of the Fort Bend Parkway Tollway for a distance of approximately 5½ miles; and

shall include without limitation all of the following which are necessary or useful in connection therewith: causeways, bridges, tunnels, turnpikes, highways or any combination of such facilities, and all overpasses, underpasses, interchanges, entrance plazas, toll houses, service stations, approaches, fixtures, accessories, equipment and administration, storage and all other buildings, together with all property rights, easements and interests acquired in connection therewith, and any other improvements, extensions and betterments as may now be permitted by the Act, expressly including approaches to or extension of the Hardy Toll Road which connect the Hardy Toll Road to Houston Intercontinental Airport and to Downtown Houston, US 59 and I.H. 10.

For a discussion of the County's reevaluation and prioritization of projects and subsequent actions, see the section captioned "THE TOLL ROAD PROJECT – POOLING AND PAST PRIORITIZATION OF PROJECTS." See also Footnote (1) to the definition of "Project."

"Project Expenses" means the County's costs and expenses of maintenance, repair, operation and administration of the Project and includes without limiting the generality of the foregoing: (i) salaries, supplies, utilities, labor and rent; (ii) fees and expenses for data processing, policing, insurance, legal, accounting and engineering services, the Trustee, depositories or Paying Agents, letters of credit and credit facilities, consulting and banking services (which may include premiums, costs and expenses relating to interest rate caps, limits or guarantees); (iii) costs of issuance not paid as a Cost of the Project; and (iv) payments to pension, retirement, health, and hospitalization funds.

"Project Segment" shall mean any addition to, or expansion or improvement of, the Project identified as a Project Segment in any Supplemental Indenture.

"Record Date" or "Record Dates" means the first day of each month in which there is an Interest Payment Date.

"Redemption Price" or "Redemption Prices" means the principal amount of any Bond plus the applicable premium, if any, payable upon redemption thereof.

"Register" means the registration books kept by the Registrar which show ownership of the Bonds.

"Registrar" shall mean The Bank of New York Mellon Trust Company, National Association, and its successors in such capacity.

"Renewal and Replacement Fund" means the County Toll Road Renewal and Replacement Fund established pursuant to the Revenue Indenture.

"Reserve Fund Requirement." See definition of "Debt Service Reserve Fund Requirement."

"Revenue Fund" means the County Toll Road Senior Lien Revenue Bonds Revenue Fund required to be maintained by the County pursuant to the Revenue Indenture.

"Revenue Indenture" means, collectively, the Third Amended and Restated Toll Road Senior Lien Revenue Bond Trust Indenture dated as of December 1, 2015, and as supplemented to date, including the Fortieth Supplemental Indenture, dated as of February 1, 2018, between the County and The Bank of New York Mellon Trust Company, National Association, as Trustee.

"Revenues" means all amounts derived from the ownership or operation of the Project which constitute revenues in accordance with generally accepted accounting principles, including any amounts derived from the ownership or operation of any project or project with which the Project may be pooled, plus any interest income earned on all Funds and Accounts established under the Revenue Indenture and under the Tax Indenture which is required to be transferred to or maintained in the Revenue Fund, the Debt Service Fund, or the Debt Service Reserve Fund, but specifically excluding interest income attributable to capitalized interest on the Toll Road Senior Lien Revenue Bonds and Parity Notes.

"Sam Houston Tollway" means that toll road described under "THE TOLL ROAD PROJECT - Sam Houston Tollway."

"SEC" means the United States Securities and Exchange Commission or any successor agency thereto.

"Securities Act" means the Securities Act of 1933, as amended, and any successor thereto.

"Securities Depository" shall mean any securities depository that (1) 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 7A of the Securities Exchange Act of 1934, as amended, operating and maintaining, with its participants or otherwise, a Book Entry System of record ownership of beneficial interests in the Bonds and (2) effects transfers of the Bonds, in Book Entry Form.

"Securities Exchange Act" means the Securities and Exchange Act of 1934, as amended, and any successor thereto.

"Series E-1 Notes" means the Harris County, Texas Toll Road Senior Lien Commercial Paper Notes, Series E-1. See "TOLL ROAD FINANCIAL INFORMATION – TOLL ROAD COMMERCIAL PAPER NOTES."

"Series E-2 Notes" means the Harris County, Texas Toll Road Senior Lien Commercial Paper Notes, Series E-2. See "TOLL ROAD FINANCIAL INFORMATION – TOLL ROAD COMMERCIAL PAPER NOTES."

"Ship Channel Bridge" means the Sam Houston Ship Channel Bridge (formerly known as the Jesse H. Jones Memorial Bridge) and to the extent the context requires, any substitute or replacement thereof.

"Sinking Fund Installment" means, as of any particular date of calculation and with respect to any series of Toll Road Senior Lien Revenue Bonds or Parity Notes, the amount of money to be applied as the Redemption Price of Toll Road Bonds or Parity Notes in any Fiscal Year prior to maturity pursuant to the Supplemental Indenture for such series, as such Installment shall have been previously reduced by the principal amount of any Toll Road Senior Lien Revenue Bonds or Parity Notes of such series of the maturity with respect to which such Sinking Fund Installment is payable which are purchased or redeemed by the Trustee in accordance with the provisions of the Revenue Indenture, other than a Sinking Fund Installment redemption or purchase.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the County by notice to the County and the Trustee.

"State" means the State of Texas.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Revenue Indenture or Tax Indenture, as applicable, adopted by the County in accordance with and pursuant to the Revenue Indenture or Tax Indenture, as applicable.

"Surplus Fund" means the County Toll Road Senior Lien Revenue Bonds Surplus Fund required to be maintained by the County pursuant to the Revenue Indenture.

"Tax Indenture" means the Toll Road Unlimited Tax and Subordinate Lien Revenue Bond Trust Indenture dated as of October 1, 1984, between the County and the Trustee, as supplemented.

"Toll Road Bonds" means the Toll Road Tax Bonds and the Toll Road Senior Lien Revenue Bonds issued for the purpose of providing funds to pay the Cost of the Project.

"Toll Road Senior Lien Revenue Bonds" mean that portion of the Toll Road Bonds issued under the Revenue Indenture, including the Bonds and those Outstanding Toll Road Senior Lien Revenue Bonds listed in "APPENDIX D-1 – OUTSTANDING TOLL ROAD SENIOR LIEN REVENUE BONDS."

"Toll Road Tax Bonds" means (i) that portion of the Toll Road Bonds issued under the Tax Indenture, and (ii) any other tax bonds issued by the County pursuant to the authorization given by the voters in the election held on September 13, 1983, including those Outstanding Toll Road Tax Bonds listed in "APPENDIX D-2 – OUTSTANDING TOLL ROAD UNLIMITED TAX AND SUBORDINATE LIEN REVENUE BONDS."

"Traffic Engineer" means the traffic engineer employed by the County pursuant to the provisions of the Revenue Indenture to carry out duties imposed by the Revenue Indenture on the Traffic Engineer.

"Trust Estate" has the meaning set forth under "SECURITY FOR THE TOLL ROAD SENIOR LIEN REVENUE BONDS – PLEDGE OF THE TRUST ESTATE."

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended, and any successor thereto.

"Trustee" means a commercial bank or trust company duly organized and existing under the laws of the State or the United States of America that is authorized under such laws to exercise corporate trust powers, and is subject to examination by federal authority and shall be appointed pursuant to the Revenue Indenture, and its successor or successors and any other person that may at any time be substituted in its place pursuant to the Revenue Indenture. The current Trustee for the Toll Road Bonds is Bank of New York Mellon Trust Company, National Association.

"TTA" means the Texas Turnpike Authority.

"TxDOT" means the Texas Department of Transportation.

APPENDIX B

SUMMARY OF THE REVENUE INDENTURE

The Revenue Indenture, which includes the Fortieth Supplement thereto, contains various covenants and security provisions, certain of which are summarized below or elsewhere in this Official Statement. Reference should be made to the Revenue Indenture, a copy of which may be obtained from the County, for a full and complete statement of its provisions.

Permitted Investments

The Revenue Indenture requires that all amounts held in any Fund or Account under the Revenue Indenture by either the Trustee or the County must either be (i) continuously and fully secured for the benefit of the County and the Owners of Toll Road Senior Lien Revenue Bonds in the manner required by the laws of the State of Texas for public funds or (ii) invested in Investment Securities so long as they mature not later than such times as will be necessary to provide money when needed for payments to be made from such Funds and Accounts. "Investment Securities" means investments authorized from time to time pursuant to the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, or other applicable laws of the State of Texas, which mature not later than such times as shall be necessary to provide moneys for payments from such Funds or Accounts.

Interest earned or profits realized from investing any amounts in the Construction Fund, and amounts representing capitalized interest in the Debt Service Fund, may be retained in such Funds. Interest earned from investing amounts in any other Fund or Account will be transferred into the Revenue Fund.

Toll Classification

The County is required to classify tolls in a manner that will apply to all traffic in a uniform manner within any reasonable class. No free service will be permitted on the Project, except for authorized official and emergency vehicles and vehicles whose passage is determined to be in the public's interest and the interest of the Project.

Annual Budget

After any part of the Project is completed and operational, the County will file with the Trustee the Annual Budget for each Fiscal Year that includes the estimated Project Expenses for such Fiscal Year, in addition to the amount required to establish and maintain an Operating Reserve sufficient to pay two months' Project Expenses. The County may, at any time, adopt an amended Annual Budget or budgets for the remainder of the then Current Fiscal Year. Until a new annual budget is adopted, the prior Fiscal Year's Annual Budget shall be deemed to be the Annual Budget for that Fiscal Year.

Consulting Engineers Reports on Projects

The County covenants and agrees that after the Project or any part of it is completed and operational, the County will cause the Consulting Engineers to make an inspection of the Project or part or parts thereof which have been completed from time to time and to submit to the County a report setting forth (i) their findings whether the Project has been maintained in good repair, working order and condition, (ii) their advice and recommendations as to the proper maintenance, repair and operation of the Project during the ensuing Fiscal Year and an estimate of the amount of money necessary for such purposes, including their recommendations as to the total amounts and classifications of items and amounts that should be provided for Project Expenses in the annual budget for the next ensuing Fiscal Year and (iii) their advice and recommendations as to the insurance to be carried under the provisions of the Revenue Indenture. The Revenue Indenture provides that copies of such reports are to be filed with the Trustee.

Construction Contracts

The County covenants and agrees that before entering into any construction contract it will secure the recommendation of the Consulting Engineers and that it will require each person, firm or corporation with whom it may contract for labor or materials in connection with the construction of the Project or any part thereof to furnish a performance bond and a payment bond in the full amount of any contract to the extent required by law, and to carry such workmen's compensation or employer's liability insurance as may be required by law. The County further covenants and agrees that the proceeds of any such performance bond and payment bond will forthwith, upon receipt of such proceeds, be deposited in the Construction Fund established pursuant to the Revenue Indenture and applied toward the completion of the contract in connection with which such performance bond and payment bond shall have been furnished.

Rules and Regulations; Maintenance of Project

The County covenants that it will establish and enforce reasonable rules and regulations governing the use of the Project and the operation thereof will be reasonable, that no more persons will be employed by it than are necessary, that it will maintain and operate the Project in an efficient and economical manner, that, from the Revenues of the Project or other moneys legally available therefor, it will at all times maintain the same in good repair and in sound operating condition and will make all necessary repairs, renewals and replacements, and that it will comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to the Project.

Consulting Engineers; Traffic Engineers

The County covenants that, as long as there are any Outstanding Toll Road Senior Lien Revenue Bonds, Parity Notes or other Parity Obligations, it will employ Consulting Engineers or Traffic Engineers as necessary to comply with the Revenue Indenture.

Insurance

The County covenants that during the construction of the Project or any part thereof it will carry or cause to be carried such builders' risk insurance, if any, as shall be recommended by the Consulting Engineers.

Sale or Encumbrance of Project

The County covenants that, as long as there are any Toll Road Senior Lien Revenue Bonds, Parity Notes, or other Parity Obligations Outstanding, and except as in the Revenue Indenture otherwise permitted, it will not sell or otherwise dispose of the Project or any part thereof unless it determines that such sale or other disposal is in the best interest of the Project and not materially adverse to the rights of the Owners of the Toll Road Senior Lien Revenue Bonds, Parity Notes or other Parity Obligations. Such covenant, however, shall not limit the ability of the County to issue Toll Road Senior Lien Revenue Bonds and Parity Notes and incur Parity Obligations, to dispose of surplus property, to enter into contracts with respect to the lease or operation of all or any part of the Project, and to pool the Beltway 8 and Hardy Street Project with any other Project.

Defaults and Remedies

Any of the following events will constitute an "Event of Default" under the Revenue Indenture:

(i) failure to make the due and punctual payment of the principal or Redemption Price of any Toll Road Senior Lien Revenue Bond or Parity Note when due and payable, whether at maturity or by call for redemption, or otherwise;

(ii) failure to make the due and punctual payment of any installment of interest on any Toll Road Senior Lien Revenue Bond or Parity Note or the unsatisfied balance of any Sinking Fund Installment therefor (except when such Installment is due on the maturity date of such Toll Road Senior Lien Revenue Bonds or Parity Note) when due and payable, and such failure continues for 30 days;

(iii) failure by the County in the performance or observance of any other of the covenants, agreements, or conditions on its part contained in the Revenue Indenture or in the Toll Road Senior Lien Revenue Bonds, Parity Notes or other Parity Obligations and such failure continues for a period of 60 days after written notice thereof to the

County by the Trustee or to the County and to the Trustee by the Owners of not less than 25% in principal amount of the Toll Road Senior Lien Revenue Bonds and Parity Notes Outstanding;

(iv) if the County: (a) files a voluntary petition in bankruptcy or a voluntary petition or an answer seeking reorganization, arrangement, readjustment, or composition of its debts or for any other relief under the federal bankruptcy laws or under any other insolvency act or law, State or federal, now or hereafter existing; (b) takes any action indicating its consent to, approval of, or acquiescence in, any such petition or proceeding; (c) applies for, or consents or acquiesces in the appointment of, a receiver or a trustee of the County or for all or a substantial part of its property; (d) makes an assignment for the benefit of creditors, or (e) is unable, or admits in writing its inability, to pay its debts as they mature; or

(v) if proceedings have commenced against the County, without its authorization, consent or application, in bankruptcy or seeking reorganization, arrangement, readjustment, or composition of its debts or for any other relief under the federal bankruptcy laws or under any other insolvency act or law, State or federal, now or hereafter existing, or seeking the involuntary appointment of a receiver or trustee of the County or for all or a substantial part of its property, and the same continues for 90 days undismissed or undischarged or results in the adjudication of bankruptcy or insolvency.

If an Event of Default occurs and is continuing, then the Trustee may, and upon the written request of the Owners of not less than 25% in aggregate principal amount of the Toll Road Senior Lien Revenue Bonds and Parity Notes Outstanding, must: (i) by mandamus or other suit, action, or proceeding at law or in equity require the County to perform its covenants, representations, and duties under the Revenue Indenture; (ii) bring suit upon the Toll Road Senior Lien Revenue Bonds, Parity Notes or other Parity Obligations; (iii) by action or suit in equity require the County to account as if it were the trustee of an express trust for the Owners of the Toll Road Senior Lien Revenue Bonds, Parity Notes and other Parity Obligations; (iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Toll Road Senior Lien Revenue Bonds, Parity Notes and other Parity Obligations; (v) take over the possession, administration, and management of all Funds and Accounts required to be maintained by the County pursuant to the Revenue Indenture; or (vi) take such other steps to protect and enforce its rights and the rights of the Owners of the Toll Road Senior Lien Revenue Bonds, Parity Notes and other Parity Obligations whether by action, suit, or proceeding in aid of the execution of any power granted in the Revenue Indenture or for the enforcement of any other appropriate legal or equitable remedy.

If an Event of Default occurs and is continuing, then the Trustee may, and upon the request of the Owners of not less than 25% in aggregate principal amount of the Toll Road Senior Lien Revenue Bonds Outstanding, and upon being indemnified to its satisfaction, shall, proceed by suit or suits, at law or in equity or by any other appropriate legal or equitable remedy, to enforce payment of the principal of, and interest on the Toll Road Senior Lien Revenue Bonds or Parity Notes under a judgment or decree of a court or courts of competent jurisdiction or by the enforcement of any other appropriate legal or equitable remedy, as the Trustee deems most effectual to protect and enforce any of its rights or the rights of the Owners of Toll Road Senior Lien Revenue Bonds, Parity Notes and other Parity Obligations.

Although an Owner presumably could obtain a judgment against the County if a default were to occur in the payment of principal of, premium, if any, or interest on any such Toll Road Senior Lien Revenue Bond, Parity Note or other Parity Obligation, such judgment could not be satisfied by foreclosure on the Project or by execution against any property of the County. The Owner's only practical remedy, if a default were to occur, would be a mandamus or mandatory injunction proceeding seeking to compel the County to fix, charge, and collect tolls in accordance with the toll covenant and to apply Revenues as required in the Revenue Indenture in order to pay principal of, premium, if any, and interest on the Toll Road Senior Lien Revenue Bonds, Parity Notes and amounts in respect of other Parity Obligations as they come due. The Owner could be required to enforce such remedy on a periodic basis because no provision exists for acceleration of maturity of the Toll Road Senior Lien Revenue Bonds or Parity Notes.

The enforcement of, or claim for payment of principal of or interest on the Toll Road Senior Lien Revenue Bonds or Parity Notes, including the remedy of mandamus, and the validity of the pledge of and lien on Revenues, would be subject to the applicable provisions of the federal bankruptcy laws and to any other laws limiting or otherwise affecting the rights or remedies of creditors of counties of the State or of political subdivisions generally.

Subject to certain conditions set forth in the Revenue Indenture, the Trustee may waive certain Events of Default and their consequences.

Special Rights of Credit Providers

The Revenue Indenture provides that any Supplemental Indenture may provide that issuers of municipal bond insurance, letters of credit or other instruments which guaranty the payment of principal of and interest on any Toll Road Senior Lien Revenue Bonds or Parity Notes may exercise the rights of the Owners thereof to direct the exercise of any remedies in the event of default or to consent to any future amendments to the Revenue Indenture except with respect to any change in the terms of redemption, maturity of principal amount of such Toll Road Senior Lien Revenue Bonds or Parity Notes or any installment of interest thereon or any reduction in the principal amount or redemption price thereof or the rate of interest thereon. See "BONDHOLDERS' REMEDIES—Special Rights of Bond Insurers and Credit Providers."

Defeasance

Any Toll Road Senior Lien Revenue Bonds and Parity Notes will, prior to the maturity or redemption date therefor, be deemed to have been paid and to be no longer Outstanding under the provisions of the Revenue Indenture if (i) in case of any Senior Lien Revenue Bond, Parity Note or other Parity Obligations to be redeemed on any date prior to maturity, the County has given to the Trustee or a Paying Agent irrevocable instructions to give notice of redemption on such Toll Road Senior Lien Revenue Bonds, Parity Notes or other Parity Obligations, (ii) there has been deposited with the Trustee or a Paying Agent either money in an amount sufficient, or certain Investment Securities the principal and interest on which, without further investment, will be sufficient, together with money, if any, deposited therewith, to pay when due the principal, Redemption Price, if applicable, and interest due and becoming due on such Senior Lien Revenue Bonds, Parity Notes or other Parity Obligations on and prior to redemption or maturity date, as the case may be, and (iii) in the event Toll Road Senior Lien Revenue Bonds are not to be redeemed within the next succeeding 60 days, the County will have given the Trustee or a Paying Agent irrevocable instructions to publish at least twice, at an interval of not less than seven days, a notice to the Owners of the Toll Road Senior Lien Revenue Bonds to be redeemed in a financial journal or publication of general circulation among tax-exempt securities dealers in the United States of America and a financial journal of publication of general circulation among tax-exempt securities dealers in the State of Texas, and to mail notices to such Owners that such deposit has been made and that the Toll Road Senior Lien Revenue Bonds are deemed to have been paid and stating the maturity or redemption date upon which such money will be made available for the payment of the principal or redemption price, if applicable, and interest on such Toll Road Senior Lien Revenue Bonds.

Amendments

The County may adopt a Supplemental Indenture without consent of the Owners for any of the following purposes: (i) to authorize the issuance of Toll Road Senior Lien Revenue Bonds, Parity Notes and other Parity Obligations; (ii) to provide additional limitations and restrictions on the issuance of other evidences of indebtedness; (iii) to add other covenants and agreements to be observed by the County not inconsistent with the Revenue Indenture; (iv) to add other limitations and restrictions to be observed by the County of the Trust Estate which are not inconsistent with the Revenue Indenture; (v) to confirm any pledge under the Revenue Indenture of the Trust Estate; (vi) to modify any of the provisions of the Revenue Indenture provided that such modification will be effective only after all Outstanding Toll Road Senior Lien Revenue Bonds at the date of adoption will cease to be Outstanding; (vii) to modify, amend, or supplement the Revenue Indenture to permit the qualification under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or under any state Blue Sky Law; (viii) to surrender any right, power, or privilege reserved to or conferred upon the County by the Revenue Indenture, provided that such surrender is not inconsistent with the covenants and agreements of the County contained in the Revenue Indenture; (ix) to pool the Project with one or more other projects as permitted by the Act; (x) to increase the Debt Service Reserve Fund Requirement or to provide for Debt Service Fund Surety Policies; (xi) to establish or increase the required balance to be accumulated or maintained in the Renewal and Replacement Fund; (xii) to alter the Revenue Indenture to comply with the requirements of a nationally recognized rating agency in order to maintain a rating on the Toll Road Senior Lien Revenue Bonds or Parity Notes in a high-quality, short-term or commercial paper rating category or long-term debt rating category of such rating agency; (xiii) to increase the interest rate or rates on the Toll Road Senior Lien Revenue Bonds or Parity Notes of any series; and (xiv) to designate Paying Agents, Authenticating Agents, Registrars, and other agents for Toll Road Senior Lien Revenue Bonds of any series.

The Revenue Indenture also may be amended without the consent of the Owners with the written consent of the Trustee: (i) to cure any ambiguity, supply any omission, or cure any defect or inconsistent provision in the Revenue Indenture; (ii) to insert such provisions clarifying matters as are necessary or desirable and are not inconsistent with the Revenue Indenture; (iii) to provide for additional duties of the Trustee in connection with the Trust Estate or the Project; or (iv) to modify any of the provisions of the Revenue Indenture, provided that such action shall not adversely affect the interest of the Owners of Outstanding Toll Road Senior Lien Revenue Bonds, Parity Notes and other Parity Obligations.

Any other amendment of the Revenue Indenture may be made with the written consent given by the Owners as provided in the Revenue Indenture (i) of the Owners of at least two-thirds in principal amount of the Toll Road Senior Lien Revenue Bonds and Parity Notes Outstanding at the time such consent is given, and (ii) in case less than all series of Toll Road Senior Lien Revenue Bonds and Parity Notes Outstanding are affected by the amendment, of the Owners of at least two-thirds in principal amount of the Toll Road Senior Lien Revenue Bonds and Parity Notes of each series so affected and Outstanding at the time such consent is given, and (iii) in case the amendment changes the terms of any Sinking Fund Installment, of the Owners of at least two-thirds in principal amount of the particular series of the Toll Road Senior Lien Revenue Bonds or Parity Notes and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; provided, however, that if such amendment will, by its terms, not take effect as long as any Toll Road Senior Lien Revenue Bonds and Parity Notes of any specified like series and maturity remain Outstanding, the consent of the Owners of such Toll Road Senior Lien Revenue Bonds or Parity Notes will not be required.

For any Toll Road Senior Lien Revenue Bonds for which the payment of principal and interest is guaranteed pursuant to a policy of municipal bond insurance, the issuer of such policy shall be authorized to consent to such amendment in lieu of the Owners of the Toll Road Senior Lien Revenue Bonds so insured, except with respect to any change in the terms of redemption, maturity or principal amount of such Toll Road Senior Lien Revenue Bonds or any installment of interest thereon or any reduction in the principal amount or redemption price thereof or the rate of interest thereon.

No amendment of the Revenue Indenture may (i) permit a change in the terms of redemption or maturity of the principal of any Outstanding Toll Road Senior Lien Revenue Bond or Parity Note or of any installment of interest thereon or a reduction in the principal amount of the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Toll Road Senior Lien Revenue Bond or Parity Note, (ii) reduce the percentages or otherwise affect the classes of Toll Road Senior Lien Revenue Bonds or Parity Note, Parity Notes and other Parity Obligations of which the consent of the Owners is required to effect any such amendment, (iii) change or modify any of the rights or obligations of any fiduciary without its written assent thereto, (iv) alter the obligations of the County to levy maintenance taxes or collect tolls as required by the Revenue Indenture, or (v) change or modify the rights or obligations of the Trustee without its written assent thereto.

Trustee

The Bank of New York Mellon Trust Company, National Association (successor to Allied Bank of Texas), is the Trustee under the Revenue Indenture. A successor trustee may be appointed in accordance with the terms of the Revenue Indenture. The principal corporate trust office of the Trustee is located at 600 N. Pearl St., Suite 420, Dallas, Texas 75201, Attention: Corporate Trust Department.

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APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE COUNTY AND TOLL ROAD AUTHORITY ENTERPRISE FUND FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2017

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HARRIS COUNTY, TEXAS

Basic Financial Statements
For The Fiscal Year Ended
February 28, 2017

Prepared By:
Michael Post, C.P.A., M.B.A.
County Auditor
1001 Preston, Suite 800
Houston, Texas 77002

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

County Judge Ed Emmett
and Members of Commissioners Court of Harris County, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Harris County, Texas (the "County"), as of and for the year ended February 28, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following discretely presented component units: Harris County Hospital District, Harris Center for Mental Health and IDD, Harris County Housing Finance Corporation, and Children's Assessment Center Foundation, Inc. which represent 100% of the assets, net position and revenues of the discretely presented component units. We also did not audit the financial statements of the Harris County Clerk Registry Fund and the Harris County District Clerk Registry Fund, which collectively represent 37% of the assets of the agency funds. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for both discretely presented component units and agency funds for the above noted entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Harris County, Texas, as of February 28, 2017 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 15-28, Schedule of Available Resources – Budget and Actual Budgetary Basis – General Fund, and the Schedule of Expenditures and Other Uses – Budget and Actual Budgetary Basis – General Fund, and the Other Post-Employment Benefits – Schedule of Funding Progress, and the Changes in Net Pension Liability and Related Ratios, and the Texas County and District Retirement System Schedule of Employer Contributions on pages 102-111 be presented to supplement the basic financial statements. Such information, 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Deloitte & Touche LLP

August 25, 2017

This section of the Harris County, Texas (the "County") Comprehensive Annual Financial Report ("CAFR") presents a narrative overview and analysis of the financial activities of the primary government for the fiscal year ended February 28, 2017. Please read it in conjunction with the County's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

Government-wide

The total government-wide assets and deferred outflows of resources of the County exceeded the liabilities and deferred inflows of resources at February 28, 2017 by $11,641,055,485. This is an increase of $551,151,665 from the previous year when assets and deferred outflows of resources exceeds liabilities and deferred inflows of resources by $11,089,903,820.

Total net position of the primary government is comprised of the following:

(1) Net investment in capital assets, of $9,724,910,451 includes land, improvements, buildings, infrastructure, intangible assets, construction in progress, and other capital assets, net of accumulated depreciation/amortization, and is reduced by outstanding debt, net of unspent proceeds, related to the purchase or construction of capital assets.
(2) Net position of $1,704,322,103 is restricted by constraints imposed from outside the County such as debt obligations, laws, or regulations, including restrictions related to Toll Road and Mobility funds.
(3) Unrestricted net position of $211,822,931 represents the portion available to meet ongoing obligations to citizens and creditors.

Governmental Fund Financial Statements

- As of February 28, 2017, County governmental funds reported combined fund balances of $2,273,442,740. This reflects an increase of $280,634,117 from the previous fiscal year. The current year total consists of combined nonspendable fund balance of $21,726,651, restricted fund balance of $1,179,346,821, committed fund balance of $44,955,094, assigned fund balance of $23,821,954, and unassigned fund balances of $1,003,592,220 for fiscal year 2017.

- The General Fund is used to account for the general operations of the County, limited-tax permanent improvement debt service of the County, public improvement contingencies, and the mobility program. At the end of the fiscal year, the unassigned fund balance of the County's General Fund was $1,008,332,656. The General Fund had a nonspendable fund balance of $8,732,800, restricted fund balance of $546,613,629, and assigned fund balance of $23,821,954 at February 28, 2017.

- During the fiscal year, the Harris County Toll Road Authority transferred $134 million of surplus toll road revenue to the mobility program which is accounted for within the General Fund. Mobility program monies are restricted by Section 284.0031 of the Texas Transportation Code for the study, design, construction, maintenance, repair or operation of roads, streets, highways, or other related facilities. The mobility program may not be used for the general operations of the County. The General Fund's cash and investment balance at February 28, 2017 includes $323.7 million that belongs to the mobility program. Because of the legal restrictions imposed on the mobility program, $307,433,906 of the fund balance in General Fund is restricted for mobility at February 28, 2017.

- The nonmajor governmental funds had total combined fund balances of $685,941,701 at February 28, 2017. Of this amount, $12,993,851 is nonspendable, $632,733,192 is restricted ($169,123,828 for special revenue funds, $92,336,923 for debt service and $371,272,441 for capital projects funds), $44,955,094 is committed, and negative $4,740,436 is unassigned.

Long-Term Debt
The County issues debt to finance an ongoing capital improvement program. During fiscal year 2016-2017, the County issued $99.7 million in commercial paper and no refunding bonds. Note 10 to the financial statements provides details of long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements, which are comprised of the following three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements. Required supplementary information is included in addition to the basic financial statements. This report also contains other supplementary information.

Government-wide Financial Statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all County assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference between the two representing net position. Over time, increases or decreases in net position may serve as a useful indicator of the financial condition of the County.

The Statement of Activities presents information that indicates how net position changed during the 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include administration of justice, parks, county administration, health and human services, flood control, tax administration, and roads and bridges. The business-type activities of the County include toll road, parking facilities, and sheriff's commissary fund activities.

Component units are included in the basic financial statements. Component units are legally separate organizations for which the elected officials of the County are financially accountable, or the relationship to the County is such that exclusion would cause the County's financial statements to be misleading or incomplete. The County's component units have been reported as blended with the County as the primary government or as discrete (separate) component units, as appropriate. The following component units have been included in this year's report: Harris County Flood Control District, Harris County Sports and Convention Corporation, Harris County Redevelopment Authority, Harris County Hospital District, dba Harris Health System, Harris County Housing Finance Corporation, Harris Center for Mental Health and IDD (formerly MHMRA of Harris County), Harris County Industrial Development Corporation, Children's Assessment Center Foundation, Inc., Harris County Health Facilities Development Corporation, Harris County Cultural Education Facilities Finance Corporation, and Friends of Countypets. For more detailed information on these component units, refer to Note 1A of the basic financial statements.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County reports 80 governmental funds, which in some cases are aggregated individual funds (e.g., grant funds). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the major governmental funds. Data from other governmental funds are combined into a single aggregated presentation.

Proprietary funds are used for two purposes: Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Also, the County uses enterprise funds to account for toll road operations, acquisition, operation and maintenance of parking facilities, and operation of a commissary for jail inmates. Internal service funds are used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its maintenance of County vehicles, operation of County radios, operation of the printing shop services provided by inmates, workers compensation, health insurance and other risk management activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Toll Road Authority fund is considered to be a major fund of the County. Parking Facilities and Sheriff's Commissary funds are combined as nonmajor enterprise funds for the basic financial statements, but are presented individually in the fund financial statements that follow the required supplementary information. The County's internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The County's fiduciary funds are comprised of 17 agency funds. Agency funds are used to report resources held by the County in a purely custodial capacity (assets equal liabilities) and therefore do not involve measurement of results of operations.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 41 of this report.

Required Supplementary Information for the County's General Fund budgetary schedule is presented herein. The County adopts an annual budget for this fund. A budgetary comparison schedule, which includes the original and final amended budget and actual figures, has been provided to demonstrate compliance with this budget. Also presented in this section are the Schedule of Funding Progress for Other Post Employment

Benefits, the Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of Employer Contributions. Required supplementary information can be found beginning on page 102 of this report.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

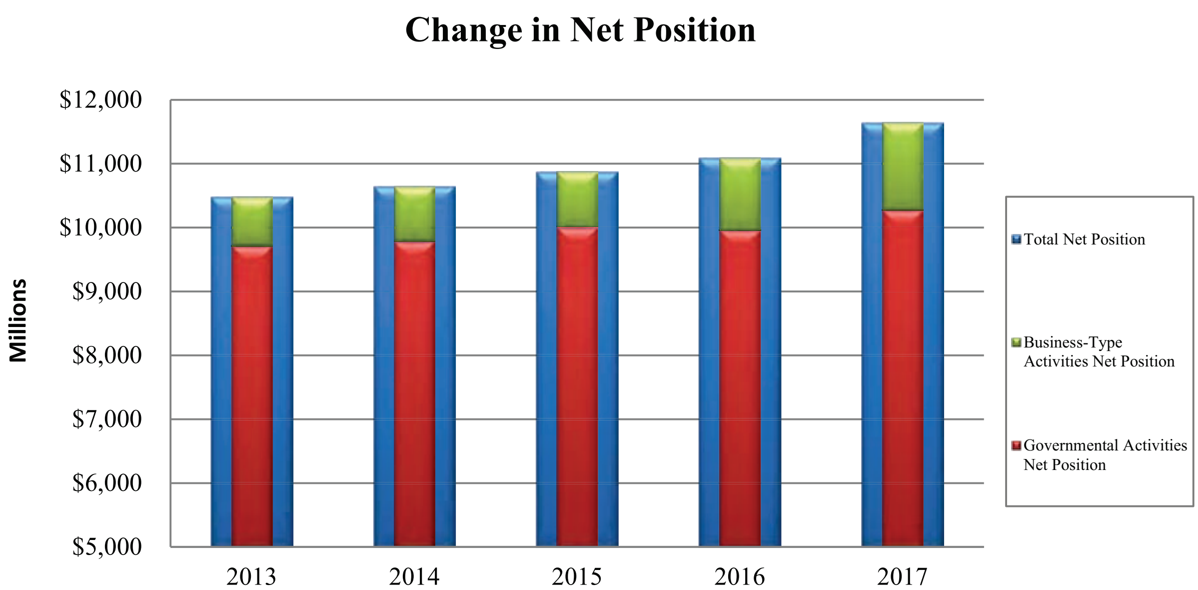
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $11,641,055,482 for fiscal year 2017 and $11,089,903,820 for fiscal year 2016. Revenues exceeded expenses during the current year, increasing net position by $551,151,662.

Condensed Statement of Net Position
February 28, 2017
(Amounts in thousands)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 2,802,292	$ 1,263,255	$ 4,065,547
Capital assets	11,718,488	2,386,980	14,105,468
Total assets	14,520,780	3,650,235	18,171,015
Deferred outflows of resources	361,846	134,456	496,302
Current and other liabilities	408,065	131,336	539,401
Long-term liabilities (including current portion)	4,170,473	2,238,410	6,408,883
Total liabilities	4,578,538	2,369,746	6,948,284
Deferred inflows of resources	26,025	51,951	77,976
Net position:			
Net investment in capital assets	9,415,321	309,590	9,724,911
Restricted	672,671	1,031,651	1,704,322
Unrestricted	190,071	21,752	211,823
Total net position	$ 10,278,063	$ 1,362,993	$ 11,641,056

Condensed Statement of Net Position
February 29, 2016
(Amounts in thousands)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 2,427,111	$ 1,258,774	$ 3,685,885
Capital assets	11,620,656	2,260,988	13,881,644
Total assets	14,047,767	3,519,762	17,567,529
Deferred outflows of resources	429,465	101,897	531,362
Current and other liabilities	326,895	134,540	461,435
Long-term liabilities (including current portion)	4,185,037	2,281,961	6,466,998
Total liabilities	4,511,932	2,416,501	6,928,433
Deferred inflows of resources	5,751	74,803	80,554
Net position:			
Net investment in capital assets	9,146,605	99,644	9,246,249
Restricted	634,192	1,009,715	1,643,907
Unrestricted	178,752	20,996	199,748
Total net position	$ 9,959,549	$ 1,130,355	$ 11,089,904



The largest portion of the County's current fiscal year net position, $9,724,910,451, is invested in capital assets (e.g. land, improvements, buildings, equipment, and infrastructure) less any related outstanding debt used to acquire those assets. The primary use of these capital assets is to provide services to citizens; therefore, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the County's current fiscal year net position, $211,822,931, represents unrestricted net position, which is available to meet the County's ongoing unrestricted obligations to citizens and creditors. The remaining balance of net position represents resources that are subject to external restrictions on how they may be used. A large portion of the restricted net position, $722,001,787 is for use for the ongoing obligations of the Toll Road Authority. Restricted net position of $307,729,073 is related to the mobility program and is restricted because of legal constraints imposed by the Texas Transportation Code; these funds can only be used for mobility purposes. Other restrictions include $564,938,570 for debt service payments, $67,882,766 for capital projects, $39,823,541 for operating reserve per bond covenants, $247,091 for grant programs and $1,699,275 for legislative restricted net position.

At the end of the current fiscal year, the County reported positive net position in all three categories of net position for its governmental activities and its business-type activities.

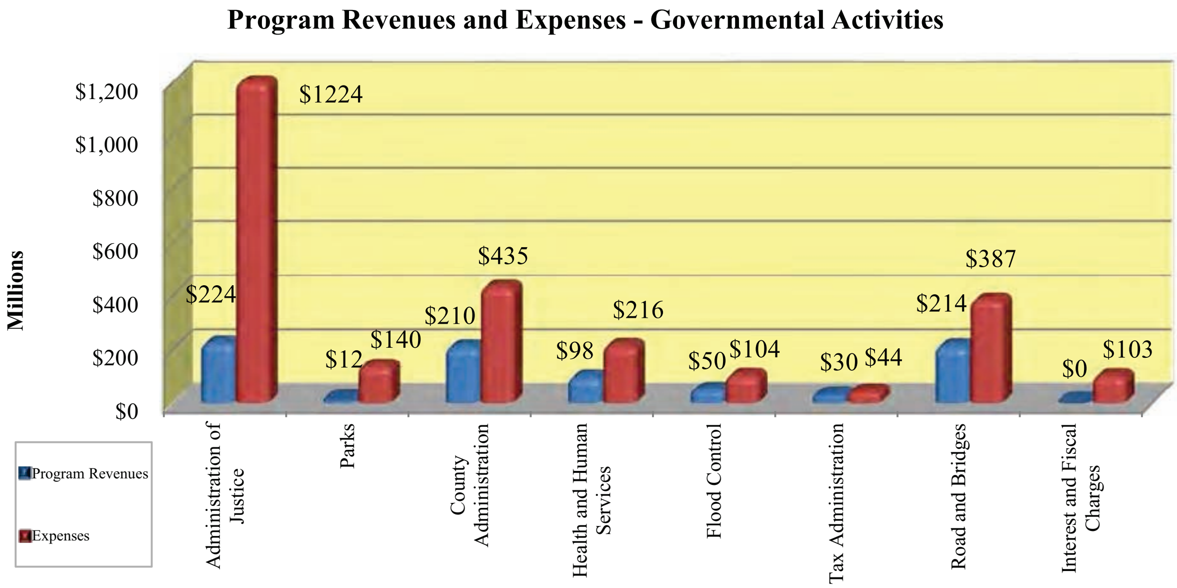
The following table indicates changes in net position for governmental and business-type activities:

Condensed Statement of Activities
(In Thousands)
For the Year Ended February 28, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
REVENUES			
Program revenues:			
Charges for Services	$ 303,917	$ 785,582	$ 1,089,499
Operating Grants and Contributions	189,357	19,176	208,533
Capital Grants and Contributions	345,026	-	345,026
General revenues:			
Taxes-levied for General Purposes	1,562,917	-	1,562,917
Taxes-levied for Debt Services	303,057	-	303,057
Hotel Occupancy Tax	37,851	-	37,851
Investment Earnings	14,559	7,131	21,690
Miscellaneous	78,553	19	78,572
Total revenues	2,835,237	811,908	3,647,145
EXPENSES			
Administration of Justice	1,223,737	-	1,223,737
Parks	139,801	-	139,801
County Administration	434,656	-	434,656
Health and Human Services	215,736	-	215,736
Flood Control	103,756	-	103,756
Tax Administration	43,536	-	43,536
Roads and Bridges	386,723	-	386,723
Interest and Fiscal Charges	102,778	-	102,778
Toll Road	-	435,456	435,456
Parking Facilities	-	2,425	2,425
Sheriff's Commissary	-	7,389	7,389
Total expenses	2,650,723	445,270	3,095,993
Excess before other items and transfers	184,514	366,638	551,152
Transfers	134,000	(134,000)	-
Change in net position	318,514	232,638	551,152
Net position - beginning	9,959,549	1,130,355	11,089,904
Net position - ending	$ 10,278,063	$ 1,362,993	$ 11,641,056

Condensed Statement of Activities
(In Thousands)
For the Year Ended February 29, 2016
Primary Government
(as restated)

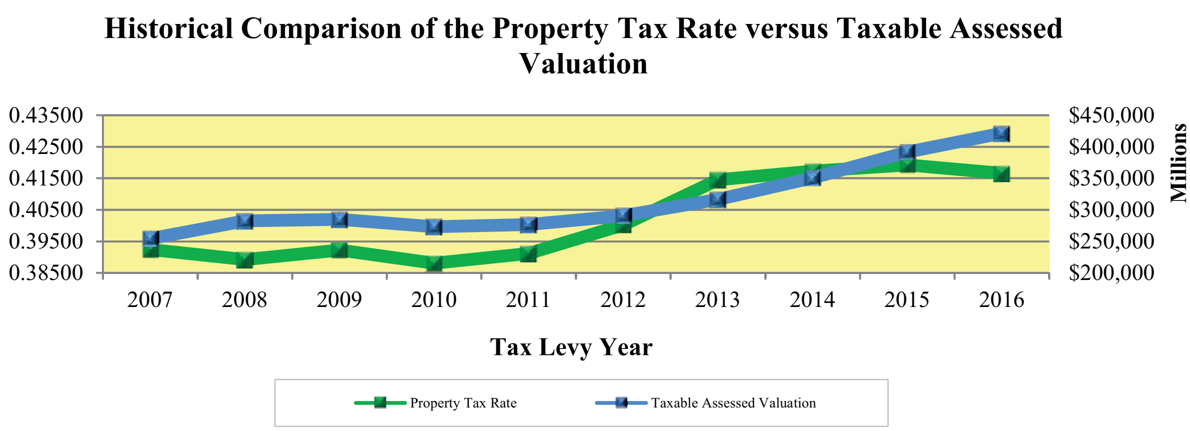
	Governmental Activities	Business-type Activities	Total
REVENUES			
Program revenues:			
Charges for Services	$ 292,313	$ 774,199	$ 1,066,512
Operating Grants and Contributions	171,162	2,995	174,157
Capital Grants and Contributions	175,360	-	175,360
General revenues:			
Taxes-levied for General Purposes	1,433,336	-	1,433,336
Taxes-levied for Debt Services	289,026	-	289,026
Hotel Occupancy Tax	40,138	-	40,138
Investment Earnings	7,112	16,030	23,142
Miscellaneous	94,453	46,093	140,546
Total revenues	2,502,900	839,317	3,342,217
EXPENSES			
Administration of Justice	1,090,318	-	1,090,318
Parks	123,243	-	123,243
County Administration	356,256	-	356,256
Health and Human Services	206,560	-	206,560
Flood Control	109,294	-	109,294
Tax Administration	41,533	-	41,533
Roads and Bridges	354,830	-	354,830
Interest and Fiscal Charges	111,514	-	111,514
Toll Road	-	423,261	423,261
Parking Facilities	-	2,334	2,334
Sheriff's Commissary	-	9,886	9,886
Total expenses	2,393,548	435,481	2,829,029
Excess (deficiency) before other items and transfers	109,352	403,836	513,188
Transfers	124,031	(124,031)	-
Change in net position	233,383	279,805	513,188
Net position - beginning	9,726,166	850,550	10,576,716
Net position - ending	$ 9,959,549	$ 1,130,355	$ 11,089,904



Revenues

For fiscal year ended February 28, 2017, revenues for the primary government totaled $3,647,142,815. The revenues are categorized by activity type: governmental activities totaled $2,835,236,276 and business-type activities totaled $811,906,539.

Property and Hotel Occupancy Taxes of $1,903,825,541 were one of the largest revenue sources for governmental activities and 52% of total revenues, which is a $141.3M increase from prior year taxes of $1,762,499,508. The tax rate was $.4166 per $100 of assessed value for fiscal year 2017. The taxable assessed value increased in fiscal year 2017 to $421,438,862,000 from the taxable assessed value in the prior fiscal year of $391,521,792,000.

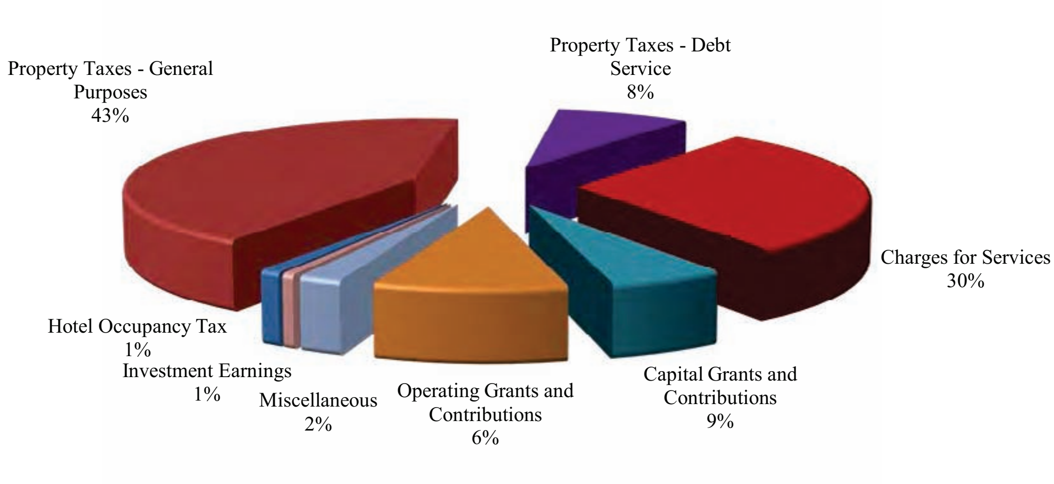


Program revenues are derived from the program itself and reduce the cost of the function to the County. Total program revenues were $1,643,056,924 or 45% of total revenues, which increased $227,028,657 compared to the prior year. The largest portion of program revenues is Charges for Services of $1,089,498,310 (30%). Of that $303,916,834 is from governmental activities, which includes fees collected by the tax collector, automobile registration, and charges for patrol services. The business-type Charges for Services were

$785,581,476 (an increase of $11,383,127 from the prior year), which are primarily toll road receipts. The other portions of program revenues are Operating Grants and Contributions of $208,532,872 (6%) and Capital Grants and Contributions of $345,025,742 (9%). Capital Grants and Contributions increased $169,665,400 from the prior year, partially due to an increase in donations/dedications of roads.

General revenues are revenues that cannot be assigned to a specific function. They consist of taxes (previously discussed), Earnings on Investments of $21,689,316 (1% of total revenues), and Miscellaneous income of $78,571,034 (2% of total revenues).

REVENUES BY SOURCE
Year ended February 28, 2017



Expenses

For fiscal year ended February 28, 2017, expenses for the primary government totaled $3,095,991,150. These expenses are divided by activity type: governmental activities of $2,650,722,676 and business-type activities of $445,268,474.

The County's largest governmental activities function is Administration of Justice. The main components of this function are the civil and criminal courts and the Sheriff's Office. Total expenses for this activity were $1,223,736,806 and were 40% of total expenses. The expenses can be attributed to salaries, fringe benefits, costs of housing and trial of inmates, fuel costs for patrol vehicles, and other related items.

The expenses for the Roads and Bridges governmental activities function were $386,722,878 or 13% of total expenses. The County owns and maintains over six thousand miles of roads and bridges.

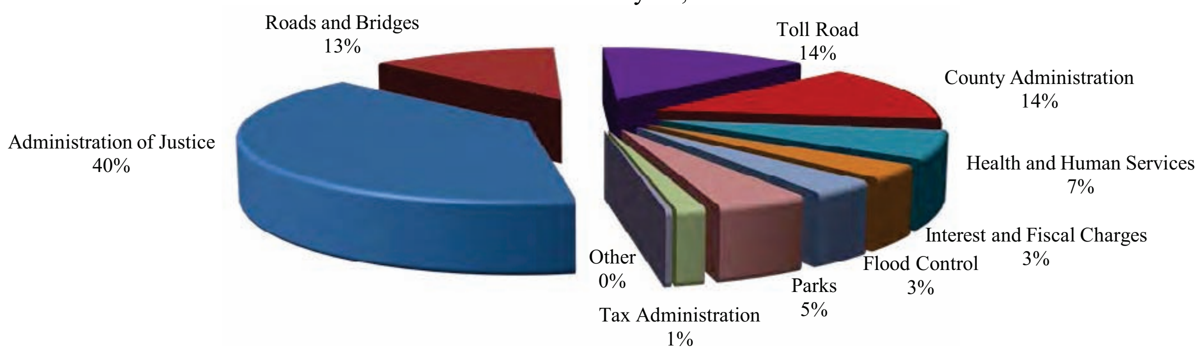
The County Administration governmental activities function expenses were $434,655,899 or 14% of total expenses. This is an increase of $78.4 million from the prior fiscal year which is partially due to increase in salary expenses attributable to additional employees.

The Toll Road business-type activities function expenses were $435,454,470 or 14% of total expenses. This expense increased $12,193,862 from the prior year. Expenses for other business-type activities were $9,814,004 and were less than 1% of total expenses. These activities are for Parking Facilities and Sheriff's Commissary.

The Interest and Fiscal Charges governmental activities functional expenses of $102,778,062 constituted 3% of total expenses and decreased $8,735,931.

The remaining governmental activities functions are Health and Human Services with expenses of $215,735,962 or 7%, which includes operation of the County libraries, Flood Control with expenses of $103,755,989 or 3%, Parks with expenses of $139,800,951 or 5%, and Tax Administration with expenses of $43,536,129 or 1%.

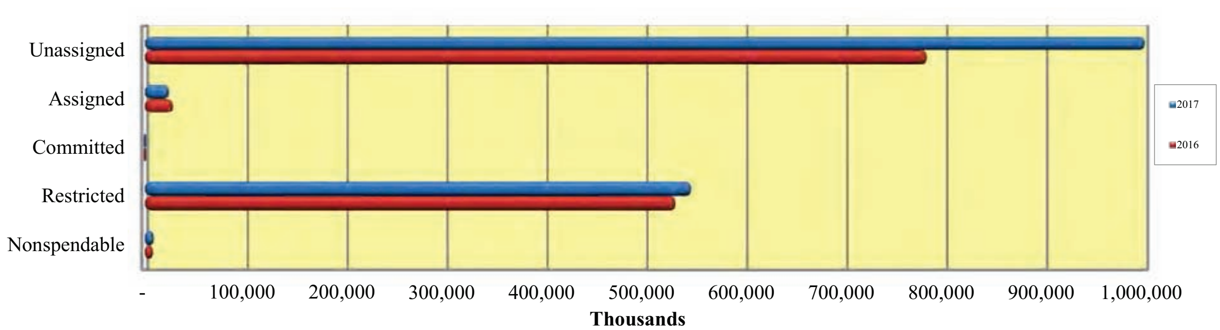
EXPENSES BY FUNCTION
Year ended February 28, 2017



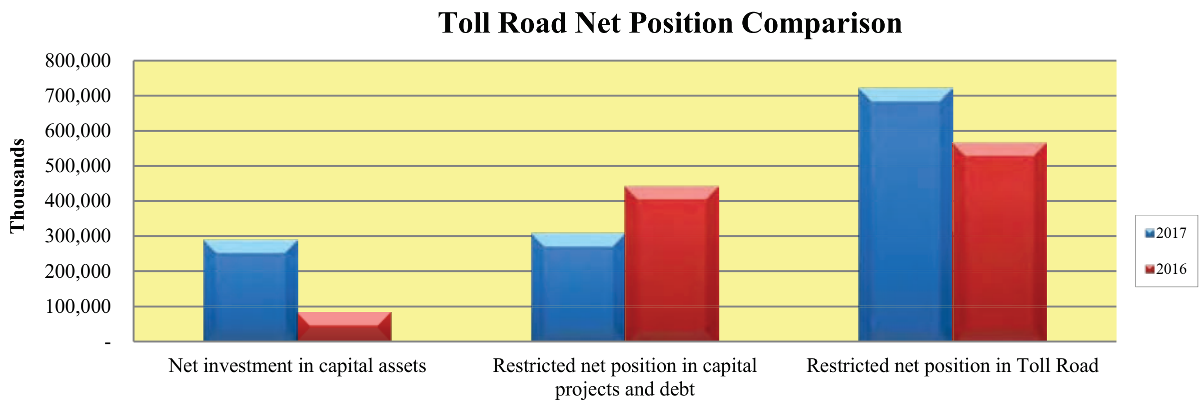
FINANCIAL ANALYSIS OF MAJOR FUNDS

The General Fund is the County's chief operating fund and major governmental fund. For the year ended February 28, 2017, the General Fund reported a net fund balance increase of $238,412,192 largely due to an increase in the fund balance of the mobility sub-fund, general debt sub-fund, and the general operating fund. The fund balance increase in the general operating fund is consistent with the County's financial policy and planning objective to continue to build a strong balance sheet to maintain financial stability and current high bond ratings. The General Fund total fund balance is $1,587,501,039 for the fiscal year of which $8,732,800 is nonspendable, $546,613,629 is restricted, $23,821,954 is assigned, and the remaining $1,008,332,656 is unassigned and available for the County's current and future needs.

General Fund Components of Fund Balance



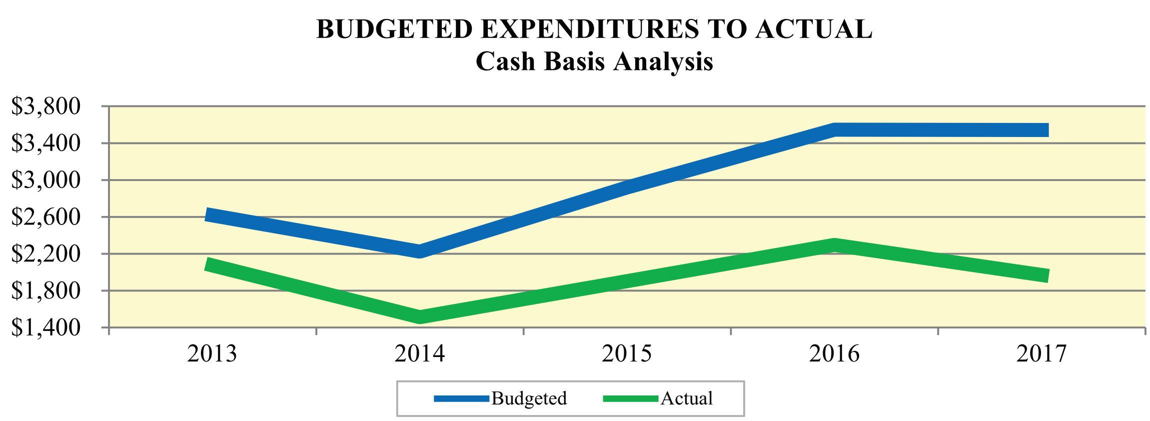
The Toll Road Fund was the County's only major proprietary fund at February 28, 2017. This fund is used to account for the acquisition, operation, and maintenance of County toll roads. As of February 28, 2017, net position net investment in capital assets was $290,476,431, and restricted net position was $1,031,650,751.



GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget reflected an increase of $24,101,381 in available resources. This increase is primarily due to adjustments for transfers in, miscellaneous income, and the issuance of refunding bonds. Differences between the original budget and the final amended budget resulted in $24,028,995 increase in appropriations; this increase is due to additional revenue certifications being allocated for use.

During the year, actual available resources exceeded budgetary estimates by $35,790,807. This is primarily due to an increase in tax revenues. Actual expenditures were $1,572,516,808 less than budgetary estimates. This difference is primarily due to a decrease in expenditures as a result of the carry forward of budget for capital projects for roads and bridges, maintenance funds, and mobility funds. Budget variances are not expected to impact future services or liquidity.



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The County's capital assets, net of accumulated depreciation/amortization, for its governmental and business-type activities as of February 28, 2017, was $14,105,467,602, an increase of $223,824,103 from capital assets reported February 29, 2016 of $13,881,643,499. These capital assets include land, construction in progress, land improvements, buildings, park improvements and facilities, infrastructure, equipment, other tangible assets, as well as intangible assets such as easements and the County's license agreement to operate toll facilities on the Katy Freeway.

Major capital asset events during the current fiscal year included the following:

- The County has several ongoing capital improvement projects, including renovations to Canal Street records warehouse, renovations to the Library Administrative Offices and other buildings as well as improvements to County roads.

- The Flood Control District participated in ongoing flood damage reduction and mitigation projects to reduce flood risk within the County.

- The Harris County Toll Road Authority has several ongoing projects, including the Hardy Toll Road Downtown Connector, widening portions of the Sam Houston Tollway, and Tomball Tollway. In addition $567M has been budgeted for the Ship Channel Bridge (Sam Houston Tollway).

	Capital Assets	
	Balance February 28, 2017	**Balance February 29, 2016**
Governmental Activities:		
Land	$ 4,220,937,672	$ 4,166,091,553
Construction in progress	321,419,743	266,516,941
Intangible assets - water rights	2,400,000	2,400,000
Intangible assets - software & licenses	51,809,414	51,212,527
Land improvements	13,513,156	10,964,005
Infrastructure	11,338,551,007	11,182,512,469
Park facilities	198,722,848	186,222,522
Flood control projects	954,420,777	897,716,912
Buildings	1,893,499,310	1,813,019,153
Equipment	427,381,267	403,239,244
	19,422,655,194	18,979,895,326
Less: Accumulated depreciation	(7,704,167,596)	(7,359,239,404)
Total governmental activities	$ 11,718,487,598	$ 11,620,655,922

	Balance February 28, 2017	**Balance February 29, 2016**
Business-type Activities:		
Land	$ 357,282,785	$ 338,548,557
Construction in progress	495,636,622	295,288,589
Intangible assets - license agreement	237,500,000	237,500,000
Land improvements	21,266,409	21,266,409
Infrastructure	2,574,438,539	2,574,449,452
Other tangible assets	19,538,963	29,503,155
Buildings	39,381,156	35,499,373
Equipment	102,714,714	103,101,812
	3,847,759,188	3,635,157,347
Less: Accumulated depreciation	(1,460,779,184)	(1,374,169,770)
Total business-type activities	$ 2,386,980,004	$ 2,260,987,577

For further information regarding capital assets, see Note 6 to the financial statements.

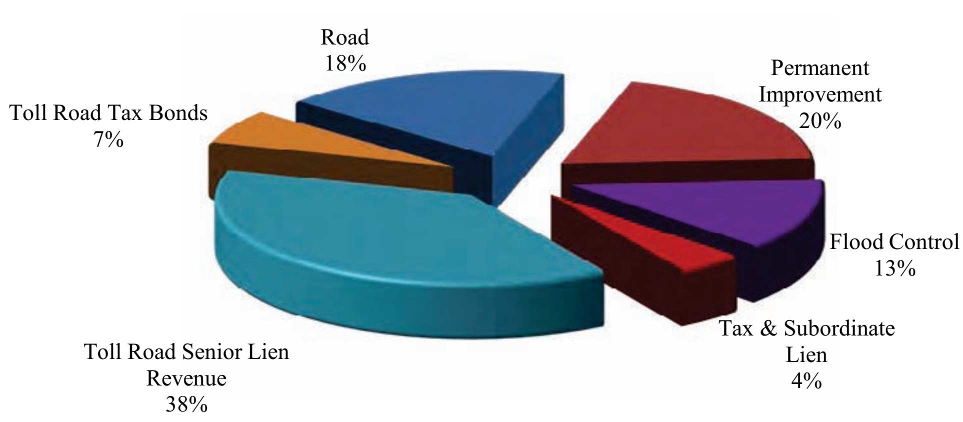
Long-term Liabilities. At February 28, 2017, the County had total long-term liabilities outstanding of $6,408,883,789. County officials, citizens and investors will find the ratio of bonded debt to taxable value of property and the amount of bonded debt per capita as useful indicators of the County's debt position. General bonded debt represented 0.64% and 0.73% of taxable value of property for fiscal year 2017 and 2016, respectively. Debt per capita was $1,086 and $1,137 for fiscal year 2017 and 2016, respectively.

	Long-term Liabilities	
	Outstanding at February 28, 2017	Outstanding at February 29, 2016
Governmental Activities:		
Bonds payable	$ 2,685,620,313	$ 2,862,707,525
Commercial paper payable	83,267,000	31,655,000
Compensatory time payable	40,840,030	37,083,271
Obligations under capital leases	7,735,768	9,556,748
Loan payable	42,359,055	37,759,111
OPEB obligation	613,989,534	533,824,631
Net Pension Liability	692,265,328	670,219,152
Pollution remediation obligation	4,396,332	2,231,692
Total governmental activities	$ 4,170,473,360	$ 4,185,037,130
Business-type Activities:		
Bonds payable	$ 2,176,172,224	$ 2,222,767,555
Compensatory time payable	1,147,868	1,183,109
OPEB obligation	33,926,229	29,416,889
Net Pension Liability	26,341,183	26,473,095
Pollution remediation obligation	822,925	2,119,625
Total business-type activities	$ 2,238,410,429	$ 2,281,960,273

The County has a continuing goal to sustain the County's debt rating. As of February 28, 2017, the bond rating services of Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch IBCA, Inc. assigned the County long term bond ratings of Aaa, AAA, and AAA, respectively.

Please refer to Note 10 to the financial statements for further information on the County's long-term liabilities. See Note 11 and Note 12 to the financial statements for further information on the County's Net Pension Liability and OPEB obligation.

Bonds Payable by Type as of February 28, 2017



ECONOMIC FACTORS

The unemployment rate for Harris County for calendar year 2016 was 5.3%. This is an increase from the prior year rate of 4.6%. The state unemployment rate for calendar year 2016 was 4.6%.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor's Office, 1001 Preston, Suite 800, Houston, Texas 77002, or visit the County's website at www.co.harris.tx.us.

BASIC FINANCIAL STATEMENTS

HARRIS COUNTY, TEXAS
STATEMENT OF NET POSITION
February 28, 2017

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 332,945,907	$ 183,196,264	$ 516,142,171	$ 288,632,670
Investments	1,820,604,094	770,948,341	2,591,552,435	823,771,447
Taxes receivable, net	99,142,266	-	99,142,266	31,515,000
Accounts receivable, net	69,008,170	7,121,652	76,129,822	80,965,254
Accrued interest receivable	12,778,898	2,147,143	14,926,041	-
Lease receivable	219,300	-	219,300	-
Due from other governmental units	-	73,265	73,265	-
Other receivables, net	123,277,326	10,857,155	134,134,481	11,611,732
Internal balances	600,425	(600,425)	-	-
Inventories, prepaids and other assets	18,747,828	9,627,099	28,374,927	86,104,051
Restricted:				
Cash and cash equivalents	124,722,706	21,238,868	145,961,574	147,768,339
Investments	198,853,947	239,805,642	438,659,589	-
Investments, held as collateral by others	-	18,779,000	18,779,000	-
Notes receivable	1,381,145	60,650	1,441,795	-
Net pension assets	10,795	-	10,795	-
Capital assets:				
Land and construction in progress	4,542,357,415	852,919,407	5,395,276,822	103,006,041
Intangible assets, net of amortization (when applicable)	8,040,749	199,428,750	207,469,499	6,198,078
Other capital assets, net of depreciation	7,168,089,434	1,334,631,847	8,502,721,281	398,999,907
Total assets	14,520,780,405	3,650,234,658	18,171,015,063	1,978,572,519
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refundings	50,680,942	77,894,852	128,575,794	12,192,000
Pension contributions after measurement date	20,359,870	811,266	21,171,136	-
Difference in projected and actual earnings on pension assets	258,978,389	9,854,173	268,832,562	-
Changes in pension assumptions	31,826,612	1,211,022	33,037,634	-
Resources related to pension	-	-	-	35,499,000
Resources related to physician services	-	-	-	22,958,000
Unamortized costs on swap liability	-	44,684,612	44,684,612	9,388,000
Total deferred outflows of resources	361,845,813	134,455,925	496,301,738	80,037,000
LIABILITIES				
Vouchers payable and other current liabilities	260,558,827	52,667,229	313,226,056	178,225,960
Due to other governmental units	22,810	-	22,810	-
Other liabilities	-	-	-	213,243,000
Unearned revenue	103,090,797	78,669,007	181,759,804	2,394,721
Accrued interest	44,392,623	-	44,392,623	554,000
Long-term liabilities:				
Due within one year	194,816,570	101,257,994	296,074,564	9,228,160
Due in more than one year	3,975,656,788	2,137,152,435	6,112,809,223	849,066,299
Total liabilities	4,578,538,415	2,369,746,665	6,948,285,080	1,252,712,140
DEFERRED INFLOWS OF RESOURCES				
Difference in projected and actual earnings on pension assets	26,025,146	990,275	27,015,421	2,547,000
Resources related to Medicaid SUP programs	-	-	-	14,049,000
Accumulated decrease in fair value of hedging derivatives	-	50,960,815	50,960,815	-
Total deferred inflows of resources	26,025,146	51,951,090	77,976,236	16,596,000
NET POSITION				
Net investment in capital assets	9,415,320,562	309,589,889	9,724,910,451	189,757,367
Restricted for:				
Debt service	306,365,930	258,572,640	564,938,570	24,164,000
Capital projects	56,629,983	11,252,783	67,882,766	-
Operating reserve per bond covenants	-	39,823,541	39,823,541	-
Donor temporarily restricted	247,091	-	247,091	37,489,441
Legislative	1,699,275	-	1,699,275	-
Mobility program	307,729,073	-	307,729,073	-
Toll Road	-	722,001,787	722,001,787	-
Unrestricted	190,070,743	21,752,188	211,822,931	537,890,571
Total net position	$ 10,278,062,657	$ 1,362,992,828	$ 11,641,055,485	$ 789,301,379

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF ACTIVITIES
For The Year Ended February 28, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Primary government:								
Governmental activities:								
Administration of Justice	$ 1,223,736,806	$ 142,604,687	$ 81,443,731	$ -	$ (999,688,388)	-	$ (999,688,388)	
Parks	139,800,951	670,030	11,176,903	-	(127,954,018)	-	(127,954,018)	
County Administration	434,655,899	66,235,788	12,774,074	131,031,705	(224,614,332)	-	(224,614,332)	
Health and Human Services	215,735,962	14,046,795	83,887,015	-	(117,802,152)	-	(117,802,152)	
Flood Control	103,755,989	687,283	-	49,105,697	(53,963,009)	-	(53,963,009)	
Tax Administration	43,536,129	30,442,983	-	-	(13,093,146)	-	(13,093,146)	
Road and Bridges	386,722,878	49,229,268	75,500	164,888,340	(172,529,770)	-	(172,529,770)	
Interest and Fiscal Charges	102,778,062	-	-	-	(102,778,062)	-	(102,778,062)	
Total governmental activities	2,650,722,676	303,916,834	189,357,223	345,025,742	(1,812,422,877)	-	(1,812,422,877)	
Business-type activities:								
Toll Road	435,454,470	774,025,958	19,175,649	-	-	$ 357,747,137	357,747,137	
Parking Facilities	2,424,891	5,974,753	-	-	-	3,549,862	3,549,862	
Sheriff's Commissary	7,389,113	5,580,765	-	-	-	(1,808,348)	(1,808,348)	
Total business-type activities	445,268,474	785,581,476	19,175,649	-	-	359,488,651	359,488,651	
Total primary government	$ 3,095,991,150	$ 1,089,498,310	$ 208,532,872	$ 345,025,742	(1,812,422,877)	359,488,651	(1,452,934,226)	
Component units:								
Harris Center for Mental Health & IDD (formerly MHMRA)	$ 227,831,218	$ 55,948,165	$ 154,769,327	$ -				$ (17,113,726)
Hospital District	2,492,294,000	390,180,000	1,341,435,000	-				(760,679,000)
Other component units	5,175,819	2,075,765	5,676,367	783,171				3,359,484
Total component units	$ 2,725,301,037	$ 448,203,930	$ 1,501,880,694	$ 783,171				(774,433,242)
General revenues:								
Taxes:								
Property taxes levied for General Purposes					1,562,917,250	-	1,562,917,250	698,819,000
Property taxes levied for Debt Service					303,057,359	-	303,057,359	-
Hotel Occupancy Tax					37,850,932	-	37,850,932	-
Earnings on Investments					14,558,802	7,130,514	21,689,316	12,858,976
Miscellaneous					78,552,134	18,900	78,571,034	73,290,602
Transfers					134,000,000	(134,000,000)	-	-
Total general revenues and other items					2,130,936,477	(126,850,586)	2,004,085,891	784,968,578
Change in net position					318,513,600	232,638,065	551,151,665	10,535,336
Net position - beginning					9,959,549,057	1,130,354,763	11,089,903,820	777,666,343
Prior period adjustment					-	-	-	1,099,700
Net position - ending					$ 10,278,062,657	$ 1,362,992,828	$ 11,641,055,485	$ 789,301,379

See notes to the financial statements.

HARRIS COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
February 28, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments:			
Cash and cash equivalents	$ 116,775,181	$ 195,077,622	$ 311,852,803
Investments	1,257,207,519	474,949,079	1,732,156,598
Receivables:			
Taxes, net	88,463,436	10,678,830	99,142,266
Accounts, net	8,323,694	56,547,296	64,870,990
Accrued interest	900,344	11,787,356	12,687,700
Lease	219,300	-	219,300
Other, net	67,298,996	52,569,145	119,868,141
Due from other funds	19,626,225	7,904,065	27,530,290
Prepaids and other assets	6,248,641	6,194,727	12,443,368
Inventories	2,444,159	243,813	2,687,972
Advances to other funds	40,000	7,469,080	7,509,080
Restricted cash and cash equivalents	97,929,492	26,793,214	124,722,706
Restricted investments	126,525,096	72,328,851	198,853,947
Notes receivable	1,205,799	175,346	1,381,145
Total assets	$ 1,793,207,882	$ 922,718,424	$ 2,715,926,306
LIABILITIES			
Vouchers payable	$ 56,963,720	$ 52,164,815	$ 109,128,535
Accrued payroll and compensated absences	82,545,027	7,038,508	89,583,535
Retainage payable	3,343,722	11,614,049	14,957,771
Due to other funds	4,106	26,832,855	26,836,961
Due to other governmental units	-	22,810	22,810
Other liabilities	144,066	-	144,066
Advances from other funds	-	7,509,080	7,509,080
Unearned revenue	9,478,274	94,043,902	103,522,176
Total liabilities	152,478,915	199,226,019	351,704,934
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	41,413,960	4,935,482	46,349,442
Unavailable revenue-other	11,813,968	32,615,222	44,429,190
Total deferred inflows of resources	53,227,928	37,550,704	90,778,632
FUND BALANCES			
Nonspendable	8,732,800	12,993,851	21,726,651
Restricted	546,613,629	632,733,192	1,179,346,821
Committed	-	44,955,094	44,955,094
Assigned	23,821,954	-	23,821,954
Unassigned	1,008,332,656	(4,740,436)	1,003,592,220
Total fund balances	1,587,501,039	685,941,701	2,273,442,740
Total liabilities, deferred inflows of resources, and fund balances	$ 1,793,207,882	$ 922,718,424	$ 2,715,926,306

See notes to the financial statements.

HARRIS COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
February 28, 2017

Total fund balances for governmental funds		$ 2,273,442,740
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets (excluding internal service fund capital assets) consist of:		
Land	$ 4,220,678,672	
Construction in progress	321,419,743	
Intangible assets - water rights	2,400,000	
Intangible assets - software and licenses, net of $46,168,665 accumulated amortization	5,640,749	
Land improvements, net of $2,976,269 accumulated depreciation	10,536,887	
Infrastructure, net of $6,219,667,904 accumulated depreciation	5,118,883,103	
Parks, net of $66,811,746 accumulated depreciation	131,911,102	
Flood control projects, net of $413,799,897 accumulated depreciation	540,620,880	
Buildings, net of $663,017,848 accumulated depreciation	1,229,012,888	
Equipment and vehicles, net of $242,635,563 accumulated depreciation	111,440,539	
Total capital assets		11,692,544,563
Net pension asset resulting from pension activity is not recognized in the funds		10,795
Long-term liabilities applicable to Harris County's activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - and deferred outflows and inflows are reported in the statement of net position. Balances (excluding internal service fund liabilities, where applicable) as of February 28, 2017 were:		
Deferred charge on refundings	50,680,942	
Deferred outflow - Pension contributions after measurement date	20,359,870	
Deferred outflow - Difference in actual and projected earnings on pension assets	258,978,389	
Deferred outflow - Changes in assumptions	31,826,612	
Accrued interest on bonds and loans	(44,392,623)	
Bonds payable	(2,685,620,313)	
Loan payable	(42,359,055)	
Capital leases	(7,735,768)	
Interest on capital leases	562,912	
Commercial paper payable	(83,267,000)	
Compensated absences	(40,434,425)	
OPEB obligation	(613,989,534)	
Net pension liability	(692,265,328)	
Pollution remediation obligation	(3,716,202)	
Deferred inflow - Difference in expected and actual pension experience	(26,025,146)	
		(3,877,396,669)
Internal service funds are used by the County. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. Internal service fund net position is:		98,682,596
Some of the County's assets are not available to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds.		90,778,632
Total net position of governmental activities		$ 10,278,062,657

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended February 28, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 1,658,355,207	$ 234,124,700	$ 1,892,479,907
Charges for services	239,801,860	30,977,560	270,779,420
User fees	92,570	-	92,570
Fines and forfeitures	18,644,632	-	18,644,632
Lease revenue	1,279,947	607,284	1,887,231
Intergovernmental	47,033,959	233,986,419	281,020,378
Earnings on investments	8,422,086	4,064,240	12,486,326
Miscellaneous	58,666,410	154,179,831	212,846,241
Total revenues	2,032,296,671	657,940,034	2,690,236,705
EXPENDITURES			
Current operating:			
Administration of Justice	1,006,942,646	79,741,287	1,086,683,933
Parks	80,303,245	27,009,638	107,312,883
County Administration	276,004,914	92,045,803	368,050,717
Health and Human Services	107,074,350	91,297,309	198,371,659
Flood Control	-	67,797,522	67,797,522
Tax Administration	38,616,012	1,151,089	39,767,101
Roads and Bridges	91,246,924	16,194,610	107,441,534
Capital outlay	102,134,479	244,734,636	346,869,115
Debt service:			
Principal retirement	73,678,787	54,683,741	128,362,528
Bond issuance costs	74,330	-	74,330
Interest and fiscal charges	66,384,448	78,688,761	145,073,209
Total expenditures	1,842,460,135	753,344,396	2,595,804,531
Excess (deficiency) of revenues under expenditures	189,836,536	(95,404,362)	94,432,174
OTHER FINANCING SOURCES (USES)			
Transfers in	162,572,447	136,741,814	299,314,261
Transfers out	(74,307,487)	(99,230,296)	(173,537,783)
Commercial paper issued	-	99,680,000	99,680,000
Payment to defease commercial paper	(48,068,000)	-	(48,068,000)
Issuance of loans	8,372,906	-	8,372,906
Proceeds from insurance recoveries	-	84,296	84,296
Proceeds from sale of capital assets	5,790	350,473	356,263
Total other financing sources (uses)	48,575,656	137,626,287	186,201,943
Net changes in fund balances	238,412,192	42,221,925	280,634,117
Fund balances, beginning	1,349,088,847	643,719,776	1,992,808,623
Fund balances, ending	$ 1,587,501,039	$ 685,941,701	$ 2,273,442,740

See notes to the financial statements.

HARRIS COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For The Year Ended February 28, 2017

Net change in fund balances - total governmental funds		$ 280,634,117
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of $378,087,530 exceeded capital expenditures of $346,869,115 in the current period.		(31,218,413)
Capital asset donations		154,601,241
Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Debt issued:		
Commercial paper	$ (99,680,000)	
Loans	(9,119,786)	
Repayments:		
To paying agent for bond principal	126,490,455	
Defeasance of commercial paper	48,068,000	
Loans	4,519,842	
Capital lease principal	1,820,980	
Net adjustment		72,099,491
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather as it accrues. This adjustment combines the net changes of 8 balances.		
Compensated absences	(3,681,433)	
OPEB obligation	(80,164,903)	
Net pension liability	(100,757,393)	
Pollution remediation obligation	(1,661,675)	
Amortization of debt premium	31,644,467	
Accretion of capital appreciation bond interest	18,952,290	
Amortization of advanced refunding difference	(9,199,557)	
Accrued interest on debt	972,277	
Combined adjustment		(143,895,927)
Internal service funds are used by the County. The net revenue of the internal service funds are reported with governmental activities.		(2,311,743)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		14,962,063
The net effect of disposal of capital assets is to decrease net position.		(26,386,038)
Other		28,809
Change in net position of governmental activities		$ 318,513,600

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
February 28, 2017

	Enterprise Funds			
	Toll Road Authority	Nonmajor Enterprise Funds	Total	Internal Service Funds
ASSETS				
Current assets:				
Cash and cash equivalents	$ 175,418,065	$ 7,778,199	$ 183,196,264	$ 21,093,104
Investments	757,414,854	13,533,487	770,948,341	88,447,496
Receivables, net	6,033,537	1,088,115	7,121,652	4,137,180
Accrued interest receivable	2,138,847	8,296	2,147,143	91,198
Other receivable, net	10,310,010	547,145	10,857,155	3,409,185
Due from other funds	-	-	-	544,474
Due from other units	73,265	-	73,265	-
Prepaids and other assets	3,507,163	-	3,507,163	1,513,598
Inventories	6,119,936	-	6,119,936	2,102,890
Total current assets	961,015,677	22,955,242	983,970,919	121,339,125
Noncurrent assets:				
Restricted cash and cash equivalents	21,238,868		21,238,868	-
Restricted investments	258,584,642	-	258,584,642	-
Notes receivable	60,650	-	60,650	-
Capital assets:				
Land and construction in progress	848,955,809	3,963,598	852,919,407	259,000
License agreement, net of amortizatoin	199,428,750	-	199,428,750	-
Other capital assets, net of depreciation	1,319,481,987	15,149,860	1,334,631,847	25,684,035
Total noncurrent assets	2,647,750,706	19,113,458	2,666,864,164	25,943,035
Total assets	3,608,766,383	42,068,700	3,650,835,083	147,282,160
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refundings	77,894,852	-	77,894,852	-
Pension contributions after measurement date	811,266	-	811,266	-
Difference in projected and actual earnings on pension assets	9,854,173	-	9,854,173	-
Changes of pension assumptions	1,211,022	-	1,211,022	-
Unamortized costs on swap liability	44,684,612	-	44,684,612	-
Total deferred outflows of resources	134,455,925	-	134,455,925	-
LIABILITIES				
Current liabilities:				
Vouchers payable	36,824,094	1,106,999	37,931,093	1,429,530
Accrued payroll and compensated absences	4,362,484	64,601	4,427,085	1,473,836
Retainage payable	10,799,555	-	10,799,555	-
Estimated outstanding claims	-	-	-	12,116,537
Incurred but not reported claims	-	-	-	32,648,509
Customer deposits	198,217	-	198,217	-
Due to other funds	600,425	-	600,425	637,378
Unearned revenue	78,649,035	19,972	78,669,007	131,533
Current portion of long-term liabilities	100,569,273	-	100,569,273	-
Total current liabilities	232,003,083	1,191,572	233,194,655	48,437,323
Noncurrent liabilities:				
Noncurrent portion of long-term liabilities	2,137,140,953	11,482	2,137,152,435	162,241
Total noncurrent liabilities	2,137,140,953	11,482	2,137,152,435	162,241
Total liabilities	2,369,144,036	1,203,054	2,370,347,090	48,599,564
DEFERRED INFLOWS OF RESOURCES				
Difference in projected and actual earnings on pension assets	990,275	-	990,275	-
Accumulated decrease in fair value of hedging derivatives	50,960,815	-	50,960,815	-
Total deferred inflows of resources	51,951,090	-	51,951,090	-
NET POSITION				
Net investment in capital assets	290,476,431	19,113,458	309,589,889	25,943,035
Restricted for:				
Debt service	258,572,640	-	258,572,640	-
Capital projects	11,252,783	-	11,252,783	-
Operating reserve per bond covenants	39,823,541	-	39,823,541	-
Toll Road	722,001,787	-	722,001,787	-
Unrestricted	-	21,752,188	21,752,188	72,739,561
Total net position	$ 1,322,127,182	$ 40,865,646	$ 1,362,992,828	$ 98,682,596

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For The Year Ended February 28, 2017

	Enterprise Funds			
	Toll Road Authority	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES				
Toll revenues	$ 774,025,958	$ -	$ 774,025,958	$ -
Lease revenue	-	-	-	14,497,496
Intergovernmental	19,175,649	-	19,175,649	2,776,589
Charges to departments	-	-	-	282,667,299
Sales	-	5,037,555	5,037,555	-
User fees	-	5,931,407	5,931,407	7,541,686
Miscellaneous	-	586,556	586,556	-
Total operating revenues	793,201,607	11,555,518	804,757,125	307,483,070
OPERATING EXPENSES				
Salaries	65,351,353	784,204	66,135,557	16,102,966
Materials and supplies	20,875,511	1,708,316	22,583,827	608,815
Services and fees	151,572,050	6,182,686	157,754,736	16,866,868
Utilities	3,788,013	247,203	4,035,216	615,669
Transportation and travel	6,979,787	-	6,979,787	7,292,006
Incurred claims	-	-	-	264,188,662
Estimated claims & changes in estimates	-	-	-	614,024
Cost of goods sold	-	4,018	4,018	4,828,579
Depreciation	106,852,470	887,577	107,740,047	7,866,318
Total operating expenses	355,419,184	9,814,004	365,233,188	318,983,907
Operating income (loss)	437,782,423	1,741,514	439,523,937	(11,500,837)
NONOPERATING REVENUES (EXPENSES)				
Earnings on investments	7,000,884	129,630	7,130,514	915,435
Lease income	18,900	-	18,900	-
Interest expense	(75,454,167)	-	(75,454,167)	-
Bond issuance cost	(3,233,525)	-	(3,233,525)	-
Gain (loss) on disposal of capital assets	2,703,550	-	2,703,550	(390,886)
Amortization expense	(4,051,144)	-	(4,051,144)	-
Other nonoperating revenue	-	-	-	441,026
Total nonoperating revenues (expenses)	(73,015,502)	129,630	(72,885,872)	965,575
Income (loss) before transfers and contributions	364,766,921	1,871,144	366,638,065	(10,535,262)
Transfers in	-	-	-	21,369,149
Transfers out	(134,000,000)	-	(134,000,000)	(13,145,630)
Total transfers and contributions	(134,000,000)	-	(134,000,000)	8,223,519
Change in net position	230,766,921	1,871,144	232,638,065	(2,311,743)
Net position, beginning	1,091,360,261	38,994,502	1,130,354,763	100,994,339
Net position, ending	$ 1,322,127,182	$ 40,865,646	$ 1,362,992,828	$ 98,682,596

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For The Year Ended February 28, 2017

	Enterprise Funds			
	Toll Road Authority	Nonmajor Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 798,947,220	$ 11,561,286	$ 810,508,506	$ 307,977,973
Payment to employees	(63,976,053)	(765,983)	(64,742,036)	(15,752,634)
Payment to vendors	(192,911,814)	(7,410,916)	(200,322,730)	(43,513,011)
Claims paid	-	-	-	(258,737,820)
Receipts from miscellaneous reimbursements	(543,019)	-	(543,019)	-
Other receipts	-	-	-	441,026
Net cash provided by (used for) operating activities	541,516,334	3,384,387	544,900,721	(9,584,466)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payments to other governments	(792,475)	-	(792,475)	-
Internal activity - net payments from other funds	(109,093)	-	(109,093)	-
Transfers from other funds	-	-	-	21,369,149
Transfers to other funds	(134,000,000)	-	(134,000,000)	(13,145,630)
Other receipts	165,914	-	165,914	-
Net cash used for noncapital financing activities	(134,735,654)	-	(134,735,654)	8,223,519
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Receipts from lease of capital assets	18,900	-	18,900	-
Purchases of capital assets	(242,022,375)	(2,002,434)	(244,024,809)	(9,091,691)
Gain on disposal of capital asset	(3,574,223)		(3,574,223)	
Principal paid on capital debt	(93,585,000)	-	(93,585,000)	-
Interest paid on capital debt	(82,427,601)	-	(82,427,601)	-
Net cash used for capital and related financing activities	(421,590,299)	(2,002,434)	(423,592,733)	(9,091,691)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(1,031,929,736)	(10,313)	(1,031,940,049)	(4,956,378)
Proceeds from sales and maturities of investments	983,010,926	2,500,000	985,510,926	18,565,000
Interest paid	-	(6,529,408)	(6,529,408)	(18,772,282)
Interest received	17,796,878	8,070	17,804,948	1,231,419
Bond issuance cost	(18,636)	-	(18,636)	-
Net cash used for investing activities	(31,140,568)	(4,031,651)	(35,172,219)	(3,932,241)
Net change in cash and cash equivalents	(45,950,187)	(2,649,698)	(48,599,885)	(14,384,879)
Cash and cash equivalents, beginning	242,607,120	10,427,897	253,035,017	35,477,983
Cash and cash equivalents, ending	$ 196,656,933	$ 7,778,199	$ 204,435,132	$ 21,093,104
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating income (loss)	$ 437,782,423	$ 1,741,514	$ 439,523,937	$ (11,500,837)
Adjustment to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	106,852,470	887,577	107,740,047	7,866,318
Other nonoperating revenues	(543,019)	-	(543,019)	441,026
Changes in current assets and liabilities:				
Receivables, net	(2,967,222)	3,604	(2,963,618)	496,436
Notes and leases receivable	7,581	-	7,581	-
Prepaids and other assets	(2,127,112)	-	(2,127,112)	31,619
Inventories	(1,155,945)	205,719	(950,226)	(1,084,770)
Vouchers payable and accrued liabilities	(7,673,126)	525,589	(7,147,537)	(5,925,128)
Retainage payable	4,709,445	-	4,709,445	-
Due to other governmental units	189,775	-	189,775	-
Other liabilities	(962,680)	2,163	(960,517)	-
Pollution payable	(1,296,700)	-	(1,296,700)	-
Unearned revenue	8,705,254	-	8,705,254	(913)
Compensatory time payable	(4,810)	18,221	13,411	91,783
Net cash provided by (used for) operating activities	$ 541,516,334	$ 3,384,387	$ 544,900,721	$ (9,584,466)
Non-Cash Operating, Capital and Related Financing, And Investing Activities:				
Increase (decrease) in fair value of hedging derivatives	$ 23,615,262	$ -	$ 23,615,262	$ -
Increase (decrease) in the fair value of investments	(5,384,255)	6,645,431	1,261,176	18,490,055
Purchase of capital assets on account	(7,417,789)	-	(7,417,789)	-

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
February 28, 2017

	AGENCY FUNDS
ASSETS	
Cash and cash equivalents	$ 211,807,396
Investments	172,130,887
Accounts receivable, net	368,950
Other receivables, net	90,178
Accrued interest receivable	218,590
Total assets	$ 384,616,001
LIABILITIES	
Vouchers payable	$ 17,884
Accrued payroll and compensated absences	16,392,914
Held for others	368,205,203
Total liabilities	$ 384,616,001

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF NET POSITION - COMPONENT UNITS
FEBRUARY 28, 2017

	Harris Center for Mental Health and IDD (formerly MHMRA)	Harris County Hospital District dba Harris Health System	Nonmajor Component Units	Total
ASSETS				
Cash and cash equivalents	$ 15,274,345	$ 265,973,000	$ 7,385,325	$ 288,632,670
Investments, including accrued interest	43,052,318	780,512,000	207,129	823,771,447
Receivables:				
Taxes, net	-	31,515,000	-	31,515,000
Accounts, net	6,230,628	71,450,000	3,284,626	80,965,254
Other	8,715,394	-	2,896,338	11,611,732
Inventories	244,856	10,693,000	-	10,937,856
Prepaids and other assets	806,951	74,240,000	119,244	75,166,195
Restricted cash and investments	369,560	145,632,000	1,766,779	147,768,339
Capital assets:				
Land,improvements, and construction in progress	6,023,410	68,324,000	28,658,631	103,006,041
Intangible assets, net of accumulated amortization	6,198,078	-	-	6,198,078
Other capital assets, net of depreciation	34,710,815	353,685,000	10,604,092	398,999,907
Total assets	121,626,355	1,802,024,000	54,922,164	1,978,572,519
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refundings	-	12,192,000	-	12,192,000
Derivative financial instrument	-	9,388,000	-	9,388,000
Resources Related to Pension	-	35,499,000	-	35,499,000
Resources Related to Physician Services	-	22,958,000	-	22,958,000
Total deferred outflows of resources	-	80,037,000	-	80,037,000
LIABILITIES				
Vouchers payable and accrued liabilities	20,250,294	155,364,000	2,611,666	178,225,960
Other liabilities	-	213,243,000	-	213,243,000
Unearned revenue	2,294,571	-	100,150	2,394,721
Accrued interest payable	-	554,000	-	554,000
Noncurrent liabilities:				
Due within one year	1,411,160	7,817,000	-	9,228,160
Due in more than one year	10,568,299	835,693,000	2,805,000	849,066,299
Total liabilities	34,524,324	1,212,671,000	5,516,816	1,252,712,140
DEFERRED INFLOWS OF RESOURCES				
Resources Related to Pension	-	2,547,000	-	2,547,000
Resources Related to Medicaid SUP Programs	-	14,049,000	-	14,049,000
Total deferred inflows of resources	-	16,596,000	-	16,596,000
NET POSITION				
Net investment in capital assets	41,526,367	148,231,000	-	189,757,367
Restricted for:				
Debt service	-	24,164,000	-	24,164,000
Donor restrictions	-	26,323,000	11,166,441	37,489,441
Unrestricted net position	45,575,664	454,076,000	38,238,907	537,890,571
Total net position	$ 87,102,031	$ 652,794,000	$ 49,405,348	$ 789,301,379

See notes to the financial statements.

HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
COMPONENT UNITS
For The Year Ended February 28, 2017

	Harris Center for Mental Health and IDD (formerly MHMRA)	Harris County Hospital District dba Harris Health System	Nonmajor Component Units	Total
REVENUES				
Program Revenues:				
Charges for services	$ 55,948,165	$ 390,180,000	$ 2,075,765	$ 448,203,930
Operating grants and contributions	154,769,327	1,341,435,000	5,676,367	1,501,880,694
Capital grants, contributions and other	-	-	783,171	783,171
Total program revenues	210,717,492	1,731,615,000	8,535,303	1,950,867,795
EXPENSES	227,831,218	2,492,294,000	5,175,819	2,725,301,037
Net program revenues (expenses)	(17,113,726)	(760,679,000)	3,359,484	(774,433,242)
General Revenues:				
Ad valorem tax revenues	-	698,819,000	-	698,819,000
Earnings on investments	299,007	12,444,000	115,969	12,858,976
Other	19,064,593	53,714,000	460,999	73,239,592
Gain on sale of capital assets	51,010	-	-	51,010
Net general revenues	19,414,610	764,977,000	576,968	784,968,578
Change in net position	2,300,884	4,298,000	3,936,452	10,535,336
Net position, beginning	83,701,447	648,496,000	45,468,896	777,666,343
Prior period adjustment	1,099,700	-	-	1,099,700
Net position, ending	$ 87,102,031	$ 652,794,000	$ 49,405,348	$ 789,301,379

See notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Harris County, Texas ("County") have been prepared in conformity with generally accepted accounting principles ("GAAP") in the United States of America for local governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant accounting and reporting policies of the County are described in the following notes to the financial statements.

A. REPORTING ENTITY

The County is a public corporation and a political subdivision of the State of Texas. The County is governed by Commissioners Court, composed of four County Commissioners and the County Judge, all of whom are elected officials.

The County provides a vast array of services which include public safety, administration of justice, health and human services, culture and recreation services, public improvements, flood control and general administration.

As required by GAAP, the financial statements of the reporting entity include those of the County (the primary government) and its component units in conformity with GASB Statement No. 14, *The Financial Reporting Entity* ("GASB 14"), GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* ("GASB 39"), GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* ("GASB 61"), and GASB Statement No. 80, *Blending Requirements for Certain Component Units*, clarifies the financial statement presentation requirements for certain component units which are incorporated as not-for-profit entities.

In accordance with these standards, a financial reporting entity consists of the primary government and its component units. Component units are legally separate entities for which the elected officials of the County are financially accountable, or the relationship to the County is such that exclusion would cause the County's financial statements to be misleading. Blended component units, although legally separate entities, are, in substance, part of the County's operations, so data from these units are combined with data of the County. Each discretely presented component unit, on the other hand, is reported in a separate column titled "Component Units" on the combined statements to emphasize that it is legally separate from the government.

The criteria used to determine whether an organization is a component unit of the County and whether it is a discretely presented or a blended component unit includes: financial accountability of the County for the component unit, whether the County appoints a voting majority of the entity's governing board, the ability to impose the County's will on the component unit, fiscal dependency criterion, if it is a financial benefit to or burden on the County, and whether services are provided entirely or almost entirely to the primary government.

Blended Component Units. For financial reporting purposes, the Harris County Flood Control District, the Harris County Sports & Convention Corporation, and the Harris County Redevelopment Authority are included in the operations and activities of the County as blended component units.

Harris County Flood Control District ("Flood Control District"). The Flood Control District provides programs and policies to protect homes and businesses from the hazards of flooding and to facilitate economic development. The County prepares and approves the budget, sets the tax rate, and approves all bond issuances of the Flood Control District. The criteria used to include the Flood Control District as a blended component unit of the County include: the County appoints a voting majority of the Flood Control District's governing body, the County is able to impose its will on the Flood Control District, and the County's and the Flood Control District's governing bodies are substantially the same and there is a financial benefit/burden relationship.

Harris County Sports & Convention Corporation ("Sports & Convention Corporation"). The Sports & Convention Corporation was formed to act on behalf of the County by negotiating and managing a contract with an outside vendor for the operations and management of the Reliant Park Complex. The Sports & Convention Corporation is included as a blended component unit of the County because it almost exclusively benefits Harris County as an entity opposed to the populace or public—much like an internal service fund. The Sports & Convention Corporation was created by the County under the authority of state law. The County appoints a voting majority of the Sports & Convention Corporation's governing body, and the County is able to impose its will on the Sports & Convention Corporation.

Harris County Redevelopment Authority ("Redevelopment Authority"). The Redevelopment Authority was organized exclusively for the purposes of aiding and acting on behalf of the County to accomplish any governmental purpose thereof pursuant to Subchapter D of Chapter 431 of the Texas Transportation Code. The criteria used to include the Redevelopment Authority as a blended component unit of the County include: the County appoints a voting majority of the Redevelopment Authority's governing body, the County is able to impose its will on the Redevelopment Authority, and the Redevelopment Authority was formed for the exclusive benefit of the County as an entity opposed to the populace or public—much like an internal service fund.

Discretely Presented Component Units. The component unit column in the government-wide financial statements includes the financial data of the County's discrete component units. These units are reported in a separate column to emphasize that they are legally separate from the County.

Harris County Hospital District, dba Harris Health System ("Hospital District"). The Hospital District provides medical, dental and hospital care for Harris County's indigent and needy. The criteria used to determine inclusion as a discretely presented component unit are: nine members of the governing board of the Hospital District are appointed by Commissioners Court, Commissioners Court approves the Hospital District's tax rate and annual budget but does not provide any funding or hold title to any of the Hospital District's assets, and the Hospital District cannot issue bonded debt without Commissioners Court approval. Services provided by the Hospital District are to the citizenry and not to the County. Complete financial statements may be obtained from:

Chief Financial Officer
Harris County Hospital District, dba Harris Health System
2525 Holly Hall, Suite 270
Houston, TX 77054

Harris Center for Mental Health and IDD (Intellectual and Development Disabilities)—(formerly MHMRA of Harris County). The Harris Center for Mental Health and IDD is a public agency providing services for residents of the County who do not require long-term institutional mental health care. The criteria used to determine inclusion as a discretely presented component unit are: all members of the governing Board of Directors are appointed by Commissioners Court, the County is able to impose its will, and there is a provision of funding to the Harris Center for Mental Health and IDD. The Harris Center for Mental Health and IDD can issue bonded debt without approval from the County. Complete financial statements may be obtained from:

Chief Financial Officer
Harris Center for Mental Health & IDD
P.O. Box 25381
Houston, TX 77265

Harris County Housing Finance Corporation ("Housing Finance Corporation"). The Housing Finance Corporation is exempt from federal income tax and is authorized to issue debt instruments for the purpose of purchasing single family home mortgages and providing financing for multifamily projects, both relating to low and moderate income residents. The Housing Finance Corporation was created by Commissioners Court but is not a political subdivision of Harris County under state law. The criteria used to determine the Housing Finance Corporation's inclusion as a discretely presented component unit are: all members of the governing body are all appointed by Commissioners Court and the County is able to impose its will on the Housing Finance Corporation. Services provided by the Housing Finance Corporation are to the citizenry and not to the County. Complete financial statements may be obtained from:

Harris County Housing Finance Corporation
1001 Fannin, Suite 2500
Houston, TX 77002-6760

Harris County Industrial Development Corporation ("Industrial Development Corporation"). The Industrial Development Corporation provides financing through the issuance of industrial and manufacturing bonds, which promotes and encourages employment and the public welfare in the County. The criteria used to determine inclusion as a discretely presented component unit are: all members of the governing body are appointed by Commissioners Court and the County is able to impose its will on the Industrial Development Corporation. Complete financial statements may be obtained from:

Board President – Robert L. Silvers
Fulbright & Jaworski, L.L.P.
1301 McKinney, Suite 5100
Houston, TX 77010-3095

Children's Assessment Center Foundation, Inc. ("CACF"). The Foundation (a Texas nonprofit corporation) was created to raise and provide funding for the Children's Assessment Center ("CAC"). The CAC provides a safe haven to sexually abused children and their families. CAC employs an extraordinarily effective, multidisciplinary team approach in the prevention, assessment, investigation, referral for prosecution and treatment of child sexual abuse. The criteria used to determine inclusion as a discretely presented component unit are: CACF provides a direct benefit to the County and is financially integrated with the County. Complete financial statements may be obtained from:

Chief Financial Officer - Betsey Runge
The Children's Assessment Center Foundation
2500 Bolsover
Houston, TX 77005

Friends of Countypets. The Friends of Countypets is a public nonprofit corporation organized to aid and act on behalf of Harris County, Texas in providing funds for the operation, maintenance, and improvement of veterinary public health programs of Harris County Public Health and Environmental Services. The criteria used to determine inclusion as a discretely presented component unit are: all members of the governing body are appointed by Commissioners Court, the County is able to impose its will through the budget, and the services provided are to the County.

Harris County Health Facilities Development Corporation ("HFDC"). The HFDC provides financing for qualified health facilities. Eligible projects must improve the adequacy, cost and accessibility of health care in Houston, Texas. Under the current tax code, eligible borrowers are limited to non-profit corporations. HFDC financing costs are limited to land, buildings, and equipment. The criteria used to determine inclusion as a discretely presented component unit are: all members of the governing body are appointed by Commissioners Court and the County can impose its will. HFDC is not required to issue separate audited financial statements and therefore are not included in the component unit column of the County's financial statements, but information relating to conduit debt can be found in note 10.D. to the financial statements.

Harris County Cultural Education Facilities Finance Corporation ("CEFFC"). The CEFFC provides and finances cultural education facilities for the exhibition and promotion of and education about the performing, dramatic, visual and literary arts, natural history and science for the public purpose of promoting the health, education and welfare of the citizens of the County. The criteria used to determine inclusion as a discretely presented component unit are: all members of the governing body are appointed by Commissioners Court and the County can impose its will on CEFFC. The CEFFC is not required to issue separate audited financial statements and therefore are not included in the component unit column of the County's financial statements, but information relating to conduit debt can be found in note 10.D. to the financial statements.

Condensed Financial Statements. Condensed financial statements of each discretely presented component unit discussed above are presented. The fiscal year-ends for the discretely presented component units are as follows:

- Harris County Hospital District, dba Harris Health System: February 28, 2017
- Harris Center for Mental Health and IDD (formerly MHMRA): August 31, 2016
- Harris County Housing Finance Corporation: December 31, 2016
- Harris County Industrial Development Corporation: August 31, 2016
- Children’s Assessment Center Foundation, Inc.: February 28, 2017
- Friends of Countypets: February 28, 2017

B. RELATED ORGANIZATIONS AND JOINTLY GOVERNED ORGANIZATIONS

Related organizations and jointly governed organizations provide services within the County that are administered by separate boards or commissions, but the County is not financially accountable, and such organizations are therefore not component units of the County, even though Commissioners Court may appoint a voting majority of an organization's board. Consequently, financial information for the following entities is not included within the scope of these financial statements.

Related Organizations. Related organizations of the County include the Emergency Service Districts which were created to implement emergency services to specific areas.

Jointly Governed Organizations. The County is a participant in jointly governed organizations. Commissioners Court appoints two of seven board members of the Port of Houston Authority; four of thirty-seven board members of the Gulf Coast Community Services Association; three of nineteen board members of the Harris-Galveston Coastal Subsidence District; two of thirty-five board members of the Houston-Galveston Area Council; two of nine board members of the Metropolitan Transit Authority of Harris County; six of thirteen board members of the Harris County/Houston Sports Authority, and the chairman is appointed jointly by Harris County and the City of Houston; three of twelve board members of the Gulf Coast Freight Rail District, and the chairman is appointed jointly by Harris County and the City of Houston; one of twenty-one board members of the Texas High Speed Rail and Transportation Corporation; at least three of the ten to thirteen board members of the Houston Ship Channel Security District; all five board members of the Harris County Housing Authority.

During fiscal year 2017, the County disbursed the following amounts to these organizations: \$24,213 to the Port of Houston Authority, \$15,464,430 to Houston-Galveston Area Council, \$1,762,220 to the Metropolitan Transit Authority of Harris County, \$16,419 to Harris County/Houston Sports Authority, \$75,000 Gulf Coast Freight Rail District, \$106 to Houston Ship Channel Security District, and \$93,663 to Harris County Housing Authority. The County also collected \$124,334 from the Port of Houston Authority, \$2,463,151 from the Houston-Galveston Area Council, \$537,591 from the Metropolitan Transit Authority of Harris County, \$50,124 from Harris County/Houston Sports Authority, \$780,807 from the Houston Ship Channel Security District, and \$2,227,181 from the Harris County Housing Authority.

The County is also a participant in several jointly governed Tax Increment Reinvestment Zones, (TIRZs) with the City of Houston, City of La Porte, City of Webster, and the City of Baytown. The County's participation in each TIRZ is pursuant to an Interlocal Agreement between the County, the municipality, and the respective TIRZ board of directors. For each TIRZ in which the County participates, Commissioners Court appoints one or more board member. Each of the TIRZs that the County jointly governs has up to fifteen members on its board of directors. Depending upon the terms of the municipal creation ordinance for a specific TIRZ, the municipality and any affected school district also appoints board members. For petition TIRZs, state elected representatives in whose districts a TIRZ is created also appoint one board member each. The petition TIRZs are required by statute to set aside a percentage of the increment paid into the TIRZ Fund to establish affordable housing within the area (not necessarily within the TIRZ itself), while the TIRZs created by city action have no such requirement.

During fiscal year 2017 (for the tax year ended 12/31/16), the County disbursed $13,309,865 to the City of Houston TIRZs, $1,595,372 to the City of Baytown TIRZ, and $493,309 to the City of La Porte TIRZ. The County will subsequently receive an estimated $1 million in affordable housing set-aside funds by August 31, 2017, in accordance with the Interlocal Agreements with the City of Houston petition TIRZs.

C. IMPLEMENTATION OF NEW STANDARDS

In the current fiscal year the County implemented the following new standards:

GASB Statement 72, *Fair Value Measurement and Application* ("GASB 72"), addresses accounting and financial reporting issues related to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes and guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"), establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"), has the objective to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles ("GAAP").

GASB Statement 77, *Tax Abatement Disclosures* ("GASB 77"), has the objective to provide essential information about tax abatement programs to assist financial statement users to better assess: 1) sources and uses of financial resources; 2) compliance with finance related legal or contractual requirements; and 3) financial position and economic conditions. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens.

GASB Statement 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* ("GASB 78"), amends the scope of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is also used to provide defined benefit pensions employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

GASB Statement 79, *Certain External Investment Pools and Pool Participants* ("GASB 79"), addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools.

GASB Statement 80, *Blending Requirements for Certain Component Units*, clarifies the financial statement presentation requirements for certain component units which are incorporated as not-for-profit entities.

GASB Statement 81, *Irrevocable Split-Interest Agreements,* establishes recognition and measurement requirements for irrevocable split-interest agreements.

D. FINANCIAL STATEMENT PRESENTATION, MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-wide Statements

Government-wide financial statements consist of the Statement of Net Position and the Statement of Activities. These statements report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Fines and forfeitures are recognized when they have been assessed and adjudicated and earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Statement of Activities demonstrates the degree to which the direct expenses of the County's programs are offset by those programs' revenues. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the program and 2) grants and contributions that are restricted to meeting the operational and/or capital requirements of a particular program. Program revenues include those generated from administration of justice, parks, county administration, health and human services, flood control, tax administration, and roads and bridges. Taxes and other items not included among program revenues are reported instead as general revenues. Miscellaneous general revenues contain non-program specific contributions.

Fiduciary funds are excluded from the government-wide presentation of the financial statements.

<u>Fund Statements</u>

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers property taxes and other revenues as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on governmental long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Grant and entitlement revenues are also susceptible to accrual. Encumbrances are used during the year. These funds are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds, including the enterprise and internal service funds, and fiduciary funds, including agency funds, are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when they are incurred. Claims incurred but not reported are included in payables and expenses. These funds are accounted for using an economic resources measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included in the funds statement of net position. The agency funds are custodial in nature and involve no measurement of results of operations.

The accounts of the County are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

Funds are classified into three categories: Governmental, Proprietary, and Fiduciary. The major funds of the County are noted within each category.

GOVERNMENTAL FUNDS: Used to account for all or most of a government's general activity.

General Fund - used to account for the general operations of the County, limited-tax permanent improvement debt service of the County, public improvement contingencies, the mobility program, and "internal special revenue funds" not meeting the special revenue fund definition of GAAP.

PROPRIETARY FUNDS: Used to account for operations that are financed in a manner similar to those in the private sector, where the determination of net income is appropriate for sound financial administration.

Toll Road Authority - used to account for the acquisition, operation, and maintenance of County toll roads. These facilities are financed primarily through user charges.

Within the Proprietary Funds, Internal Services Funds, which are not considered major funds, are included.

Internal Service Funds - used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. The individual funds within this category are presented below.

Vehicle Maintenance - used to account for the operation and maintenance of the County's Vehicle Maintenance Department which is financed through user charges.

Radio Operations - used to account for the operation of County radios which is financed through user charges.

Inmate Industries - used to account for the operation of the printing services provided by inmates to County departments which is financed by user charges.

Health Insurance Management - used to account for County employees' group health insurance activities.

Risk Management - used to account for the County's workers' compensation and other risk management activities. Workers' Compensation includes medical and indemnity payments as required by law for on-the-job related injuries. Other risk management activities include coordination of all insurance policies and management of self-insured risk.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing goods in connection with the proprietary fund's principal operations. The principal operating revenues of the Parking Facilities Enterprise Fund is user fees. Operating revenues of the Sheriff's Commissary Enterprise Fund are comprised of revenue from the sale of items to inmates. Toll Road Enterprise Fund operating revenues consist of fees assessed each time a vehicle passes through a toll station on the County's toll roads. Operating revenues in the Internal Service Funds consist primarily of charges to the various County departments. Operating expenses in the enterprise and internal service funds include the cost of sales and services, administrative expenses, incurred and estimated claims and reinsurance, utilities, travel and transportation, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

FIDUCIARY FUNDS: Used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The County reports seventeen agency funds as fiduciary funds. Agency funds are used to account for assets held by the County as an agent on behalf of various third parties outside the primary government.

District Clerk Registry - established for the purpose of accounting for monies held in the custody of the District Clerk under orders of various Harris County courts.

County Clerk Registry - established for the purpose of accounting for monies held in the custody of the County Clerk under orders of various Harris County courts.

Officers' Fees - used as a clearing fund for fees, fines and court costs collected by Sheriff, County Clerk, District Clerk, and/or other fee officers of the County.

Bail Security - assets pledged by Bail Bond licensees as collateral are accounted for in this fund.

Tax Collector's - tax collections are deposited in the Tax Collector's agency fund pending audit and distribution to the County or other taxing jurisdiction. Receipts from the sale of beer licenses are deposited in this fund pending approval by the State Alcoholic Beverage Commission.

E. BUDGETS

Harris County adheres to the following procedures in its consideration and adoption of its annual operating budget:

- Departmental annual budget requests are submitted by the Department or Agency Head to the County Budget Officer during the third quarter of the fiscal year for the upcoming fiscal year to begin March 1.

- Public hearings are held on the proposed budget.

- The County Auditor prepares an estimate of available resources for the upcoming fiscal year.

- The County Budget Officer prepares the proposed annual operating budget to be presented to Commissioners Court for their consideration. The budget represents the financial plan for the new fiscal year.

- Commissioners Court must adopt an annual operating budget by a majority vote of Commissioners Court before April 1. The adopted budget must be balanced; that is, budgeted expenditures may not exceed available resources.

- Annual budgets are legally adopted for the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

- The department is the legal level of budgetary control for General Fund-Operating. Commissioners Court approval is necessary to transfer appropriations between departments. Transfers may not increase the total budget. Budgetary control for Special Revenue Funds, Debt Service Funds and Capital Project Funds is at the fund level.

- Commissioners Court may approve expenditures as an amendment to the original budget only in the case of grave public necessity to meet an unusual and unforeseen condition that could not have been included in the original budget through the use of reasonably diligent thought and attention.

- The County Auditor shall certify to the Commissioners Court the receipt of all public or private grant or aid money that is available for disbursement in a fiscal year, but not included in the budget for that fiscal year. On certification, the court shall adopt a special budget for the limited purpose of spending the grant or aid money for its intended purpose.

- The County Auditor shall certify to the Commissioners Court the receipt of all revenue from intergovernmental contracts that are available for disbursement in a fiscal year, but not included in the budget for that fiscal year. On certification, the court shall adopt a special budget for the limited purpose of spending the revenue from intergovernmental contracts for its intended purpose.

- The County Auditor shall certify to the Commissioners Court the receipt of revenue from a new source not anticipated before the adoption of the budget and not included in the budget for that fiscal year. On certification, the court may adopt a special budget for the limited purpose of spending the revenue for general purposes or for any of its intended purposes.

- For financial reporting purposes several funds created for budgetary purposes may be combined into a single column on the CAFR.

- Appropriations lapse at year-end for all funds except Harris County Juvenile Board, Special Revenue Grants, and Capital Project Funds.

- Budgets are prepared on a cash basis (budget basis) which differs from GAAP basis.

A reconciliation of General Fund revenues and expenditures on a cash basis (budgetary basis) compared to modified accrual basis (GAAP) is presented in the Notes to the Required Supplementary Information.

F. RESTRICTED ASSETS

Certain assets of the County's General Fund are classified as restricted assets because their use is restricted for a specific purpose by contract or state statute. The County uses the General Fund to account for the debt service on bonds issued for permanent improvement purposes, to account for certain imprest bank accounts, and mobility funds which are restricted by statute.

The Debt Service Funds' cash and investments are restricted for debt service on bonds issued for roads and flood control purposes.

Certain assets of the Toll Road Authority are classified as restricted assets because their use is restricted for debt service.

G. DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents include amounts in demand deposits as well as short-term investments with a maturity date of 90 days or less from the date of purchase. Investments are stated at fair value or amortized cost, which is based on quoted market prices with the difference between the purchase price and fair value or amortized cost being recorded as earnings on investments.

H. INTERFUND TRANSACTIONS

During the course of normal operations, the County has many transactions between funds. The accompanying Fund Level financial statements reflect as transfers the resources provided and expenditures used to provide services, construct assets, and meet debt service requirements. The effect of interfund activity has been eliminated in the Government-wide financial statements, except for transactions between governmental and business-type activities.

I. INVENTORY

Inventory is stated at the lower of cost or market value, using the first-in first-out method for proprietary and governmental fund types. The costs of such inventories are recorded as expenditures/expenses when purchased.

J. PREPAIDS AND OTHER ASSETS

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both the government-wide and fund level financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

K. PREMIUMS (DISCOUNTS) ON BONDS PAYABLE

Premiums (discounts) on bonds payable are amortized using the effective interest method over the term of the bonds.

L. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows consist of deferred charges on refundings, the changes in fair value of the Toll Road's hedging derivative instruments that are applicable to future reporting periods, pension contributions after measurement date, the differences in projected and actual earnings on pension assets, and changes in pension assumptions. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. The pension contributions after measurement date are deferred and recognized in the following fiscal year. The differences in projected and actual earnings on pension assets are amortized over a closed five year period. Pension assumption changes are recognized over the average remaining service life for all members.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows consist of the changes in fair value of the Toll Road's hedging derivative instruments that are applicable to future reporting periods, differences in expected and actual pension experience, and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and other. The differences in expected and actual pension experience are amortized over a closed six year period. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

M. CAPITAL ASSETS AND INFRASTRUCTURE

Capital assets include land (including easements and right of ways), intangible assets, construction in progress, land improvements, buildings and building improvements, park improvements and facilities, equipment (including machinery, vehicles, animals, other tangible assets, exhaustible works of art and historical treasures and computer software), and infrastructure that are used in the County's operations and benefit the County for more than a single fiscal year. Infrastructure assets are long-lived assets that are generally stationary in nature and can typically be preserved for a significantly greater number of years than other capital assets. Infrastructure assets of the County include roads, bridges, flood control facilities, lighting, storm sewers, and tunnels.

Capital assets of the County are defined as assets with individual costs of $5,000 or more and estimated useful lives in excess of one year. Exceptions to the $5,000 capitalization threshold are as follows: it is the County's policy to capitalize all land other than easements, works of art and historical treasures, regardless of the historical cost. Easements greater than $100,000 are capitalized. Purchased software greater than $100,000 is capitalized; and internally developed software greater than $1,000,000 is capitalized. The threshold for capitalizing land improvements, buildings and building improvements, and park improvements is $100,000. The capitalization threshold for infrastructure ranges from $25,000 to $250,000, depending on the type of infrastructure asset.

All capital assets are stated at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are stated at their acquisition value on the date donated. It is the County's policy not to capitalize interest on construction for capital assets reported in the governmental activities of the government-wide financial statements. The Toll Road Enterprise Fund capitalizes, as a cost of its constructed property, the interest expense and certain other costs of bonds issued for construction purposes, less the interest earned on the proceeds of those bonds from the date of the borrowing until the date the property is ready for use. During fiscal year 2017, $3,061,000 of interest expense was capitalized.

Capital assets are depreciated in the government-wide financial statements using the straight-line method over the following useful lives:

Asset	Years	Asset	Years
Land improvements	20	Computer software	5
Buildings	45	Infrastructure:	
Park improvements	30	Bridges	40
Equipment	3-20	Flood control channels	25-75
Machinery	15	Roads	20-50
Vehicles	4-15	Lighting	20
Animals	7	Storm sewers	30-75
Other tangible assets	5	Tunnels	40
Exhaustible works of art and historical treasures	10	Intangible - software licenses	contract term

N. NET POSITION AND FUND BALANCES

NET POSITION CLASSIFICATIONS

Net position in the proprietary fund financial statements and the government-wide financial statements are classified in three categories: 1) Net investment in capital assets, 2) Restricted net position, and 3) Unrestricted net position.

FUND BALANCE CLASSIFICATIONS

Under GAAP, fund balances are required to be reported according to the following classifications:

Nonspendable – Amounts that cannot be spent because they are either not in spendable form or they are required, legally or contractually, to be maintained intact. This classification includes inventories, prepaid amounts, assets held for resale, and long-term receivables (if the proceeds from the collection of the receivables are not restricted, committed, or assigned).

Restricted – These amounts represent assets that have externally imposed restrictions by creditors, grantors, contributors, or laws or regulations of other governments. Assets may also be restricted as imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The County's highest level of decision-making authority resides with the Commissioners Court. The constraints imposed by the formal action of the Commissioners Court remain binding unless removed or changed in the same manner employed to previously commit those resources. To establish, modify, or rescind a fund balance commitment requires an order adopted by Commissioners Court.

Assigned – Amounts that are constrained by the County's intent to be used for a specific purposes, but that do not meet the criteria to be restricted or committed. Such intent should be expressed by the Commissioners' Court or its designated officials to assign amounts to be used. The County Budget Officer, by virtue of Commissioners Court ordered appointment to that office and as a normal function of that office, has the authority to assign fund balance to particular purposes. Assignments made by the County Budget Officer can occur during the budget process or throughout the year in the normal course of business. Commissioners Court, at their discretion, may make assignments of fund balance or direct other County officials to do so. Constraints imposed on the use of the assigned amounts can be removed with no formal action.

Unassigned – Amounts that have not been restricted, committed, or assigned. The general fund is the only fund to report a positive unassigned fund balance. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in the governmental funds other than the general fund, if expenditures incurred for specific purposes exceeds the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund (GASB 54).

For the classification of fund balances in the governmental funds, the County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

In the proprietary fund financial statements and in the government-wide financial statements, restricted net position is reported for amounts that are externally restricted by 1) creditors (e.g., bond covenants), grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provision or enabling legislation.

O. Compensated Absences

Accumulated compensatory time, vacation, and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures in the respective governmental funds. Accumulated compensated absences not expected to be liquidated with expendable available resources are reported as expenses and long-term liabilities in the governmental activities column of the government-wide financial statements. The majority of these have typically been liquidated from the General Fund in previous years. A liability for compensated absences is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Accumulated compensated absences of Proprietary Funds are recorded as an expense and liability in the respective fund and in the business-type activities column of the government-wide financial statements as the benefit accrues for the employee.

Employees accrue 9.75 days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 720 hours of sick leave. Unused sick leave benefits are not paid at termination. Employees accrue from three to ten hours of vacation per pay period depending on years of service and pay period type (standard versus extra). Employees may accumulate a maximum of 120 to 280 hours of vacation benefits, depending on years of service. Upon termination, employees are paid the balance of unused vacation benefits.

Non-exempt employees earn compensatory time at one and one-half times their worked hours in excess of 40 hours per week. Non-exempt employees may accrue up to 240 hours of compensatory time. Compensatory time in excess of the 240 hour maximum is paid at the regular rate of pay on the next pay period. Upon termination, non-exempt employees will be paid for any compensatory time balances.

Exempt employees earn compensatory time at a rate of one times their worked hours in excess of 40 hours a week. Exempt employees can accumulate up to 240 hours of compensatory time. Upon termination, exempt employees are paid one-half of the compensatory time earned at the wage rate at time of termination.

P. STATEMENT OF CASH FLOWS

For purposes of cash flows, the County considers cash equivalents to include all highly liquid investments (including restricted) with a maturity of three months or less when purchased.

Q. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the 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. Actual results could differ from those estimates.

R. COMPONENT UNIT TAX REVENUES

The Hospital District is partially financed by property tax levies (recorded as operating revenues), and partially financed by user charges, the usual revenue source for a proprietary fund activity. However, because of the unique character of services provided by the Hospital District, proprietary fund accounting is necessary to provide meaningful measurement of cost of services of the Hospital District.

2. DEPOSITS AND INVESTMENTS

Deposits: Chapter 2257 of the Texas Government Code is known as the Public Funds Collateral Act. This act provides guidelines for the amount of collateral that is required to secure the deposit of public funds. Federal Depository Insurance Corporation (FDIC) is available for funds deposited at any financial institution up to a maximum of $250,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. The Public Funds Collateral Act requires that the deposit of public funds be collateralized in an amount not less than the total deposit, reduced by the amount of FDIC insurance available.

The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. At February 28, 2017, the balance per various financial institutions was $839,124,378. The County's deposits are not exposed to custodial credit risk since all deposits are covered by FDIC insurance or an irrevocable standby letter of credit with the Federal Home Loan Bank of Dallas, in accordance with the Public Funds Collateral Act.

Investments: Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes Harris County to invest its funds pursuant to a written investment policy which primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity.

The Harris County Investment Policy is reviewed and approved at least annually by Commissioners Court. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type, and the maximum weighted average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy. Additionally, the policy includes specific investment strategies for fund groups that address each group's investment options and describes the priorities for suitable investments.

AUTHORIZED INVESTMENTS

Funds of Harris County may be invested as authorized by the Public Funds Investment Act which is located in Chapter 2256 of the Texas Government Code. Allowable investments include:

1. Direct obligations of the United States, its agencies and instrumentalities.

2. Other obligations, the principal and interest of which are unconditionally guaranteed, insured, or backed by the full faith and credit of the State of Texas, the United States, or any obligation fully guaranteed or fully insured by the FDIC.

3. Direct obligations of the State of Texas or its agencies provided the agency has the same debt rating as the State of Texas.

4. Obligations of states, agencies, counties, cities, and other political subdivisions located in the United States, rated not less than A, or its equivalent, by a nationally recognized investment rating firm.

5. Fully insured or collateralized certificates of deposit/share certificates issued by state and national banks, or a savings bank, a state or federal credit union (having its main or branch office in Texas) guaranteed or insured by the FDIC or its successor; and secured by obligations in number 1 above. In addition to the County's authority to invest funds in certificates of deposit and share certificates as stated above, made in accordance with the following conditions is an authorized investment under Texas Gov't. Code Section 2256.010(b): (1) the funds are invested by the County through a clearing broker registered with the Securities and Exchange Commission (SEC) and operating pursuant to SEC rule 15c3-3 (17 C.F.R. Section 240.15c3-3) with its main office or branch office in Texas and selected from a list adopted by the County as required by Section 2256.025; or a depository institution that has its main office or a branch office in this state and that is selected by the County; (2) the broker or the depository institution selected by the County 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 County; (3) 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; (4) the broker or depository institution selected by the County acts as custodian for the County with respect to the certificates of deposit issued for the account of the County.

6. Fully collateralized repurchase agreements, provided the County has on file a signed Master Repurchase Agreement detailing eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination. The repurchase agreement must have a defined termination date and be secured by obligations in number 1 above. It is required that the securities purchased as part of the repurchase agreement must be assigned to the County, held in the County's name, and deposited at the time the investment is made with the County's custodian or with a third-party approved by the County. Securities purchased as part of a repurchase agreement shall be marked-to-market no less than weekly. All repurchase agreements must be conducted through a primary government securities dealer as defined by the Federal Reserve or a financial institution doing business in Texas. Maturities shall be limited to 90 days. The 90-day limit may be exceeded in the case of flexible repurchase agreements ("flex repos") provided the investment type is specifically authorized within individual bond ordinances and final maturity does not exceed the anticipated spending schedule of bond proceeds.

7. Securities lending programs if the loan is fully collateralized, including accrued income, by securities described in Texas Gov't. Code, Section 2256.009, by irrevocable bank letters of credit issued by a bank under the laws of the United States or any other state, continuously rated not less than A by at least one nationally recognized investment rating firm, or by cash invested in accordance with the Investment Act. Securities held as collateral must be pledged to the investing entity, held in the investing entity's name, and deposited at the time the investment is made. A loan must be placed through a primary government securities dealer or a financial institution doing business in Texas. A loan must allow for termination at any time and must have a term of one year or less.

8. Commercial paper with a stated maturity of 270 days or less from the date of issuance, rated A-1 or P-1 or an equivalent rating by at least two nationally recognized agencies, and not

under review for possible downgrade at the time of purchase.

9. Local government investment pools with a dollar weighted average maturity of 60 days or less, approved through resolution of Commissioners Court to provide services to the County, continuously rated no lower than AAA or equivalent by at least one nationally recognized rating service. The County may not invest an amount that exceeds 10 percent of the total assets of any one local government investment pool. On a monthly basis, the Investment Officer shall review a list of securities held in the portfolio of any pool in which County funds are being held. To be eligible to receive funds from and invest funds on behalf of the County an investment pool must furnish to the Investment Officer or other authorized representative an offering circular or other similar disclosure instrument that contains information required by Tex. Gov't. Code Sec. 2256.016. Investments will be made in a local government investment pool only after a thorough investigation of the pool and review by the Finance Committee.

10. A Securities and Exchange Commission (SEC) registered, no load money market mutual fund which has a dollar weighted average stated maturity of 60 days or less and whose investment objectives includes the maintenance of a stable net asset value of $1 for each share. Furthermore, it must be rated not less than AAA or equivalent by at least one nationally recognized rating service and the County must be provided with a prospectus and other information required by the SEC Act of 1934 or the Investment Company Act of 1940. The County may not invest an amount that exceeds 10 percent of the total assets of any one fund. Investments will be made in a money market mutual fund only after a thorough investigation of the fund and review by the Finance Committee.

Summary of Cash and Investments

Harris County's cash and investments are stated at fair value or amortized cost. The following is a summary of the County's cash and investments at February 28, 2017:

	Governmental Funds	Proprietary Funds	Total	Fiduciary Funds	Total
Cash and Cash Equivalents	$ 311,852,803	$ 204,289,368	$ 516,142,171	$ 211,807,396	$ 727,949,567
Restricted Cash and Cash Equivalents	124,722,706	21,238,868	145,961,574	-	145,961,574
Investments	1,732,156,598	859,395,837	2,591,552,435	172,130,887	2,763,683,322
Restricted Investments	198,853,947	258,584,642	457,438,589	-	457,438,589
Total Cash & Investments	$ 2,367,586,054	$ 1,343,508,715	$ 3,711,094,769	$ 383,938,283	$ 4,095,033,052

Harris County follows the practice of pooling investments for many of the funds identified on the financial statements. Most of the general fund is pooled with other County funds for investment purposes. Interest income earned on pooled cash and investments is allocated each accounting period to the various funds based on the ending cash balances. For financial statement purposes, the principal value of pooled investments is allocated between the participating funds.

The table below indicates the fair value and maturity value of the County's investments as of February 28, 2017, summarized by security type. Also demonstrated are the percentage of total portfolio and the weighted average maturity in days for each summarized security type.

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Weighted Avg Modified Duration (Years)	Credit Rating S&P/ Moody's
US Agency Notes					
FFCB	$ 15,955,480	0.39%	$ 16,000,000	0.0044	AA+/Aaa
FHLB	326,413,400	7.87%	327,000,000	0.0742	AA+/Aaa
FHLMC	526,908,786	12.69%	528,400,000	0.1522	AA+/Aaa
FNMA	217,404,430	5.23%	218,500,000	0.0688	AA+/Aaa
Total US Agency Notes	1,086,682,096		1,089,900,000		
Commercial Paper					
GECO	1,599,397	0.04%	1,600,000	0.0000	A-1+/P-1
GECTSY	275,115,876	6.62%	276,700,000	0.0330	A-1+/P-1
MUFG	361,067,935	8.69%	362,553,000	0.0324	A-1+/P-1
TCCI/TMCC	827,097,422	19.91%	830,200,000	0.1274	A-1+/P-1
TMCPR	19,814,133	0.48%	20,000,000	0.0032	A-1+/P-1
Total Commercial Paper	1,484,694,763		1,491,053,000		
Local Governments					
Akron OH Txbl Ref Var Pur Ser B	197,716	0.00%	200,000	0.0001	AA-
Arizona, St Sch Facs Brd Rev	5,007,700	0.12%	5,000,000	0.0016	AAA/Aaa
Auburn Washington Utility System	2,079,885	0.05%	1,865,000	0.0035	AA
Austin, TX Rev 11A	2,093,360	0.05%	2,000,000	0.0055	AAA/Aaa
Austin, TX Wtr & Wstwtr Sys Txbl	999,720	0.02%	1,000,000	0.0001	AA/Aa2
AZ State School Facilities Board	13,020,020	0.31%	13,000,000	0.0042	AAA/Aaa
AZ Transportation	2,812,236	0.07%	2,800,000	0.0009	AA+/Aa2
Bexar County, TX GO	4,817,115	0.12%	4,500,000	0.0158	AAA/Aaa
Burien Wash BAB Taxable GO	1,241,084	0.03%	1,160,000	0.0021	Aa2
City of Cedar Rapids IA	1,003,720	0.02%	1,000,000	0.0001	Aa1
Clarkson MI Cmnty	2,555,690	0.06%	2,555,000	0.0001	Aa1
Clayton Cty GA & Wtr Auth Rev Txbl	1,944,298	0.05%	1,945,000	0.0003	AA+/Aa2
Cleveland OH Inc TX Rev Txbl	1,532,897	0.04%	1,535,000	0.0002	AA/A1
College Station TX ISD	1,375,744	0.03%	1,280,000	0.0026	AA-/Aa2
Colorado St Housing & Fin Auth Txbl	6,009,420	0.14%	6,000,000	0.0003	Aa2
Columbus OH City Sch Dist	2,301,656	0.06%	2,300,000	0.0004	AA/Aa2
Connecticut A-Taxable	1,000,560	0.02%	1,000,000	0.0003	AA-/Aa3
Conroe TX Industrial Development Rev	5,976,634	0.14%	5,445,000	0.0121	AA
Cty Boulder Co Wtr Swr Rev Tx Exmp	1,386,531	0.03%	1,350,000	0.0009	AAA/Aa1
Cty Columbus OH GO Unlt Tx Exmp	9,458,406	0.23%	8,935,000	0.0119	AAA/Aaa
Dallas, TX Ref GO	2,130,930	0.05%	2,000,000	0.0029	AA-/A1
Denver, CO BAB	3,752,152	0.09%	3,540,000	0.0082	AAA/Aaa
Denver, CO Public SC	500,910	0.01%	500,000	0.0001	Aa3
Dorchester Cnty Sch Dist Rev	1,996,980	0.05%	2,000,000	0.0004	AA-/Aa3
Ellis County, TX GO	2,680,709	0.06%	2,640,000	0.0044	Aa2
Great Neck North Wtr Authority	1,596,009	0.04%	1,610,000	0.0007	AA+
Greensboro, NC Build America Bnds	2,140,480	0.05%	2,000,000	0.0043	AAA/Aaa
Hays Cnty TX GO Ltd Tx Exmp	1,424,614	0.03%	1,325,000	0.0007	AA/Aa

HARRIS COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2017

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Weighted Avg Modified Duration (Years)	Credit Rating S&P/ Moody's
Hillsborough County FL Utility	15,063,995	0.36%	14,165,000	0.0221	AA+/Aaa
Honolulu City & Cnty HI	4,935,916	0.12%	4,930,000	0.0008	Aa1
Houston TX Utility Systems	2,366,973	0.06%	2,100,000	0.0066	AA
Hurst Euless Bedford ISD Txbl	994,940	0.02%	1,000,000	0.0001	AAA/Aaa
Idaho Bond Bank Authority Rev	4,549,732	0.11%	4,240,000	0.0074	Aa1
Indiana St Bond Bank Rev	2,003,220	0.05%	2,000,000	0.0002	AA+
Katy, TX ISD BAB	2,158,980	0.05%	2,000,000	0.0033	AAA/Aaa
Louisiana St UTGO Txbl	2,016,860	0.05%	2,000,000	0.0011	AA/Aa3
McLennan Cnty TX Pub Fac Rev Txbl	815,073	0.02%	815,000	0.0001	AA-
Met Washington DC Apartments Auth	1,017,680	0.02%	1,000,000	0.0001	AA-/A1
Mil Cnty WIS GO	2,304,723	0.06%	2,305,000	0.0004	AA/Aa2
Milwaukee Cnty Wis Go	686,088	0.02%	690,000	0.0003	AA/Aa2
Minnesota Pub Facs Rev Tx Exmpt	4,263,160	0.10%	4,000,000	0.0039	AAA/Aaa
Miss St Dev Fin Brd TXBL	1,261,474	0.03%	1,260,000	0.0002	AA/Aa2
Montgomery County, TX GO	3,773,525	0.09%	3,500,000	0.0091	AA+/Aaa
N Orange County CA Cmnty Clg Dist	1,251,863	0.03%	1,250,000	0.0001	AA+/Aa1
New York St Envmtl Facs Corp	1,284,473	0.03%	1,285,000	0.0001	AAA/Aaa
New York St Urban Dev Corp Txbl	7,076,678	0.17%	7,075,000	0.0017	AAA/Aa1
Newark NJ Txbl Ref	2,774,945	0.07%	2,775,000	0.0001	AA/A2
North Olmstead OH Sch Dist	1,300,000	0.03%	1,300,000	0.0002	AA-/Aa2
North TX Munipl Water District BAB	2,908,257	0.07%	2,700,000	0.0046	AAA/Aa2
North TX Tollway	3,635,791	0.09%	3,500,000	0.0093	AA/A1
Northwest TX	150,501	0.00%	150,000	0.0003	Aaa
NY St Dorm Auth St Per Inc Tx	4,169,985	0.10%	4,200,000	0.0014	AAA/Aa1
Oregon State Alt Energy Project	2,968,317	0.07%	2,780,000	0.0076	AA+/Aa1
Pearland, TX Ref-Perm Improvement	1,075,188	0.03%	1,075,000	0.0017	AA/Aa2
Pecos Barstow TXISD	1,414,672	0.03%	1,390,000	0.0016	AA/Aa3
Port Auth NY NJ	15,193,061	0.37%	15,220,000	0.0028	AA-/Aa3
Red River TX Education Finance	2,625,184	0.06%	2,535,000	0.0072	Aa3
Regional Transportation Auth	4,964,400	0.12%	5,000,000	0.0014	Aa4
Regal Trans Dist Co SA	6,184,071	0.15%	6,150,000	0.0010	AAA/Aa2
Riverside CA Pens Oblig Rfdg Txb	1,997,540	0.05%	2,000,000	0.0000	AAA/Aa3
Round Rock, TX ISD BAB	1,071,210	0.03%	1,000,000	0.0014	Aaa
Round Rock, TX ISD TX Exmpt	3,595,546	0.09%	3,375,000	0.0148	Aaa
Saint Louis Cnty MO Spl Oblg TXB	849,252	0.02%	850,000	0.0002	AA
Salt Lake County, Utah Sales Tax R	1,755,494	0.04%	1,630,000	0.0040	AAA
San Antonio, TX Build America Bnds	1,832,917	0.04%	1,635,000	0.0051	AAA/Aaa
San Antonio, TX Water Rev	1,040,900	0.03%	1,000,000	0.0003	AA+/Aa1
San Antonio, TX Water Rev BAB	3,209,050	0.08%	3,000,000	0.0045	AA+/Aa1
San Antonio, TX Water Rev Txbl	1,899,629	0.05%	1,910,000	0.0006	AA/Aa2
Snohomish County, WA BAB	2,936,668	0.07%	2,760,000	0.0051	AA+/Aa3
Southern Methodist Univ Txbl	994,420	0.02%	1,000,000	0.0004	AA-/Aa3
St of Delaware Go Unlt Tx Exmpt	2,805,129	0.07%	2,620,000	0.0028	AA-/Aa4
St of Georgia Go Unlt Tx Exmpt	5,552,730	0.13%	5,150,000	0.0025	AA-/Aa5
State of Texas Go Bond	504,195	0.01%	500,000	0.0001	AAA/Aaa
Sugar Land, TX CTFS	5,788,368	0.14%	5,400,000	0.0153	AAA/Aaa
Tennessee State Sch Bond Auth Txbl	1,491,345	0.04%	1,500,000	0.0009	AA/Aa1
Tennessee St Txbl Ref Ser C	1,399,422	0.03%	1,405,000	0.0005	AA/Aa2
Texas City, TX ISD	1,362,627	0.03%	1,285,000	0.0030	AA
Texas St Tech Univ Rev	1,918,199	0.05%	1,850,000	0.0043	AA
Texas St Txbl Ref Pub Fin	2,495,425	0.06%	2,500,000	0.0004	AAA/Aaa

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Weighted Avg Modified Duration (Years)	Credit Rating S&P/ Moody's
Texas Tech Univ Rev Txbl Ref	1,997,500	0.05%	2,000,000	0.0009	AA+/Aa1
TN St Series C Refunding	500,010	0.01%	500,000	0.0000	AA+/Aaa
Travis Cnty Tx Ctfs	1,505,000	0.04%	1,505,000	0.0027	AAA/Aaa
Treasury Note	7,994,400	0.19%	8,000,000	0.0008	AA+/Aaa
Trinity River TX Rev TX Exmpt	1,239,178	0.03%	1,215,000	0.0010	AA+/Aaa
TX A&M Univ Rev Fin Sys Bd 2015C	4,999,850	0.12%	5,000,000	0.0003	AA+/Aaa
TX St A&M Univ Sys Brd of Reg	1,998,160	0.05%	2,000,000	0.0001	AA+/Aaa
TX St Tech Univ Rev Txbl	5,001,750	0.12%	5,000,000	0.0012	AA/Aa1
TX St TXB Ref Pub Fin Auth Ser B	735,684	0.02%	735,000	0.0001	AAA/Aaa
Univ of Kentucky Ky Gen Recpts	4,065,845	0.10%	4,095,000	0.0016	AA/Aa2
Virginia St Clg Bldg Auth Txbl	751,117	0.02%	750,000	0.0000	AA+/Aa1
Virginia St Hsg Development Auth	2,562,233	0.06%	2,475,000	0.0047	AA+/Aa1
Virginia St Port Authority	500,740	0.01%	500,000	0.0000	AA+/Aa1
Washington Cnty Ore Sch	1,000,680	0.02%	1,000,000	0.0001	AA+/Aa1
Washington St Txbl Ser	2,911,737	0.07%	2,910,000	0.0005	AA+/Aa1
Wayne Township in Met Sch Dist	244,664	0.01%	245,000	0.0000	AA+
West Univ Place, TX	998,830	0.02%	1,000,000	0.0002	AAA
Westerville OH Cty Sch Dist	1,343,057	0.03%	1,380,000	0.0006	AA-/Aa3
Wsh St Ctfs Part	2,243,788	0.05%	2,245,000	0.0002	Aa2
Total Local Governments	277,321,190		269,800,000		
US Treasury Notes					
US Treasury Note	442,309,220	10.65%	443,000,000	0.0893	AAA/Aaa
Total US Treasury Notes	442,309,220		443,000,000		
Money Market Mutual Funds					
LOGIC Investment Pool	65,066,063	1.57%	65,066,063	N/A	AAAm
Lone Star Investment Pool	57,240,395	1.38%	57,240,395	N/A	AAAm
Texas Class Investment	50,512,171	1.22%	50,512,171	N/A	AAAm
Fidelity Instl Treasury	690,104,069	16.61%	690,104,069	N/A	AAAm
Total Money Market Mutual Funds	862,922,698		862,922,698		
Total Investments	4,153,929,967	100.00%	$ 4,156,675,698		
Outstanding items/deposits	(58,896,915)				
Total Cash & Investments	$ 4,095,033,052				

Fair Value Measurements

The County categorizes its fair value measurements within the fair value hierarch established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of February 28, 2017, the County has the recurring fair value measurements for U.S. Agency Notes, Commercial Paper, Local Governments and U.S. Treasury Notes totaling $3,291,007,269, all of which are valued using quoted prices for similar assets in active markets (Level 2 inputs). The Money Market Funds through External Investment Pools totaling $862,922,698 have been valued at amortized cost under GASB No. 79 or fair value under GASB No. 72. For pools shown above, the LOGIC and Texas Class portfolios have been valued at fair value (Level 2 input) with Lone Star and Fidelity at amortized cost.

RISK DISCLOSURES

Interest Rate Risk: All investments carry 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. One of the ways that the County manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by matching cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

According to the County investment policy, no more than 50% of the portfolio, excluding those investments held for construction/capital projects, special revenue, flood control, proprietary and enterprise, Public Improvement Contingency, District Clerk Registry, County Clerk Registry, and bond reserves, may be invested beyond three years. Additionally at least 15% of the portfolio, with the previous exceptions, is invested in overnight instruments or in marketable securities which can be sold to raise cash within one day's notice. Overall, the average maturity of the portfolio, with the previous exceptions, shall not exceed three years. As of February 28, 2017, the County was in compliance with all of these guidelines to manage interest rate risk.

Credit Risk and Concentration of Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The County mitigates these risks by emphasizing the importance of a diversified portfolio. All funds must be sufficiently diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In particular, no more than 25% of the overall portfolio may be invested in time deposits, including certificates of deposit, of a single issuer. Concentration by issuer for other investment instruments is not specifically addressed in the investment policy. However, the policy does specify that acceptable investment instruments must have high quality credit ratings and, consequently, risk is minimized.

The County's investment policy establishes minimum acceptable credit ratings for certain investment instruments. Securities of states, agencies, counties, cities and other political subdivisions must be rated as to investment quality by a nationally recognized investment rating firm as A or its equivalent. Money market mutual funds and public funds investment pools must be rated AAA or its equivalent by at least one nationally recognized investment rating firm.

Custodial Credit Risk: Investments are exposed to custodial credit risk if the investments are uninsured, are not registered in the County's name and are held by the counterparty. In the event of the failure of the counterparty, the County may not be able to recover the value of its investments that are held by the counterparty. As of February 28, 2017, all of the County's investments are held in the County's name.

Foreign Currency Risk: Foreign currency risk is the risk that fluctuations in the exchange rate will adversely affect the value of investments denominated in a currency other than the US dollar. The County Investment Policy does not list securities denominated in a foreign currency among the authorized investment instruments. Consequently, the County is not exposed to foreign currency risk.

FUND INVESTMENT CONSIDERATIONS

The Investment Policy outlines specific investment strategies for each fund or group of funds identified on the Harris County financial statements. The two investment strategies employed by Harris County are the Matching Approach and the Barbell Approach. The Matching Approach is an investment method that matches maturing investments with disbursements. Matching requires an accurate forecast of disbursement requirements. The Barbell Approach is an investment method where maturities are concentrated at two points, one at the short end of the investment horizon and the other at the long end. Specific guidelines have not been established for Pooled Investments, but the same standards that were developed for the General Fund Group are also applicable to Pooled Investments. The investment strategies and maturity criteria are outlined in the following table.

Fund Type	Investment Strategy	Maximum Maturity Per Policy (Years)	Maturity Amount	Average Remaining Years To Maturity
Pooled Investments	Matching	3	$ 1,614,791,000	0.79
Public Improvement Contingency	Matching/Barbell	6	96,961,000	0.90
Special Revenue Funds	Matching	5	277,845,000	0.65
Debt Service Funds	Matching	3	138,377,000	0.58
Capital Project Funds	Matching/Barbell	5	2,000,000	0.38
Proprietary Funds	Matching/Barbell	6	24,010,000	0.75
Toll Road Project Funds	Matching/Barbell	6	648,845,000	2.89
Toll Road Renewal/Replacement	Matching/Barbell	6	133,595,000	0.98
Toll Road Bond Reserve	Matching	Maturity of the bonds	234,284,000	7.92
County Clerk Registry	Matching/Barbell	7	61,895,000	0.81
District Clerk Registry	Matching/Barbell	7	61,150,000	0.64
Money Market Mutual Funds	N/A	N/A	862,922,698	N/A
			$ 4,156,675,698	

Note: Money Market Mutual Funds are excluded from the various fund types which may affect the average remaining days to maturity.

3. PROPERTY TAXES

COUNTY

Property taxes for the County and the Flood Control District are levied on tax rates adopted within 60 days of receiving the certified roll or September 30, whichever is later. Tax rates are usually adopted in September or October. Taxes are levied on the assessed value of all taxable real and personal property as of the preceding January 1. On January 1, at the time of assessment, an enforceable lien is attached to the property for property taxes. All tax payments not received by February 1, after the taxes are levied, are considered delinquent. Accordingly, no current taxes receivable are reported. Appraised values are determined by the Harris County Appraisal District ("Appraisal District") equal to 100% of the appraised market value as required by the State Property Tax Code. Real property must be appraised at least every three years. Taxpayers and taxing units may challenge appraisals of the Appraisal District through various appeals and, if necessary, legal action.

The County is responsible for setting the tax rates for the County, the Flood Control District, the Hospital District, and the Port of Houston Authority for debt service only. The County adopted the 2016 tax rate, per $100 of taxable value, for the County and Flood Control District as follows:

	Maintenance and Operations	Debt Service	Total
Harris County			
Constitutional Funds	$ 0.34500	$ 0.05111	$ 0.39611
Road Debt Service	-	0.02045	0.02045
Total - Harris County	$ 0.34500	$ 0.07156	$ 0.41656
Flood Control District	$ 0.02745	$ 0.00084	$ 0.02829

The County is permitted by law to levy tax rates for general fund, jury fund, road and bridge fund and permanent improvement fund purposes up to $0.80 per $100 of taxable valuation. The County levied a tax rate of $0.41656 per $100 of taxable valuation subject to the $0.80 tax rate limitation, of which $0.39611 per $100 valuation was for Constitutional Funds, and a tax rate of $0.02045 per $100 valuation was for the Road Debt Service.

The Flood Control District is permitted by law to levy a tax rate up to $0.30 per $100 of taxable valuation. There is no limitation on the tax rate which may be set for debt service within the $0.30 tax rate limit. The tax rate for maintenance and operations is limited to the rate as may from time to time be approved by the voters of the Flood Control District. The maximum tax rate for maintenance and operations is $0.15 per $100 of taxable valuation. A tax rate of $0.02745 per $100 valuation was set in 2016 for the Flood Control District's maintenance and operations. The County Tax Assessor-Collector bills and collects the taxes for the County, Flood Control District, Hospital District, Port of Houston Authority, City of Houston and various other jurisdictions within the County. Collections of the property taxes and subsequent remittances to the proper entities are accounted for in the Tax Assessor-Collector's Agency Fund. Tax collections deposited for the County and Flood Control District are distributed on a periodic basis to the respective General Funds and Debt Service Funds. These distributions are based upon the tax rate established for each fund by order of the Commissioners Court for the tax year for which the collections are made.

Property tax receivables of $99,142,266 as of February 28, 2017 are reported net of an allowance for uncollectible taxes of $99,072,650.

The County enters into property tax abatement agreements with local businesses under the state Property Redevelopment and Tax Abatement Act, Chapter 312, as well as its own guidelines and criteria, which is required under the Act. Under the Act, including its guidelines and criteria, the County may grant property tax abatements for economic projects under the program that provide an increase of at least $1,000,000 in property values and 25 jobs created/retained. Abatements granted are up to $1,000,000 per job created/retained for up to 50% abatement over a period of up to 10 years. In addition to job growth/retention, the County's guidelines and criteria focus on creating new wealth to the community rather than recirculating dollars within the community, and attracting industries that have demonstrated a commitment to protecting our environment—all without creating a substantial adverse effect on the competitive position of existing companies operating in the County. The agreement used for this purpose provides for termination of the agreement in the event its counterparty discontinues producing product as well as recapturing property taxes abated in that calendar year.

For the fiscal year ended February 28, 2017, the County abated property taxes totaling $235,231 under this program, which includes six entities—five of which were manufacturing facilities, which were granted exemptions that converted to property tax abatements ranging from $12,497 to $143,713 and totaling $214,611. One of the entities was a regional distribution facility, which was also granted an exemption that converted to a property tax abatement of $20,620.

COMPONENT UNITS

The Hospital District receives property taxes levied by the County Commissioners Court for operations and debt service. Ad Valorem tax revenues are recorded at the time the taxes are assessed, net of provisions for uncollected amounts and collection expenses. Subsequent adjustments to the tax rolls, recorded by the County Tax Assessor-Collector, are included in the revenues in the period such adjustments are made by the County Tax Assessor-Collector.

Property tax receivables of $31,515,000 as of February 28, 2017 are reported net of an allowance for uncollectible taxes of $43,522,000 for the Hospital District.

4. OTHER RECEIVABLES

The County reports accounts receivables and other receivables in the various funds for amounts to be received from customers, granting agencies, and the Tax Assessor. A breakdown of these receivables at February 28, 2017 is as follows:

	Customers	Granting Agencies	Tax Assessor	Totals	Allowance for Uncollectible
General	$ 22,518,436	$ -	$ 53,104,254	$ 75,622,690	$ (1,723,049)
Nonmajor Governmental	34,212,449	69,513,133	5,390,859	109,116,441	(959,836)
Toll Road	16,343,547	-	-	16,343,547	(257,102,759)
Nonmajor Enterprise	1,635,260	-	-	1,635,260	-
Internal Service	7,546,365	-	-	7,546,365	(390,269)
Component Units	80,965,254	11,611,732	-	92,576,986	(96,606,999)
Totals	$ 163,221,311	$ 81,124,865	$ 58,495,113	$ 302,841,289	$ (356,782,912)

5. INTERFUND BALANCES AND TRANSFERS

In the fund financial statements, interfund balances are the result of normal transactions between funds and will be liquidated in the subsequent fiscal year. Balances between individual governmental funds and between governmental funds and internal service funds are eliminated in the government-wide financial statements.

The interfund receivable and payable balances, by individual major fund, other governmental funds (aggregated), other proprietary funds (aggregated), internal service funds (aggregated), and fiduciary funds as of February 28, 2017 are as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental	$ 18,388,422
	Toll Road	600,425
	Internal Service	637,378
Nonmajor Governmental	General	4,106
	Nonmajor Governmental	7,899,959
Internal Service	Nonmajor Governmental	544,474
Total		$ 28,074,764

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental	$ 40,000
Nonmajor Governmental	Nonmajor Governmental	7,469,080
Total		$ 7,509,080

The following is a summary of the County's transfers for the year ended February 28, 2017:

	Transfers In: General	Nonmajor Governmental	Internal Service	Total
Transfers Out:				
General	$ -	$ 52,938,338	$ 21,369,149	$ 74,307,487
Nonmajor Governmental	26,572,447	72,657,849	-	99,230,296
Toll Road	134,000,000	-	-	134,000,000
Internal Service	2,000,000	11,145,630	-	13,145,630
Total	$ 162,572,447	$ 136,741,817	$ 21,369,149	$ 320,683,413

Toll Road transferred $134 million to the General fund for funding of a County thoroughfare and mobility program. All other transfers are routine in nature, such as cash match of grants, debt service payments, and internal service costs.

6. CAPITAL ASSETS

COUNTY

Capital asset activity for the year ended February 28, 2017 was as follows:

	Balance March 1, 2016	Additions	Deletions	Transfers	Balance February 28, 2017
Governmental Activities:					
Land	$ 4,166,091,553	$ 55,323,317	$ (477,198)	$ -	$ 4,220,937,672
Construction in progress	266,516,941	285,324,550	(5,471,534)	(224,950,214)	321,419,743
Intangible assets - water rights	2,400,000	-	-	-	2,400,000
Total capital assets not depreciated	4,435,008,494	340,647,867	(5,948,732)	(224,950,214)	4,544,757,415
Intangible assets - software & licenses	51,212,527	743,908	(147,021)	-	51,809,414
Land improvements	10,964,005	432,000	-	2,117,151	13,513,156
Infrastructure	11,182,512,469	122,961,225	(39,209,430)	72,286,743	11,338,551,007
Park facilities	186,222,522	316,029	-	12,184,297	198,722,848
Flood control projects	897,716,912	-	(1,077,104)	57,780,969	954,420,777
Buildings	1,813,019,153	-	-	80,480,157	1,893,499,310
Equipment	403,239,244	60,297,798	(36,256,672)	100,897	427,381,267
	14,544,886,832	184,750,960	(76,690,227)	224,950,214	14,877,897,779
Less accumulated depreciation for:					
Intangible assets - software & licenses	(40,193,905)	(6,133,496)	158,736	-	(46,168,665)
Land improvements	(2,483,801)	(492,468)	-	-	(2,976,269)
Infrastructure	(5,965,813,443)	(274,295,726)	20,441,265	-	(6,219,667,904)
Park facilities	(61,082,271)	(5,729,475)	-	-	(66,811,746)
Flood control projects	(384,083,599)	(29,931,931)	215,633	-	(413,799,897)
Buildings	(625,172,881)	(38,834,924)	-	-	(664,007,805)
Equipment	(280,409,504)	(30,594,794)	20,268,988	-	(290,735,310)
	(7,359,239,404)	(386,012,814)	41,084,622	-	(7,704,167,596)
Total capital assets being depreciated, net	7,185,647,428	(201,261,854)	(35,605,605)	224,950,214	7,173,730,183
Governmental activities capital assets, net	$ 11,620,655,922	$ 139,386,013	$ (41,554,337)	$ -	$ 11,718,487,598

	Balance March 1, 2016	Additions	Deletions	Transfers	Balance February 28, 2017
Business-type Activities:					
Land	$ 338,548,557	$ 19,749,077	$ (1,014,849)	$ -	$ 357,282,785
Construction in progress	295,288,589	204,229,816	-	(3,881,783)	495,636,622
Total capital assets not depreciated	633,837,146	223,978,893	(1,014,849)	(3,881,783)	852,919,407
License Agreement	237,500,000	-	-	-	237,500,000
Land improvements	21,266,409	-	-	-	21,266,409
Infrastructure	2,574,449,452	-	(10,913)	-	2,574,438,539
Other tangible assets	29,503,155	131,119	(10,095,311)	-	19,538,963
Buildings	35,499,373	-	-	3,881,783	39,381,156
Equipment	103,101,812	10,964,965	(11,352,063)	-	102,714,714
	3,001,320,201	11,096,084	(21,458,287)	3,881,783	2,994,839,781
Less accumulated depreciation/amortization for:					
License Agreement	(30,186,250)	(7,885,000)	-	-	(38,071,250)
Land improvements	(4,248,290)	(1,063,625)	-	-	(5,311,915)
Infrastructure	(1,251,002,219)	(86,911,949)	-	-	(1,337,914,168)
Other tangible assets	(30,371,175)	(1,481,726)	9,887,785	-	(21,965,116)
Buildings	(12,710,312)	(782,787)	-	-	(13,493,099)
Equipment	(45,651,524)	(9,614,960)	11,242,848	-	(44,023,636)
	(1,374,169,770)	(107,740,047)	21,130,633	-	(1,460,779,184)
Total capital assets being depreciated, net	1,627,150,431	(96,643,963)	(327,654)	3,881,783	1,534,060,597
Business-type activities capital assets, net	$ 2,260,987,577	$ 127,334,930	$ (1,342,503)	$ -	$ 2,386,980,004

Depreciation expense was charged to the programs of the primary government as follows:

Governmental activities:	
Administration of Justice	$ 20,982,082
Parks	23,468,474
County Administration	33,152,230
Health and Human Services	3,539,743
Flood Control	31,255,574
Tax Administration	208,972
Roads and Bridges	273,405,739
	$ 386,012,814

Business-type activities:	
Parking Facilities	$ 590,170
Sheriff's Commissary	297,407
Toll Road	106,852,470
	$ 107,740,047

COMPONENT UNITS

Harris Center for Mental Health and IDD (August 31, 2016)	Fiscal Year Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Fiscal Year Ending Balance
Land	$ 6,023,410	$ -	$ -	$ 6,023,410
Buildings & Improvements	43,251,057	3,522,893	-	46,773,950
Equipment, Furniture & Vehicles	9,418,682	631,533	(370,089)	9,680,126
Intangible Assets - Software	6,184,197	13,881	-	6,198,078
	64,877,346	4,168,307	(370,089)	68,675,564
Less accumulated depreciation for:				
Buildings & Improvements	(17,278,809)	(2,679,316)	-	(19,958,125)
Equipment, Furniture & Vehicles	(7,042,659)	(763,525)	370,089	(7,436,095)
	(24,321,468)	(3,442,841)	370,089	(27,394,220)
Harris Center for Mental Health and IDD capital assets, net	$ 40,555,878	$ 725,466	$ -	$ 41,281,344

The Harris Center for Mental Health and IDD records all governmental capital assets at cost, except for donated fixed assets, which are recorded at their fair market value on the date donated. Depreciation is reported at the government-wide level using the straight-line method over the estimated useful lives of the assets. The schedule included here does not include the capital assets of the Harris Center for Mental Health and IDD's discrete component units (a net value of $5,650,959).

Hospital District (February 28, 2017)	Fiscal Year Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Fiscal Year Ending Balance
Land & Improvements	$ 41,792,000	$ 220,000	$ -	$ 42,012,000
Construction in progress	20,015,000	6,297,000	-	26,312,000
Total capital assets not depreciated	61,807,000	6,517,000	-	68,324,000
Buildings and Improvements	606,667,000	11,044,000	(1,068,000)	616,643,000
Equipment	338,486,000	27,801,000	(15,246,000)	351,041,000
	945,153,000	38,845,000	(16,314,000)	967,684,000
Less accumulated depreciation	(575,483,000)	(54,219,000)	15,703,000	(613,999,000)
	(575,483,000)	(54,219,000)	15,703,000	(613,999,000)
Total capital assets being depreciated, net	369,670,000	(15,374,000)	(611,000)	353,685,000
Hospital District capital assets, net	$ 431,477,000	$ (8,857,000)	$ (611,000)	$ 422,009,000

The Hospital District records land, buildings, improvements, and equipment at cost or fair market value at the time of donation and includes expenditures for new facilities and equipment and those which substantially increase the useful life of existing assets. Depreciation of facilities and equipment is provided using the straight-line method over the estimated useful lives of the assets.

7. CAPITAL LEASES PAYABLE

The County has entered into several capital lease agreements for the purchase of buildings; the amount capitalized was $26,925,101. Payments for the buildings during the fiscal year ended February 28, 2017 totaled $2,386,579. Payments, including interest at an average rate of 6.5% per annum for buildings are due as follows as of February 28, 2017:

Fiscal year	Governmental Activities Buildings
2018	$ 2,386,579
2019	2,386,579
2020	2,386,579
2021	876,098
2022	754,000
Total future lease payments	8,789,835
Less: Interest	(1,054,066)
	$ 7,735,769

8. OTHER LIABILITIES

As of February 28, 2017, the Toll Road vouchers payable balance includes the following amount due to other governmental units.

Receivable Entity	Payable Entity	
Montgomery County Toll Authority	Toll Road	$ 93,476
Total Due to Other Governmental Units		$ 93,476

9. SHORT-TERM DEBT

Tax Anticipation Notes

The County issues tax anticipation notes to bridge the cash flow deficit created by a mismatch between an evenly distributed expenditure budget and unevenly distributed revenue collection. Bondholder security is provided by a lien on General Fund property taxes exclusive of those levied for debt service. Property tax receipts are largely received in January and February, while the County's General Fund expenditures are dominated by payroll and benefit costs which are expensed in roughly equal installments throughout the year. The County did not issue any tax anticipation notes during the current fiscal year.

10. LONG-TERM LIABILITIES

The changes in the County's Governmental Long-Term Liabilities and Business-Type Liabilities for fiscal year 2016-2017 were as follows:

	Outstanding March 1, 2016	Issued/ Increased	Redeemed/ Decreased	Outstanding February 28, 2017	Due Within Year
Governmental Activities:					
General Obligation Debt					
Road Bonds - Principal	$ 814,950,970	$ -	$ (29,298,742)	$ 785,652,228	$ 36,417,229
Permanent Improvement Bonds - Principal	898,677,360	-	(69,331,714)	829,345,646	71,121,285
Flood Control Bonds - Principal	615,665,000	-	(25,385,000)	590,280,000	25,955,000
Total Principal General Obligation Debt	2,329,293,330	-	(124,015,456)	2,205,277,874	133,493,514
Unamortized Premiums, Road Bonds	111,114,299	-	(12,955,508)	98,158,791	-
Unamortized Premiums, PIB Bonds	80,147,926	-	(11,789,954)	68,357,972	-
Unamortized Premiums, FC Bonds	49,430,495	-	(4,267,008)	45,163,487	-
Accretion of Discount - Capital Appreciation Bonds:					
Road Series 1996	22,392,806	1,567,274	(12,121,259)	11,838,821	11,838,821
PIB Series 1996	12,287,334	859,991	(6,651,153)	6,496,172	6,496,173
GO Revenue Series 2002	46,949,404	4,624,991	(7,232,134)	44,342,261	7,310,600
Total General Obligation Debt	2,651,615,594	7,052,256	(179,032,472)	2,479,635,378	159,139,108

	Outstanding March 1, 2016	Issued/ Increased	Redeemed/ Decreased	Outstanding February 28, 2017	Due Within Year
Tax and Subordinate Lien Revenue Bonds					
Tax and Subordinate Lien Revenue Refunding, Series 2009C	23,655,000	-	(2,475,000)	21,180,000	2,585,000
Tax and Subordinate Lien Revenue Refunding, Series 2012A	160,430,000	-	-	160,430,000	-
Unamortized Premium, Tax & Sub Lien Rev	27,006,931	-	(2,631,997)	24,374,934	-
Total Tax and Subordinate Lien Revenue Bonds	211,091,931	-	(5,106,997)	205,984,934	2,585,000
Total Bonds Payable	2,862,707,525	7,052,256	(184,139,468)	2,685,620,313	161,724,108
Commercial Paper Payable	31,655,000	99,680,000	(48,068,000)	83,267,000	-
Compensatory Time Payable	37,083,271	26,377,555	(22,620,796)	40,840,030	24,504,018
Obligations Under Capital Leases	9,556,748	-	(1,820,980)	7,735,768	1,940,351
Loan Payable	37,759,111	9,119,786	(4,519,842)	42,359,055	5,967,963
OPEB Obligation	533,824,631	80,164,903	-	613,989,534	-
Net Pension Liability	670,219,152	22,046,176	-	692,265,328	-
Pollution Remediation Obligation	2,231,692	2,164,640	-	4,396,332	680,130
Total Governmental Activities	$ 4,185,037,130	$ 246,605,316	$ (261,169,086)	$ 4,170,473,360	$ 194,816,570

	Outstanding March 1, 2016	Issued/ Increased	Redeemed/ Decreased	Outstanding February 28, 2017	Due Within Year
Business-type Activities:					
Senior Lien Revenue Bonds	$ 1,798,195,000	$ 530,105,000	$ (655,950,000)	$ 1,672,350,000	$ 70,600,000
Tax Bonds	329,085,000	-	(26,380,000)	302,705,000	26,610,000
Total Bond Principal	2,127,280,000	530,105,000	(682,330,000)	1,975,055,000	97,210,000
Unamortized Premium, Revenue Bonds	79,703,720	130,779,436	(23,263,102)	187,220,054	-
Unamortized Premium/(Discount), Tax Bonds	12,165,446	-	(1,627,549)	10,537,897	-
Accrued Interest Payable	3,618,389	86,824,236	(87,083,352)	3,359,273	3,359,273
Total Bonds Payable	2,222,767,555	747,708,672	(794,304,003)	2,176,172,224	100,569,273
Compensatory Time Payable	1,183,109	686,456	(721,697)	1,147,868	688,721
OPEB Obligation	29,416,889	4,509,340	-	33,926,229	-
Net Pension Liability	26,473,095	-	(131,912)	26,341,183	-
Pollution Remediation Obligation	2,119,625	-	(1,296,700)	822,925	-
Total Business-type Activities	$ 2,281,960,273	$ 752,904,468	$ (796,454,312)	$ 2,238,410,429	$ 101,257,994

BONDED DEBT

Bonded debt of the County consists of various issues of General Obligation Bonds and Revenue Bonds. General Obligation Bonds are direct obligations of the County with the County's full faith and credit pledged towards the payment of this obligation. General Obligation Bonds are issued upon approval by the public at an election. Debt service is primarily paid from ad valorem taxes. Revenue Bonds are generally payable from the pledged revenue generated by the respective activity for which the bonds are issued.

Outstanding governmental bonded debt as of February 28, 2017 follows:

	Original Issue Amount	Interest Rates (%)	Date Series Issued	Date Series Matures	Balance February 28, 2017
Road Bonds					
Refunding Series 1996 - CAB	$ 124,905,000	5.90-6.00%	1996	2017	$ 5,117,228
Refunding Series 2008A	34,605,000	4.00-5.25%	2008	2020	33,860,000
Refunding Series 2009A	98,880,000	2.00-5.25%	2009	2023	81,775,000
Refunding Series 2010A	84,340,000	4.00-5.00%	2010	2024	84,340,000
Refunding Series 2011A	122,565,000	1.50-5.25%	2011	2031	92,565,000
Refunding Series 2012A	66,425,000	5.00%	2012	2024	66,425,000
Refunding Series 2012B	52,815,000	2.25-4.00%	2012	2024	39,615,000
Refunding Series 2014A	195,905,000	5.00%	2014	2034	180,865,000
Refunding Series 2015A	202,680,000	2-5.00%	2015	2031	201,090,000
	983,120,000				785,652,228
Permanent Improvement Bonds					
Refunding Series 1996 - CAB	26,254,584	5.90-6.00%	1996	2017	2,807,915
Refunding Series 2006A	73,545,000	4.00-5.00%	2006	2031	16,915,000
Refunding Series 2008B	79,325,000	3.50-5.00%	2008	2019	16,740,000
Refunding Series 2008C	200,495,000	5.00-5.75%	2008	2028	8,580,000
Refunding Series 2009A	23,485,000	4.00-5.00%	2009	2023	23,485,000
Refunding Series 2009B	97,855,000	4.00-5.50%	2009	2027	43,710,000
Refunding Series 2010A	185,390,000	1.50-5.00%	2010	2028	177,190,000
Refunding Series 2010B	93,365,000	4.00-5.00%	2010	2024	89,100,000
Refunding Series 2011A	92,780,000	4.00-5.00%	2011	2031	78,365,000
Refunding Series 2012A	77,145,000	2.00-5.00%	2012	2028	63,435,000
Refunding Series 2012B	43,200,000	0.35-2.473%	2012	2023	40,415,000
Refunding Series 2015A	191,370,000	3.00-5.00%	2015	2040	189,370,000
Refunding Series 2015B	50,095,000	2.00-5.00%	2015	2027	44,200,000
GO Revenue Refunding 2002	206,772,045	5.00-5.86%	2002	2028	35,032,731
	1,441,076,629				829,345,646
Flood Control Bonds					
Refunding Series 2008A	137,095,000	4.00-5.25%	2008	2021	98,945,000
Refunding Series 2008C	158,100,000	3.00-5.125%	2008	2024	100,145,000
Refunding Series 2010A	181,885,000	5.00%	2010	2039	178,605,000
Refunding Series 2014	36,590,000	2.00-5.00%	2014	2026	36,200,000
Refunding Series 2014 A	60,100,000	1.00-5.00%	2014	2029	58,225,000
Refunding Series 2014 B	73,665,000	0.25-3.211%	2014	2024	41,140,000
Refunding Series 2015 A	46,875,000	3.00-5.00%	2015	2030	46,875,000
Refunding Series 2015 B	30,145,000	3.00-5.00%	2015	2030	30,145,000
	724,455,000				590,280,000
Tax & Subordinate Lien Revenue Bonds					
Refunding Series 2009C	28,315,000	4.00-5.25%	2009	2023	21,180,000
Refunding Series 2012A	160,430,000	3.00-5.00%	2012	2032	160,430,000
	188,745,000				181,610,000
TOTAL	$ 3,337,396,629				$ 2,386,887,874

The Toll Road Project has been financed with a combination of unlimited tax and senior lien revenue bonds, subordinate lien revenue bonds and commercial paper. The proceeds from such bonds, including the interest earned, are being used to finance the construction and the related debt service.

Outstanding business-type bonded debt at February 28, 2017 follows:

	Original Issue Amount	Interest Rates (%)	Date Series Issued	Date Series Matures	Balance February 28, 2017
Senior Lien Revenue Bonds					
Refunding Series 2007A	275,340,000	4.00-5.00%	2007	2033	233,275,000
Refunding Series 2007B	145,570,000	Floating	2007	2036	145,570,000
Refunding Series 2008B	324,475,000	4.625-5.25%	2008	2047	8,695,000
Series 2009A	215,455,000	4.00-5.00%	2009	2038	52,425,000
Series 2009C	250,000,000	5.00%	2009	2049	67,500,000
Refunding Series 2010D	35,420,000	3.00-5.00%	2010	2030	22,775,000
Refunding Series 2012A	60,415,000	Floating	2012	2018	39,915,000
Refunding Series 2012B	139,500,000	Floating	2012	2021	139,500,000
Refunding Series 2012C	252,845,000	2.00-5.00%	2012	2033	229,695,000
Refunding Series 2012D	98,010,000	0.40-1.68%	2012	2018	41,320,000
Refunding Series 2015B	161,575,000	5.00%	2015	2036	161,575,000
Refunding Series 2016A	530,105,000	2.75-5.00%	2016	2047	530,105,000
	2,488,710,000				1,672,350,000
Unlimited Tax and Subordinate Lien Bonds					
Refunding Series 1997	150,395,000	5.00-5.125%	1997	2024	26,005,000
Refunding Series 2007C	321,745,000	5.00-5.25%	2007	2033	276,700,000
	472,140,000				302,705,000
TOTAL	$ 2,960,850,000				$ 1,975,055,000

Annual debt service requirements to maturity as of February 28, 2017 are as follows:

	Governmental Activities				
Fiscal year	**Principal At 2/28/2017**	**Capital Appreciation Bonds**	**Principal Value At Maturity**	**Interest**	**Total**
2018	136,078,514	25,645,594	161,724,108	121,142,854	282,866,962
2019	158,636,339	6,997,685	165,634,024	116,570,419	282,204,443
2020	150,280,897	6,685,758	156,966,655	109,638,300	266,604,955
2021	165,720,000	-	165,720,000	93,794,560	259,514,560
2022	158,385,000	-	158,385,000	85,834,139	244,219,139
2023-2027	784,387,388	18,061,128	802,448,516	349,247,521	1,151,696,037
2028-2032	575,859,736	5,287,090	581,146,826	152,560,914	733,707,740
2033-2037	175,420,000	-	175,420,000	42,162,750	217,582,750
2038-2042	82,120,000	-	82,120,000	9,290,500	91,410,500
	$ 2,386,887,874	$ 62,677,255	$ 2,449,565,129	$ 1,080,241,957	$ 3,529,807,086

	Business-Type Activities		
Fiscal year	Principal	Interest	Total
2018	$ 97,210,000	$ 92,535,797	$ 189,745,797
2019	99,180,000	88,701,407	187,881,407
2020	102,945,000	84,416,116	187,361,116
2021	106,865,000	79,354,619	186,219,619
2022	101,610,000	74,342,706	175,952,706
2023-2027	391,740,000	310,565,584	702,305,584
2028-2032	413,265,000	214,234,643	627,499,643
2033-2037	449,020,000	100,598,429	549,618,429
2038-2042	107,815,000	37,334,875	145,149,875
2043-2047	80,875,000	16,573,125	97,448,125
2048-2050	24,530,000	1,088,250	25,618,250
	$ 1,975,055,000	$ 1,099,745,551	$ 3,074,800,551

SIGNIFICANT DEBT COVENANTS

The Senior Lien Revenue Bonds are payable from the revenues of the Toll Road. The Tax Bonds are secured by and payable from a pledge of the County's unlimited ad valorem tax and also are secured by a pledge of and lien on the revenues of the Toll Road, subordinate to the lien of the Senior Lien Revenue Bonds. The County has covenanted to assess a maintenance tax to pay project expenses if revenues, after paying debt service, are insufficient. The County also has covenanted to collect tolls to produce revenues at the beginning of the third fiscal year following completion of the Toll Road equal to at least 1.25 times the debt service requirements on the Senior Lien Revenue Bonds. The revenue coverage requirement became effective with the completion of the project during fiscal year 1994. The Toll Road Project's revenue coverage ratio for fiscal year 2017 was 5.39.

B. COMMERCIAL PAPER

In addition to the outstanding bonded debt of the County, the Commissioners Court has established a general obligation commercial paper program secured by ad valorem taxes for the purpose of financing various short-term assets and temporary construction financing for certain long-term capital assets. During fiscal year 2017, the commercial paper program consisted of five series totaling $800 million payable from ad valorem taxes levied. As of February 28, 2017, the County has outstanding, $83.3 million of commercial paper. Commissioners Court, by policy, limits the period allowed for a commercial paper project not to exceed three years. During the length of time the paper is outstanding, the paper may have a maturity term of 1 – 270 days.

The County enters into agreements with credit facilities to provide a line of credit that will act as assurance to the purchaser of the commercial paper that funds will be available to redeem the paper upon demand and that the County can rollover the commercial paper. For Commercial Paper Series A-1, the County has a credit agreement with State Street Bank and Trust Company, which expires August 19, 2019. For this line of credit, the County is assessed a fee of .34% per annum on the daily amount of the commitment. If converted to a term loan, the principal amount for Series A-1 is to be paid in twelve substantially equal installments due quarterly on the last business day of the month in which such payment is due, commencing with the first such installment due on the term loan commencement date. For Commercial Paper Series B, the County has a credit agreement with State Street Bank and Trust Company, which expires August 12, 2019. For this line of credit, the County is assessed a fee of .34% per annum on the daily amount of commitment. If converted to a term loan, the principal amount for Series B is to be paid in twelve substantially equal installments due quarterly on the last business day of the month in which such payment is due, commencing with the first such installment due on the term loan commencement date. For Commercial Paper Series C, the County has a credit agreement with the Bank of Tokyo, which expires September 21, 2018. For this line of credit, the County is assessed a fee of .29% per annum on the daily amount of commitment. If converted to a term loan, the principal amount for Series C is to be paid in twelve substantially equal installments due quarterly on the last business day of the month in which such payment is due, commencing with the first such installment due on the term loan commencement date. For Commercial Paper Series D, the County has a credit agreement with JPMorgan Chase Bank, National Association, which expires August 19, 2019. For this line of credit the County is assessed a fee of .33% per annum on the daily amount of commitment. If converted to a term loan, the principal amount outstanding for Series D is to be paid in twelve substantially equal installments due quarterly on the last business day of the month in which such payment is due, commencing with the first such installment due on the term loan commencement date. Interest is payable quarterly in arrears, at a rate per annum equal to the bank rate, provided that the principal amount of any term loan not paid when due shall bear interest at a rate per annum equal to the lesser of (A) the default rate (fluctuating rate of per annum interest equal to the greater of (i) the base rate plus 2.00% or (ii) the federal funds rate plus 2.00%) and (B) the highest lawful rate.

COMMERCIAL PAPER – FLOOD CONTROL

On August 21, 2001, Commissioners Court authorized a $200,000,000 commercial paper program designated as the Harris County Flood Control District Contract Tax Commercial Paper Notes, Series F ("Series F Notes") to fund projects identified in an agreement between the County and the Flood Control District ("Flood Contract") and refinance, refund, and renew the notes themselves and fund issuance costs. The Series F liquidity facility expired on August 1, 2015 and the program is now dormant. As of February 28, 2017, there is no outstanding Series F commercial paper, nor was there any Series F commercial paper activity during the year then ended.

COMMERCIAL PAPER – TOLL ROAD

In addition to the outstanding long-term debt of the Toll Road Authority ("Toll Road"), the Commissioners Court has established a commercial paper program secured by and payable from Toll Road revenues. During fiscal year 2017, the commercial paper program consisted of the Harris County Toll Road Senior Lien Revenue Notes, Series E ("Series E Notes") in an aggregate principal amount not to exceed $200 million outstanding at any one time. As of February 28, 2017, the Toll Road has no outstanding commercial paper, nor was there any Series E commercial paper activity during the year then ended.

The purpose of the Series E Notes is to provide funding for costs of acquiring, constructing, operating and maintaining, and improving Toll Road Project components, as well as to fund reserves, pay interest during construction, refinance, refund, and renew the notes themselves, and fund issuance costs. On January 10, 2017, the previous Commercial Paper Program Series E was terminated. Also on this date, approval was granted for the creation and establishment of the Toll Road Senior Lien Revenue Commercial Paper Programs, Series E-1 and E-2, in the amounts of $200,000,000 each. The creation of Series E-1 and E-2 was finalized in fiscal year 2018.

DEBT SERVICE TO MATURITY - COMMERCIAL PAPER

Expected debt service requirements for the various Commercial Paper issuances are shown below. These requirements assume that as of February 28, 2017, the County had drawn down the outstanding principal balance on the lines of credit and letter of credit and subsequently executed term loans with the banks for a principal balance of $83,267,000 at the average rate for the quarter ending February 28, 2017 by series and reflect the effects of any refundings.

	Governmental Activities		
Fiscal year	Principal	Interest	Total
2020	$ 6,938,916	$ 3,165,881	$ 10,104,797
2021	27,755,667	10,025,289	37,780,956
2022	27,755,667	5,804,115	33,559,782
2023	20,816,750	1,582,940	22,399,690
	$ 83,267,000	$ 20,578,225	$ 103,845,225

C. COMPONENT UNITS' LONG-TERM LIABILITIES

The County has no obligation to assume any liability for the bonds issued by any of the discretely presented component units.

The total long-term liabilities of the Harris Center for Mental Health and IDD were $11,979,459 of which $11,484,952 represents long-term liabilities of the primary government (comprised of $4,911,429 notes payable and $6,573,523 compensated absences), as of August 31, 2016 which comprises 1% of the total long-term liabilities of the County's discretely presented component units.

The total long-term liabilities of the Harris County Hospital District were $843,510,000 as of February 28, 2017 which comprises 99% of the total long-term liabilities of the County's discretely presented component units. A portion of this liability is bonds secured by a lien on the pledged revenues of the Harris County Hospital District and certain funds pursuant to the bond order.

The Harris County Hospital District also has defeased bonds, in the amount of $269,500,000 whereby the proceeds are held as irrevocable deposits of funds sufficient with trustees to pay the principal and interest of such bonds through their maturity. Accordingly, these trustee funds and the related defeased indebtedness are excluded from the Harris County Hospital District's balance sheet as of February 28, 2017.

D. COMPONENT UNITS' CONDUIT DEBT OBLIGATIONS

Harris County Industrial Development Corporation, Harris County Housing Finance Corporation, Harris County Health Facilities Development Corporation and Harris County Cultural Education Facilities Finance Corporation have issued bonds to provide financial assistance to private and public sector entities engaged in activities that are deemed to be in the public interest. These bonds are limited obligations of the issuing entities payable solely from the proceeds of the underlying financing agreements, and in the opinion of legal counsel, do not represent indebtedness or liability to the issuing entity, Harris County, the State of Texas, or any political subdivision; therefore, the bonds are not reported as liabilities in the accompanying financial statements. The Harris County Health Facilities Development Corporation and Harris County Cultural Education Facilities Finance

Corporation have no other financial activity that would materially affect the County's financial statements, and are not required to issue separate audited financial statements, and as a result are not included in the Reporting Entity disclosure within the accompanying notes to the financial statements. A summary of the debt issued by each entity follows.

Harris County Industrial Development Corporation

The Corporation has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from the payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Corporation, nor the County, nor any political subdivision thereof is obligated in any manner for repayment of the bonds.

As of February 28, 2017, there were eleven (11) series of Industrial Revenue Bonds outstanding. The aggregate principal amount payable as of February 28, 2017 for the bonds issued after September 1, 1996, was approximately $748,549,525.

Harris County Housing Finance Corporation

As of December 31, 2016 there were twenty-six (26) series of bonds outstanding with an aggregate principal payable of $202,073,090. These bonds have been issued by the Housing Finance Corporation to provide financing for the purpose of purchasing single family home mortgages and multifamily home projects for low and moderate income owners/residents, and will be repaid from sources defined in the various underlying financing agreements between the Housing Finance Corporation and the entities for whose benefit the bonds were issued.

Harris County Health Facilities Development Corporation

The corporation issues bonds if there is a public benefit or public purpose that is necessary or convenient for health care, research or education. As of February 28, 2017, there were ten (10) series of bonds outstanding with an aggregate principal payable of $940,480,000. The bonds will be repaid from sources defined in the various underlying financing agreements between the Health Facilities Development Corporation and the entities for whose benefit the bonds were issued.

Harris County Cultural Education Facilities Finance Corporation

As of February 28, 2017, there were forty-nine (49) series of Bonds outstanding with an aggregate principal payable of $4,517,428,248. The bonds were issued for the purpose of defraying expansion costs, for Space Center Houston projects, Baylor College of Medicine, Memorial Hermann Healthcare System, Methodist Hospital System, Texas Medical Center projects and the Young Men's Christian Association (YMCA) of the Greater Houston Area and others. The bonds will be repaid from payments required to be made under loan agreements between the issuing entity and the aforementioned parties.

E. UNISSUED AUTHORIZED BONDS

Capital projects are funded primarily by the issuance of bonded debt. The County has received voter approval for the issuance of bonds to maintain an ongoing capital improvement program.
The following is the summary of authorized, issued and unissued bonds and commercial paper:

Description	Year of Voter Authorization	Amount Authorized	Issued as of 2/28/2017	Authorized but Unissued as of 2/28/2017
Ad Valorem Tax Bonds		(amounts in millions)		
Toll Road	1983	$ 900.0	$ 884.9	$ 15.1
Civil Justice Center	1999	119.0	86.0	33.0
Parks	2007	95.0	73.1	21.9
Forensic Lab	2007	80.0	70.0	10.0
Family Law Center	2007	70.0	-	70.0
Roads	2007	190.0	129.2	60.8
Joint Processing Center	2013	70.0	22.2	47.8
Parks	2015	60.0	-	60.0
Animal Shelter	2015	24.0	0.5	23.5
Roads	2015	700.0	-	700.0
Flood	2015	64.0	-	64.0
Total Ad Valorem Tax Bonds		$ 2,372.0	$ 1,265.9	$ 1,106.1

F. REFUNDING/ISSUANCE OF DEBT

On March 1, 2016, the County pledged an additional $1,500,000 in FNMA note to Citibank to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On May 4, 2016, the County released $16,500,000 in FNMA note pledged to JP Morgan Chase as collateral and replaced it with $15,000,000 in FHLMC note to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On June 13, 2016, the County pledged an additional $1,000,000 in FHLMC note to JP Morgan Chase to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On June 17, 2016, the County pledged an additional $1,000,000 in FHLMC note to JP Morgan Chase to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On June 28, 2016, the County pledged an additional $1,000,000 in FHLMC note to JP Morgan Chase to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On July 1, 2016, the County released $1,762,000 in FNMA note to Citibank as collateral on the $199,915,000 interest rate swap for the Series 2012A&B bonds.

On July 1, 2016, the County pledged an additional $1,762,000 in FNMA note to Citibank to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On July 6, 2016, the County pledged an additional $500,000 in FHLMC note to JP Morgan Chase to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On July 12, 2016, the County issued $530,105,000 of Toll Road Senior Lien Revenue Refunding Bonds, Series 2016A to refund and defease a portion of the County's outstanding Toll Road Senior Lien Revenue Refunding Bonds, Series 2008B, 2009A, and Series 2009C, and to pay the cost of issuance. The annual interest rate is 2.75% to 5.00%. The issuance had a premium of $126,351,985. The interest accrues semiannually and the bonds mature in 2047. The refunding resulted in a savings of $130,309,963 due to a decrease in cash flow and had an economic gain of $82,277,810.

On August 1, 2016 the County released $862,000 in FNMA note pledged to Citibank as collateral on the $199,915,000 interest rate swap for the Series 2012A&B bonds.

On August 1, 2016 the County pledged an additional $862,000 in FNMA note to Citibank to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On August 4, 2016, the utilized Ad Valorem tax funds to partially defease $20,413,000 in Series A-1 Commercial Paper Notes as well as $27,655,000 of Series D Commercial Paper Notes.

On August 15, 2016 the County remarketed $30,000,000 of Toll Road Senior Lien Revenue Refunding Bonds, Series 2012B-2. Interest is payable semi-annually. The interest rate is 70% of the one month London Interbank Offered Rate ("LIBOR") plus a spread. The bonds mature in 2021. The refunding resulted in no savings or economic benefit.

On November 1, 2016 the County released $2,000,000 in FNMA note pledged to Citibank as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On November 1, 2016 the County released $2,536,000 in FHLMC note pledged to JP Morgan Chase as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On December 2, 2016 the County released $4,000,000 in FNMA note pledged to Citibank as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On December 2, 2016 the County released $4,074,000 in FHLMC note pledged to JP Morgan Chase as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On January 3, 2017 the County released $2,000,000 in FNMA note pledged to Citibank as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On January 3, 2017 the County released $2,035,000 in FHLMC note pledged to JP Morgan Chase as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On February 3, 2017 the County released $1,676,000 in FNMA note pledged to Citibank as collateral on the $199,915,000 interest rate swap for the Series 2012A&B bonds.

G. DEFEASANCE OF DEBT

In fiscal year 2017 and in prior years, the County has defeased certain property tax bonds, revenue bonds, certificates of obligation and Toll Road revenue bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. The trust account assets and the liability for the defeased bonds are not included in the County's basic financial statements.

As of February 28, 2017, the outstanding principal balance of these defeased bonds was as follows:

Property Tax Bonds:	Road	$ 568,135,000
	Permanent Improvement	637,950,000
Flood Control:	Flood Control	656,895,000
Certificates of Obligation:	General Obligation	40,585,000
Tax & Subordinate Lien Bonds:	Tax & Subordinate Lien	176,800,000
Toll Road Bonds:	Senior Lien Revenue Bonds	1,991,614,000
	Tax Bonds	434,050,000
Total Defeased Bonds		$ 4,506,029,000

H. ARBITRAGE REBATE LIABILITY

The Tax Reform Act of 1986 established regulations for the rebate to the federal government of arbitrage earnings on certain local government bonds issued after December 31, 1985, and all local governmental bonds issued after August 31, 1986. Issuing governments must calculate any rebate due and remit the amount due at least every five years. As of February 28, 2017, there were no estimated liabilities for arbitrage rebate on governmental debt or enterprise debt. The Debt Service Funds have typically been used to liquidate arbitrage liabilities in previous years.

I. INTEREST RATE SWAPS

TOLL ROAD: The County entered interest rate swaps with Citibank, N.A., New York, relating to the Toll Road Authority, Series 2012A and Series 2012B, and the Senior Lien Revenue Refunding Bonds, Series 2007B. The County entered an interest rate swap with JPMorgan Chase Bank, National Association, relating to the Senior Lien Revenue Refunding Bonds, Series 2007B. The purpose of the swaps was to create a fixed cost of funds on certain maturities of the related bonds that are lower than the fixed cost achievable in the cash bond market.

Terms:

Harris County Toll Road Authority	Citibank–Senior Lien Revenue Refunding Bonds, Series 2012A&B	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Trade Date:	November 28, 2006	May 22, 2007	May 22, 2007
Effective Date:	August 15, 2009	June 14, 2007	June 14, 2007
Termination Date:	August 15, 2019	February 15, 2035	February 15, 2035
Initial Notional Amount: (a)	$199,915,000	$72,785,000	$72,785,000

Harris County Toll Road Authority	Citibank–Senior Lien Revenue Refunding Bonds, Series 2012A&B	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Current Notional Amount:	$179,415,000	$72,785,000	$72,785,000
Authority Pays Fixed:	3.626%	4.398%	4.398%
Counterparty Pays Floating:	70% of 1 Month LIBOR	67% of 3 Month LIBOR + .67%	67% of 3 Month LIBOR + .67%
Payment Dates:	The 15th day of each month	The 15th day of February, May, August and November	The 15th day of February, May, August and November
Collateral Threshold: (b)	($15,000,000)	($15,000,000)	($15,000,000)
Fair Value as of 2/28/17:	($9,959,545)	($20,500,635)	($20,500,635)
Collateral Pledged:	$0	$8,924,000 (c)	$9,855,000 (d)

(a) The notional amount for the swaps amortizes to match the outstanding bond.
(b) Collateral threshold represents the maximum exposure that the counterparty is required to accept without a pledge of collateral. The difference between the fair value and the collateral threshold must be covered by County collateral. The maximum collateral threshold ceiling is $45,000,000.
(c) The County pledged $8.9 million FNMA note with a $20,000,000 par, at 1.03% to Citibank as collateral under the terms of the swap agreements related to the Toll Road Senior Revenue Refunding Bonds, Series 2007B.
(d) The County pledged a $9.9 million FHLMC note with a $44,000,000 par at 1.05% to JP Morgan as collateral under the terms of the swap agreements related to the Toll Road Senior Lien Revenue Refunding Bonds, Series 2007B.

Fair Value: Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using information obtained from generally recognized sources with respect to quotations, reporting of specific transactions and market conditions and based on accepted industry standards and methodologies. The County's over-the-counter interest rate swaps are valued using Level 2 Inputs and the value of the swaps includes non-performance risk considerations.

Summary of GASB 53 Effectiveness Testing:

Harris County Toll Road Authority	Citibank–Senior Lien Revenue Refunding Bonds, Series 2012A&B	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Derivative Instrument	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap
Hedge Type	Cash Flow Hedge	Cash Flow Hedge	Cash Flow Hedge
Method of Effectiveness Testing	Regression Historical	Consistent Critical Terms	Consistent Critical Terms
Result of Effectiveness Testing	Effective	Effective	Effective

Risks:

Credit Risk: Credit Ratings Moody's, S&P, and Fitch	A1, A+, and A+	A1, A+, and A+	Aa3, A+, and AA-
Interest Rate Risk – risk that changes of rates in the bond market will negatively affect the cash flow to the County in a SWAP transaction.	Citi Bank NA pays 70% of 1 month LIBOR, while the County pays a fixed rate of 3.626%.	Citi Bank NA pays 67% of 3 month LIBOR + 67bp, while the County pays a fixed rate of 4.398%.	JP Morgan Chase Bank NA pays 67% of 3 month LIBOR + 67bp, while the County pays a fixed rate of 4.398%.
Termination Risk – risk that the SWAP must be terminated prior to its stated final cash flow.	The exposure to the County is $9,959,545, which is based on a fair market value calculation.	The exposure to the County is $20,500,635, which is based on a fair market value calculation.	The exposure to the County is $20,500,635, which is based on a fair market value calculation.

J. <u>SUBSEQUENT DEBT RELATED ACTIVITY</u>
On June 20, 2017, the County utilized Ad Valorem tax funds to partially defease \$15,240,000 in Series A-1 Commercial Paper notes as well as \$33,075,000 of Series D Commercial Paper notes.

11. RETIREMENT PLAN

<u>Plan Description.</u> Harris County provides retirement, disability, and survivor benefits for all of its employees (excluding temporary) through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). As of January 1, 2016, the Harris County Sports & Convention Corporation (HCSCC) also provides retirement, disability, and survivor benefits for all of its employees through a separate nontraditional defined benefit pension plan also in the statewide TCDRS.

Both plans are accounted for as an agent multiple-employer defined benefit pension plan. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or the website at www.TCDRS.org.

<u>Benefits Provided.</u>
Harris County: The County plan provisions are adopted by Commissioners Court of the County, within the options available in the state statutes governing TCDRS ("TCDRS Act"). Members can retire at ages 60 and above with eight or more years of service, with 30 years of service regardless of age, when the sum of their age and years of service equals 75 or more, or if they become disabled. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest and employer-financed monetary credits. The level of these monetary credits is adopted by Commissioners Court, within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. By law, employee accounts earn 7% interest. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. The County's current match is 225%.

HCSCC: The approval of plan provisions in the responsibility of the HCSCC Board, within the options available in the state statutes governing TCDRS ("TCDRS Act"). Plan members must work eight years to be vested. Once vested, an employee has earned the right to receive a lifetime monthly retirement benefit and is eligible to retire at either age 60, after 30 years of service or when the sum of their age and years of service totals 75.

Benefits are determined by the sum of the employee's contributions to the plan, with interest and employer-financed monetary credits. The level of these credits is approved by the HCSCC Board within the actuarial constraints imposed by the TCDRS Act. As a result, benefits can be expected to be adequately financed by HCSCC's commitment to contribute. By law, employee accounts earn 7% interest. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. HCSCC's current match is 225%.

Employees Covered by Benefit Terms. At the measurement date, the following employees were covered by the benefit terms:

	County		HCSCC
	12/31/15	12/31/16	12/31/16
Inactive employees or beneficiaries current receiving benefits	7,469	7,979	0
Inactive employees entitled but not yet receiving benefits	7,885	8,279	0
Active employees	16,342	16,772	5
Total	31,696	33,030	5

Contributions.
The County has elected the annually determined contribution rate ("ADCR") plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually as of December 31, two years prior to the end of the fiscal year in which contributions are reported. The County contributed using an actuarially determined rate of 14.00% of covered payroll for the months of the calendar year in 2016, and 14.00% for the months of the calendar year in 2017. HCSCC contributed using an actuarially determined rate of 15.18% of covered payroll for the months of the calendar year 2016.

The contribution rate payable by the employee members for 2016 and 2017 is 7% as adopted by Commissioners Court and as approved by the HCSCC Board. The Harris County employee contribution rate and the employer contribution rate may be changed by Commissioners Court, and the HCSCC employee and HCSCC contribution rates may be changed by the HCSCC Board, both within the options available in the TCDRS Act.

Actuarial Assumptions. For the fiscal year ending February 28, 2017, the net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary Increases	3.5%
Investment rate of return	8.1%

Neither plan has an automatic cost-of-living adjustments ("COLA") and one is not considered to be substantively automatic under GASB No. 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculation or in the funding valuation. Each year, the plans may elect an ad-hoc COLA for its retirees.

The annual salary increases rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion, and longevity component that on average approximates 1.4% per year for a career employee.

Mortality rates for depositing members were based on the RP-2000 Active Employee Mortality Table for males and females as appropriate, with adjustments, with the projection scale AA. Service retirees, beneficiaries, and non-depositing members were based on RP-2000 Combined Mortality Table for males and females as appropriate, with adjustments with the projection scale AA. Disabled retirees were based on RP-2000 Disabled Mortality Table for males and females as appropriate, with adjustments, with the projection scale AA.

The actuarial cost method was Entry Age Normal, as required by GASB No. 68. Straight-line amortization over Expected Working Life with a 5 year smoothing period, and a non-asymptotic recognition method with no corridor were utilized in the actuarial calculations.

The actuarial assumptions used in the December 31, 2016 valuation for the County were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB No. 68. Updated mortality assumptions were adopted in 2015.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The numbers shown are based on January 2017 information for a 7-10 year time horizon and are re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The following target asset allocation was adopted by the TCDRS board in April 2017. The geometric real rate of return is net of inflation, assumed at 2.0%.

Asset Class	Target Allocation	Geometric Real Rate of Return
US Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities - Developed	10.00%	4.70%
International Equities - Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships (MLPs)	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%
	100.00%	

Discount Rate. The discount rate used to measure the total pension asset liability was 8.1%. Using the alternative method, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments based on the funding requirements under the County's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the unfunded actuarial accrued liability ("UAAL") shall be amortized as a level percent of pay over 20-year layered periods.
2. Under the TCDRS Act, the County is legally required to make the contribution specified in the funding policy.
3. The County's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments.

Changes in Net Pension Liability (Asset) *amounts in thousands*:

	Harris County		
	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2015	$ 5,450,852	$ 4,726,482	$ 724,370
Changes for the year:			
Service cost	149,334		149,334
Interest on total pension liability	437,989		437,989
Effect of economic/demographic gains or losses	(27,493)		(27,493)
Refund of contributions	(8,537)	(8,537)	-
Benefit payments	(229,683)	(229,683)	-
Administrative expenses	-	(3,799)	3,799
Member contributions	-	68,371	(68,371)
Net investment income	-	349,499	(349,499)
Employer contributions	-	136,391	(136,391)
Other	-	(7,962)	7,962
Balances as of December 31, 2016	$ 5,772,462	$ 5,030,762	$ 741,700

	HCSCC		
	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2015	$ -	$ -	$ -
Changes for the year:			
Service cost	99	-	99
Interest on total pension liability	4	-	4
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	-	-	-
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	-	-	-
Benefit payments	-	-	-
Administrative expenses	-	-	-
Member contributions	-	35	(35)
Net investment income	-	-	-
Employer contributions	-	77	(77)
Other	-	2	(2)
Balances as of December 31, 2016	$ 103	$ 114	$ (11)

Sensitivity Analysis. The following presents the net pension liability of the plans, calculated using the discount rate of 8.1%, as well as what the plans' net pension liability would be if they were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate (amounts in thousands):

	Harris County			**HCSCC**		
	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	$ 6,523,457	$ 5,772,462	$ 5,146,072	$ 117	$ 103	$ 91
Fiduciary net position	5,030,762	5,030,762	5,030,762	114	114	114
Net pension liability (asset)	$ 1,492,695	$ 741,700	$ 115,310	$ 4	$ (11)	$ (23)

Pension Plan Fiduciary Net Position. Detailed information about the pension plans' fiduciary net position is available in the separately issued TCDRS financial report.

<u>Pension Expense and Deferred Inflows/Outflows of Resources Related to Pensions.</u> For the measurement period ending December 31, 2016, the County and HCSCC recognized pension expense of $242,748,438 and $62,219, respectively. As of February 28, 2017, the County and reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Harris County *(amounts in thousands)*	
	Deferred Inflows of Reources	Deferred Outflows of Reources
Differences between expected and actual experience	$ 27,884	$ -
Changes of assumptions	-	34,099
Net difference between projected and actual earnings	-	277,468
Contributions made subsequent to the measurement date	-	21,813
	$ 27,884	$ 333,380

	HCSCC	
	Deferred Inflows of Reources	Deferred Outflows of Reources
Differences between expected and actual experience	$ -	$ 73
Changes of assumptions	-	-
Net difference between projected and actual earnings	-	3,614
Contributions made subsequent to the measurement date	-	13,928
	$ -	$ 17,615

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension, other than contributions subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31:	Harris County	HCSCC
2017	$ 93,085,471	$ 916
2018	93,085,471	916
2019	93,085,471	916
2020	9,009,564	916
2021	(4,582,266)	12

Payable to the Pension Plan. At February 28, 2017, the County and HCSCC reported payables of $16,211,191 and $10,884, respectively, for the outstanding amount of contributions to the pension plan.

The above information includes four participating employers to the agent multiple employer defined benefit pension plan. One of the employers, Community Supervision ("CS") is not considered a department or a component unit of the County. The net pension liability for CS at February 29, 2016 and February 28, 2017 is $27,678,584 and $23,093,168, respectively.

The deferred inflows and outflows reported for CS at February 28, 2017 were (amounts in thousands):

	Deferred Inflows of Reources	Deferred Outflows of Reources
Differences between expected and actual experience	$ 868	$ -
Changes of assumptions	-	1,062
Net difference between projected and actual earnings	-	8,639
Contributions made subsequent to the measurement date	-	655
	$ 868	$ 10,356

For the measurement period ended December 31, 2016, CS recognized pension expense of $6,990,304.

The RSI following the notes to the financial statements contains: the schedule of changes in the County's net pension liability and related ratios, and the schedule of County contributions.

12. OTHER POST EMPLOYMENT BENEFITS

THE PLAN:

Plan Description. Harris County administers an agent multiple-employer defined benefit post-employment healthcare plan that covers retired employees of participating governmental entities. The plan provides medical, dental, vision, and basic life insurance benefits to plan members. Local Government Code Section 157.101 assigns the authority to establish and amend benefit provisions to Commissioners Court.

Membership in the plan at March 1, 2015, the date of the latest actuarial valuation, consists of the following:

Retirees and beneficiaries receiving benefits	4,594
Active plan members	14,599
Number of participating employers	5

Summary of Significant Accounting Policies.
Basis of Accounting. The Plan's transactions are recorded using the accrual basis of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable.

Contributions. Local Government Code Section 157.102 assigns to Commissioners Court the authority to establish and amend contribution requirements of the plan members and the participating employers. The following tables present the criteria for the employers' contribution to the retiree's and qualifying dependent's benefits:

Retired Prior to March 1, 2002:

Years of Service	10 yrs.	9 yrs.	8 yrs.	< 8yrs. with proportionate service and/or disability
Retiree - Employer Share	100%	90%	80%	50%
Retiree - Retiree Share	0%	10%	20%	50%
Dependent - Employer Share	50%	45%	40%	25%
Dependent - Retiree Share	50%	55%	60%	75%

Retired or Eligible to Retire Prior to March 1, 2011:

Employee's age plus years of service	75	75	70-74	< 70	N/A
Years of service	10	8-9	8	4-7	< 4
Consecutive service years at retirement	4	4	4	4	N/A
Retiree - Employer Share	100%	80%	80%	50%	0%
Retiree - Retiree Share	0%	20%	20%	50%	100%
Dependent - Employer Share	50%	40%	40%	25%	0%
Dependent - Retiree Share	50%	60%	60%	75%	100%

Eligible to Retire March 1, 2011 or After:

A combination of age plus a minimum of 10 years of non-forfeited Harris County/ TCDRS service equal to 80 or at least age 65 (or Medicare eligible) with a minimum of 10 years of non-forfeited Harris County/TCDRS service to receive 100% of the County contributions for retiree coverage and 50% for dependent coverage.

Employees Hired on or After March 1, 2007:

A combination of age plus a minimum of 20 years of non-forfeited Harris County/TCDRS service equal to 80 or at least age 65 (or Medicare eligible) with a minimum of 15 years of non-forfeited

Harris County/TCDRS service to receive any County contributions for retiree or dependent coverage.

Effective March 1, 2012:

Harris County pays no more for retiree healthcare than the premium it pays for active employees for each rate tier structure (retire only, retiree + spouse, retiree + child, retiree + 2 or more dependents). As a result all non-Medicare retirees pay an additional amount for their coverage regardless of their retirement date.

The Plan rates charged to retirees are set annually by Commissioners Court based on the combination of premiums and costs of the self-funded portion of the plan. The Plan is funded on a pay-as-you-go basis. For the year ended February 28, 2017, plan members or beneficiaries receiving benefits contributed \$10.53 million, or approximately 20.2 percent of total benefits paid during the year. Participating employers contributed \$41.68 million. The total contributions for the year ended February 28, 2017 were \$52.2 million. Total contributions included actual medical claims paid, premiums for other insurance and administrative costs calculated through an annual rate calculation.

The latest actuarial valuation for the plan was performed as of March 1, 2015, which continued to be effective for the County's fiscal year ending February 28, 2017. In February 2017 the County made a change in the provisions of the plan to become effective March 1, 2017. Using the March 1, 2015 Valuation, its actuary updated the results, reflecting the impact of the change made in the plan's provisions. The updated UAAL increased from \$1,311,021,556 to \$1,332,343,309—an increase of 1.6%. It was rolled forward to \$1,397,045,655 as of February 28, 2016. The impact on the Annual OPEB Cost was an increase of 16%, from \$108,983,297 to \$126,379,573 with the resulting Net OPEB Obligation increasing to \$647,659,984. The County assessed the impact to be insignificant in determining whether to use the update as opposed to a new valuation. The results from the update are reflected in the County's financial statements and note disclosures.

THE EMPLOYER:

Annual OPEB Cost and Net OPEB Obligation. For fiscal year 2017, the County's annual OPEB cost (expense) was \$126,379,573 for the post-employment healthcare plan. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended February 28, 2017 were as follows:

Annual Required Contribution ("ARC")	$ 127,785,934
Add interest on Net OPEB Obligation	21,110,872
Less adjustment to ARC	(22,517,233)
Annual OPEB Cost	126,379,573
Less Contributions made	(41,676,170)
Change in Net OPEB Obligation	84,703,403
Net OPEB Obligation beginning of the year	562,956,581
Net OPEB Obligation end of the year	$ 647,659,984

Trend Information:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net Ending OPEB Obligation
2/28/2015	101,776,459	39,543,124	39%	492,980,243
2/29/2016	108,983,297	39,006,959	36%	562,956,581
2/28/2017	126,379,573	41,676,170	33%	647,659,984

The above tables include information for the 5 participating employers to the agent multiple-employer defined benefit post employment healthcare plan that the County administers. Two of the employers, Emergency 911 and Community Supervision, are not considered departments or component units of the County. The net OPEB obligation for Emergency 911 and Community Supervision is $1,149,819 and $0 respectively at February 29, 2016. The net OPEB obligation for Emergency 911 and Community Supervision is $1,376,415 and $0 respectively at February 28, 2017.

Funded Status and Funding Progress. The funded status of the plan as of March 1, 2015 (most recent actuarial valuation) was as follows:

Unfunded actuarial accrued liability (UAAL)	$ 1,332,343,309
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$ 1,050,715,841
UAAL as percentage of covered payroll	127%

The above table includes UAAL of $1,932,762 for Emergency 911 and UAAL of $10,973,012 for Community Supervision.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The actuarial assumptions used in calculating the County's UAAL and ARC are elaborated later in this note. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

<u>Actuarial Methods and Assumptions.</u> Projections of benefits for financial reporting purposes are made on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In order to perform the valuation, it was necessary for the County and the actuary to make certain assumptions regarding such items as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare trend and interest rates.

In the March 1, 2015 actuarial valuation, a 3.75% discount rate was used. The medical trend rates of 6% for 2015 graded down to an ultimate rate of 5% by 2020 were used per the actuary's best estimate of expected long-term plan experience. The economic assumptions used in this valuation implicitly assume a general inflation level of approximately 2.5%.

The actuarial cost method used in valuing the County's liabilities was the Projected Unit Credit Cost Method. Under this method the benefits of each individual included in the valuation were allocated by a consistent formula over the years. The amortization period and method utilized was 30 year level dollar open period.

Additional Disclosures. Texas Local Government Code, Chapter 175 requires counties to make available continued health benefits coverage under certain circumstances to retirees and their dependents beyond the end of an individual's employment with the County ("Continuation Coverage") by permitting covered employees to purchase continued health benefits coverage in retirement. Texas law does not require counties to fund all or any portion of such coverage.

Because the County is given the authority to pay OPEB for its retired employees, it may incur a debt obligation to pay for OPEB so long as the County follows the constitutional requirement that it have sufficient taxing authority available at the time such debt is incurred to provide for the payment of the debt and has in fact levied a tax for such purpose concurrently with the incurrence of the debt. Any debt incurred in contravention of this constitutional requirement is considered void and payment will not be due. Harris County has not incurred a legal debt obligation for OPEB and has not levied a tax for the same. The County funds the cost associated with OPEB on a current "pay as you go" basis for a single fiscal year through an annual appropriation authorized by Commissioners Court during the County's annual budget adoption process.

GAAP requires governmental organizations to recognize an actuarially calculated accrued liability for OPEB, even though it may not have a legally enforceable obligation to pay OPEB benefits.

Information and amounts presented in the County's Comprehensive Annual Financial Report relative to OPEB expense/expenditures, related liabilities (assets), note disclosures, and supplementary information are only intended to achieve compliance with the requirements of generally accepted accounting principles (GASB 45) and does not constitute or imply that the County is legally obligated to provide OPEB benefits.

The schedule of funding progress, presented as RSI, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

13. RISK MANAGEMENT

The County's risk-of-loss exposures include exposure to liability and accidental loss of real and personal property as well as human resources. County operations involve a variety of high risk activities including, but not limited to, law enforcement, cash collections, construction, and maintenance activities. The Office of Human Resources & Risk Management is responsible for identifying, evaluating, and managing risk in order to reduce the exposure from liability and accidental loss of property and human resources.

The County has established the Risk Management Internal Service Fund to account for risk management activity. Risk financing activities include the purchase of property insurance, professional liability insurance, and crime and fidelity coverage. Harris County is self-insured for general liability, vehicle liability, and liability from property damage claims. Such non-litigated claims are handled on a pay-as-you-go basis and are expensed as paid; due to immateriality, no liabilities are reported in the financial statements for such claims or for an estimate of any claims which may have been incurred but have not been reported. Any liability arising from operation of motorized equipment will be considered under the Texas Tort Claims Act.

The County is self-insured for workers' compensation claims and reimburses a third-party administrator who evaluates and pays claims in accordance with State statute. The County's workers' compensation self-insurance program provides medical and indemnity payments as required by law for job-related injuries. The liability for outstanding losses includes an actuarially determined amount for incurred but not reported claims. The County has an excess coverage insurance policy that activates when a claim reaches $800,000. Interfund premiums for workers' compensation are actuarially determined by claims expense experience and payroll history. During the two preceding fiscal years, there were no claims paid that exceeded the insurance coverage. For fiscal year ended 2017, the County experienced claims in excess of insurance coverage.

Departmental billings for premiums for property insurance, professional liability insurance, and crime and fidelity policies, as well as payments to the insurance carriers, are handled through the Risk Management Fund. Payments by the County for general, vehicle, and property damage liability claims, for which the County is self-insured, are made through the Risk Management Fund unless litigation is involved. The County Attorney's Office handles any claims involving litigation.

The Risk Management Fund (Workers' Compensation) is available to pay claims and administrative costs of the programs and to fund claim reserves. During fiscal year 2017, a total of $16,184,400 was paid in benefits and administrative costs. As of February 28, 2017, claims liability, including an actuarial estimate of claims that have been incurred but not reported and accrued unpaid claims administration, totaled $19,695,881.

The following is a summary of the changes in worker's compensation claims liability for the Risk Management Fund for the fiscal years 2017 and 2016:

	2017	2016
Claims liability, beginning of fiscal year	$ 19,745,439	$ 18,944,223
Incurred claims (including IBNRs)	5,751,255	5,489,488
Claim payments	(5,800,813)	(4,688,272)
Claims liablility, end of fiscal year	$ 19,695,881	$ 19,745,439

The County currently provides medical, dental, vision, and basic life and disability insurance benefits to eligible employees and retirees. The County pays the full cost of employee coverage and 50% of the cost of dependent premiums. Employees and retirees can pay an additional premium for a higher level of benefit coverage. Non-Medicare retirees pay an additional amount for their coverage regardless of years of service. The total obligation for health insurance benefits excluding medical is limited to the monthly premiums payable during the year and is based upon the number of enrolled employees, retirees and dependents during the year. The disability insurance will pay up to 50% of an employee's salary for two years with an employee paid option to extend the benefits period to age 65 and increase the percentage to 60%. The contributions and benefits for employees and their dependents are accounted for in the Health Insurance Management internal service fund. Retirees and their dependents are accounted for in the Retiree Healthcare agency fund.

For medical insurance benefits, the County is self-insured and contracts with Aetna to administer the program. Claims liability includes an estimated amount for claims that have been incurred but not reported ("IBNRs"). The result of the process to estimate the claims liability is based on past claim experience. The County has an excess coverage insurance policy that activates when claims reach 125% of expected claims in aggregate or individual claims in excess of $850,000. There were no significant reductions in insurance coverage from the prior year. During the past three fiscal years, there were no claims paid that exceeded the insurance coverage.

The following is a summary of the changes in medical insurance liability for the Health Insurance Management Fund for the fiscal years 2017 and 2016:

	2017	2016
Claims liability, beginning of fiscal year	$ 31,098,872	$ 25,794,589
Incurred claims (including IBNRs)	241,122,297	218,327,834
Claim payments	(247,457,150)	(213,023,551)
Claims liablility, end of fiscal year	$ 24,764,019	$ 31,098,872

14. LANDFILL POSTCLOSURE CARE COST

Harris County operated three permitted and/or licensed landfills which were closed prior to October 1993 according to the rules and regulations at the time. All three sites have completed applicable post closure care requirements and are no longer owned by Harris County. A fourth site, a former unpermitted landfill, now known as Allison R. Peirce, Jr. Wetlands Nature Sanctuary, was part of an enforcement action by the County and acquired by the County to ensure that the site was appropriately remediated under TCEQ requirements. The County received Supplemental Environmental Project (SEP) funds as the primary funding of this project. The site has met the requirements of the Texas Commission on Environmental Quality's Texas Risk Reduction Program. A "No Further Action" letter has been issued by the Texas Risk Reduction Program of the Texas Commission on Environmental Quality for this site and plans are being made to convert this site to a park facility. A fifth site was acquired when Harris County Flood Control acquired land for a detention basin. When construction for the detention basin began several years ago, an unpermitted landfill was discovered. This landfill was capped per the requirements at the time. Currently, the Harris County Flood Control District has no regulatory requirement to remediate this site. The District is conducting additional soil and groundwater sampling and once the sampling activities are completed any necessary actions will be identified. The costs for this landfill are included with the pollution remediation obligation.

15. COMMITMENTS AND CONTINGENT LIABILITIES

POLLUTION REMEDIATION

The County is subject to numerous Federal, State and local environmental laws and regulations. GASB 49 established standards for the accounting and reporting of obligations incurred to address current or potential detrimental effects of existing pollution. The County recorded in the financial statements pollution remediation liabilities of $5,219,257, net of $238,952 estimated recoveries. This includes $372,532 of Flood Control District liabilities. Additional costs, if any, are not expected to have a material effect on the financial condition of the County. The County primarily has ground water and air pollution remediation obligations. The liabilities were calculated based on historical expenditures and professional judgment. The liabilities are an estimate and are subject to revision because of price increases or reductions, changes in technology, changes in applicable laws or regulations, or other circumstances that could cause changes. There are a few potential pollution remediation liabilities, or portions thereof, that are not yet recognized because they are not reasonably estimable at this time. These obligations include examples, such as ground water plumes whose extent and reach of contamination is in the process of being delineated under regulatory requirements and thus corrective action has not yet been determined; obligations recently identified and/or not yet quantifiable; and a lawsuit for cost-recovery under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) where the matter is under litigation, large numbers of responsible parties have been identified, and cost have not been apportioned yet by the court. Although uncertainties associated with environmental assessment remain and certain costs are not quantifiable, management believes the current provision for such costs is adequate.

LITIGATION

The County is involved in lawsuits and other claims in the ordinary course of operations. Such litigation includes lawsuits alleging personal injuries, discriminatory hiring and firing practices, claims from contractors for amounts under construction contracts, inverse condemnation claims, and various other liability claims. The outcome of most of these lawsuits and other claims are not presently determinable and the resolutions of these matters are not expected to have a material effect on the financial condition of the County. There are several civil cases that have resulted in settlements, consent decrees or are expected to have a financial impact on the County in subsequent fiscal years. An amount of approximately $2.4 million is considered possible for payment in relation to other cases; accounting standards require that this amount be disclosed, but it is not recorded as a liability in the financial statements.

OTHER

The County received significant financial assistance from numerous federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund. However, in the opinion of management, such disallowed claims, if any, will not have a material effect on any financial statements of the individual fund types included herein or on the overall financial position of the County as of February 28, 2017.

The Houston Dynamo Stadium (“BBVA Compass Stadium”) project was completed May 2012 when the stadium opened. Inter-local agreements establish the County’s obligation through Tax

Increment Reinvestment Zone ("TIRZ") Number 15 for the Dynamo Stadium Project. 85% of the increase in property tax revenues collected within the TIRZ will be paid to the TIRZ for Dynamo stadium infrastructure and as reimbursement to the City of Houston for the County's 50% ownership interest in the stadium site. The County will have no liability for any shortfall or payment other than what is collected by the County on properties within the TIRZ.

An amended agreement between Metro and the County related to the Westpark Corridor was approved by Commissioners' Court on May 7, 2013. Per this agreement the County is obligated to reimburse Metro for certain increased project costs if incurred. The County's liability to Metro under the agreement shall not exceed the cap of $41 million and the escalation thereof. Ad valorem taxes are irrevocably pledged to the payment.

OPERATING LEASES

As of February 28, 2017, the County had several operating leases for office space. As of February 28, 2017, the County's obligation for such annual rental payments, if the annual renewal option is exercised, is as follows:

Governmental Activities	
Fiscal year	**Office Space**
2018	$ 4,660,999
2019	3,926,864
2020	3,461,722
2021	2,175,915
2023	840,647
2024-2027	346,375
	$ 15,412,522

CONSTRUCTION COMMITMENTS

The County is committed under various contracts in connection with the construction of County facilities, buildings, and roads of $169,013,280. In addition, the County has construction commitments outstanding relating to the Toll Road of approximately $441,490,637.

ENCUMBRANCES

The County uses encumbrances to control expenditure commitments for the year. Encumbrances represent commitments related to executor contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve portion of applicable appropriations. Depending on the source(s) of funding, encumbrances are reported as part of restricted, committed or assigned fund balance on the governmental funds balance sheet. As of February 28, 2017, the encumbrance balances for the governmental funds are reported as follows:

	Restricted	Committed	Assigned	Total
General Fund	$ 107,435,173	$ -	$ 23,601,859	$131,037,032
Nonmajor Governmental	182,684,019	14,379,119	-	197,063,138
	$ 290,119,192	$ 14,379,119	$ 23,601,859	$328,100,170

16. REVENUE LEASES

OPERATING LEASES

The County is the lessor in several operating leases for certain land and office space. The land leases are for various park areas and expire over the next four years. The office space is in various County owned buildings and expire over the next five to thirty-five years. The following schedule provides an analysis of the County's investment in the property on the operating leases as of February 28, 2017:

	Carrying Value
Land	$ 7,831,443
Buildings	808,654,285
Total Carrying Value	816,485,728
Less: Accumulated Depreciation	(286,614,916)
	$ 529,870,812

The following is a schedule by years of minimum future rental receipts on non-cancelable operating leases as of February 28, 2017:

Fiscal year	Governmental Activities
2018	$ 790,858
2019	306,748
2020	31,690
2021	29,690
2022	25,600
2023-2027	126,649
2028-2032	122,808
2033-2037	113,089
2038-2042	113,089
2043-2047	113,089
2052-2056	112,509
Total minimum future rentals	$ 1,885,819

The total minimum future rentals amount above does not include contingent rentals which may be received under certain leases based on percentage of receipts. Contingent rentals amounted to $1,873,192 in 2017.

DIRECT-FINANCING LEASES

The County leases certain County-owned property to others for use as office space. The County's net investment in direct financing leases is $219,300. These leases are classified as direct-financing leases and expire at various intervals over the next 41 years and are not considered a significant part of the County's operating activities in terms of revenue.

17. FUND BALANCES

The following non-major governmental funds had negative fund balance at February 28, 2017:

Port Security Program	$ 26,591	Negative due to timing differences in expenditures and billing procedures.
Dispute Resolution	49,645	Negative due to timing differences in expenditures and billing procedures.
Harris County Redevelopment Authority	4,664,200	Negative due to timing of funds raised and expenditures incurred.

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned as described in Note 1. The following is a detail of fund balances for all the major and nonmajor governmental funds at February 28, 2017:

Fund Balances:	General Fund	Nonmajor Governmental	Total
Nonspendable:			
Inventories	$ 2,444,159	$ -	$ 2,444,159
Prepaids	6,248,641	5,524,771	11,773,412
Advances	40,000	7,469,080	7,509,080
Total nonspendable	8,732,800	12,993,851	21,726,651
Restricted for:			
Debt service	230,254,476	92,336,923	322,591,399
Imprest cash	-	-	-
Legislative	1,699,274	-	1,699,274
Mobility	307,433,906	-	307,433,906
Flood control	-	65,201,154	65,201,154
Sports & Convention Corporation	-	15,603,284	15,603,284
Tourism	-	376,993	376,993
District attorney administration	-	1,599,766	1,599,766
Records management	-	22,080,112	22,080,112
Community development	-	5,875,649	5,875,649
Forfeited funds	-	19,393,227	19,393,227
Affordable housing	-	5,909,254	5,909,254
Donations & other contributions	-	1,937,524	1,937,524
Administration of justice	-	16,466,183	16,466,183
County administration		6,063,289	6,063,289
Health and human services	-	2,070,343	2,070,343
Medical programs	-	6,299,959	6,299,959
Grant programs	-	247,091	247,091
Capital projects	7,225,973	371,272,441	378,498,414
Total restricted	546,613,629	632,733,192	1,179,346,821
Committed to:			
Community development	-	1,436,938	1,436,938
Environmental settlements	-	10,949,913	10,949,913
Other contributions	-	933,593	933,593
Capital projects	-	31,634,650	31,634,650
Total committed	-	44,955,094	44,955,094
Assigned to:			
County operations	23,821,954	-	23,821,954
Imprest cash	-	-	-
Total assigned	23,821,954	-	23,821,954
Unassigned	1,008,332,656	(4,740,436)	1,003,592,220
Total fund balances	$ 1,587,501,039	$ 685,941,701	$ 2,273,442,740

Public Contingency Sub-fund

In 2007, the County established a Public Contingency sub-fund. The purpose of this fund is to assist with capital projects and unforeseen catastrophic events to be a stabilizing component for the County's total combined tax rate. The tax rate adopted in October 2016 was $0.00500.

The Public Contingency sub-fund does not meet the criteria for a stabilization arrangement for reporting the funds as either restricted or committed. As such, the Public Contingency's fund balance in the amount of $96,136,108 is reported as unassigned fund balance in the General Fund.

18. RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 74"), replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. GASB 74 will be implemented by the County in fiscal year 2018 and the impact has not yet been determined.

GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefit Pla*ns Other than Pension Plans* ("GASB 75"), replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. GASB 75 will be implemented by the County in fiscal year 2019 and the impact has not yet been determined.

GASB Statement 82, Pension *Issues* ("GASB 82"), addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, deviations from the guidance of the Actuarial Standards Board, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 will be implemented by the County in fiscal year 2018 and the impact has not yet been determined.

GASB Statement 83, *Certain Asset Retirement Obligations* ("GASB 83"), addresses accounting and financial reporting for certain asset retirement obligations (AROs). This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred; the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually; and the disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. GASB 83 will be implemented by the County in fiscal year 2020 and the impact has not yet been determined.

GASB Statement 84, *Fiduciary Activities ("GASB 84"),* establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be implemented by the County in fiscal year 2020 and the impact has not yet been determined.

GASB Statement 85, *Omnibus 2017 ("GASB 85"),* addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB 85 will be implemented by the County in fiscal year 2019 and the impact has not yet been determined.

GASB Statement 86, *Certain Debt Extinguishment Issues ("GASB 86");* Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. GASB 86 will be implemented by the County in fiscal year 2019 and the impact has not yet been determined.

GASB Statement 87, *Leases ("GASB 87"),* require recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB 87 will be implemented by the County in fiscal year 2021 and the impact has not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

HARRIS COUNTY, TEXAS
GENERAL FUND

SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS

For The Year Ended February 28, 2017

	Adopted Budget	Adjusted Budget	Actual	Over (Under)
GENERAL FUND - OPERATING				
Beginning Cash and Investments	$ 765,849,307	$ 765,849,307	$ 745,412,172	$ (20,437,135)
Revenues and Transfers In:				
Taxes	1,405,710,837	1,405,710,837	1,420,300,543	14,589,706
Intergovernmental	45,010,682	46,157,461	49,560,596	3,403,135
Charges for Services	233,494,880	233,865,927	244,995,433	11,129,506
Fines and Forfeitures	20,573,477	20,573,477	19,329,433	(1,244,044)
Rentals & Parks	1,570,024	1,570,024	1,372,186	(197,838)
Interest	1,187,645	1,187,645	3,103,366	1,915,721
Miscellaneous	47,632,732	50,358,966	62,374,611	12,015,645
Other Transfer In	-	2,099,882	12,025,656	9,925,774
Total Revenues and Transfers In	1,755,180,277	1,761,524,219	1,813,061,824	51,537,605
Total Available Resources - General Fund - Operating	2,521,029,584	2,527,373,526	2,558,473,996	31,100,470
GENERAL FUND - PUBLIC IMPROVEMENT CONTINGENCY				
Beginning Cash and Investments	84,217,144	84,217,144	83,455,844	(761,300)
Revenues and Transfers In:				
Taxes	22,490,233	22,490,233	20,872,884	(1,617,349)
Interest	316,000	316,000	669,439	353,439
Miscellaneous	20,000	20,000	1,613,738	1,593,738
Other Transfer In	-	-	13,021	13,021
Total Revenues and Transfers In	22,826,233	22,826,233	23,169,082	342,849
Total Available Resources - General Fund - Public Imp.	107,043,377	107,043,377	106,624,926	(418,451)
GENERAL FUND - MOBILITY FUND				
Beginning Cash and Investments	308,820,832	308,820,832	311,934,740	3,113,908
Revenues and Transfers In:				
Interest	625,500	625,500	2,630,601	2,005,101
Miscellaneous	-	3,778,939	4,134,943	356,004
Other - Transfers In	120,000,000	132,000,000	132,000,252	252
Total Revenues and Transfers In	120,625,500	136,404,439	138,765,796	2,361,357
Total Available Resources - General Fund - Mobility Fund	429,446,332	445,225,271	450,700,536	5,475,265
GENERAL FUND - DEBT SERVICE				
Beginning Cash and Investments:				
HC/FC Agreement 2008A CP Refunding	13,519,702	13,519,702	11,059,078	(2,460,624)
HC/FC Agreement 2008C CP Refunding	7,036,915	7,036,915	6,919,549	(117,366)
HC/FC Agreement 2010A CP Refunding	8,637,697	8,637,697	8,516,472	(121,225)
HC/FC Agreement 2014A CP Refunding	2,824,305	2,824,305	2,796,063	(28,242)
HC/FC Agreement 2014B CP Refunding	15,052,924	15,052,924	16,665,564	1,612,640
HC/FC Agreement 2015B CP Refunding	1,605,147	1,605,147	1,088,495	(516,652)
Permanent Improvements Refunding Series 1996	9,241,883	9,241,883	9,512,513	270,630
Commercial Paper Series B	371,483	371,483	379,737	8,254
Commercial Paper Series C	1,477,461	1,477,461	1,740,088	262,627
Permanent Improvements Refunding Series 2008C	4,484,916	4,484,916	4,098,333	(386,583)
Commercial Paper Series A1	20,240,481	20,240,481	20,008,395	(232,086)
Permanent Improvement Commercial Paper Series D	27,942,598	27,942,598	27,550,818	(391,780)
Flood Control Comm Paper Agreement	15,281	15,281	18,939	3,658
Revenue Refunding Series 2002	10,502,202	10,502,202	11,765,270	1,263,068
Permanent Improvement Refunding Series 2015A	10,018	10,018	7,915	(2,103)
Permanent Improvement Refunding Series 2006A	8,863,067	8,863,067	8,063,928	(799,139)
Tax & Subordinate Lien Refunding Series 2009C	10,165	10,165	3,058,784	3,048,619
Tax & Subordinate Lien Refunding Series 2012A	1,962,844	1,962,844	1,962,063	(781)
Permanent Improvement Refunding Series 2008B	8,688,867	8,688,867	8,815,720	126,853
Permanent Improvement Refunding Series 2009A	1,123,005	1,123,005	1,112,321	(10,684)
Permanent Improvement Refunding Series 2009B	20,982,106	20,982,106	21,599,173	617,067

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
GENERAL FUND

SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS

For The Year Ended February 28, 2017

	Adopted Budget	Adjusted Budget	Actual	Over (Under)
Permanent Improvement Refunding Series 2010A	9,304,202	9,304,202	9,422,368	118,166
Permanent Improvement Refunding Series 2010B	8,451,949	8,451,949	8,395,893	(56,056)
Permanent Improvement Refunding Series 2011A	8,631,555	8,631,555	8,796,430	164,875
Permanent Improvement Refunding Series 2012A	6,461,379	6,461,379	6,307,043	(154,336)
Permanent Improvement Refunding Series 2012B	1,375,789	1,375,789	1,358,440	(17,349)
Permanent Improvement Refunding Series 2015A - DS	12,036,443	12,036,443	11,784,669	(251,774)
Permanent Improvement Refunding Series 2015A - COI	28,522	28,522	27,781	(741)
Permanent Improvement Refunding Series 2015B - DS	7,636,305	7,636,305	7,790,976	154,671
Permanent Improvement Refunding Series 2015B - COI	6,069	6,069	3,972	(2,097)
Total Beginning Cash and Investments	218,525,280	218,525,280	220,626,790	2,101,510
Revenues and Transfers In:				
HC/FC Agreement 2008A CP Refunding	12,865,709	12,865,709	13,471,317	605,608
HC/FC Agreement 2008C CP Refunding	7,649,238	7,649,238	7,524,256	(124,982)
HC/FC Agreement 2010A CP Refunding	9,345,212	9,345,212	9,203,302	(141,910)
HC/FC Agreement 2014A CP Refunding	2,857,219	2,857,219	2,967,399	110,180
HC/FC Agreement 2014B CP Refunding	16,355,784	16,355,784	17,932,449	1,576,665
HC/FC Agreement 2015B CP Refunding	1,741,957	1,741,957	1,509,002	(232,955)
Permanent Improvements Refunding Series 1996	10,024,972	10,024,972	9,610,745	(414,227)
Commercial Paper Series B	1,245	1,245	137,726	136,481
Commercial Paper Series C	1,248,067	1,248,067	335,153	(912,914)
Permanent Improvements Refunding Series 2008C	4,415,671	4,415,671	5,129,926	714,255
Commercial Paper Series A1	21,706,624	21,706,624	16,393,465	(5,313,159)
Permanent Improvement Commercial Paper Series D	28,361,139	28,361,139	34,658,336	6,297,197
Flood Control Comm Paper Agreement	16,225	16,225	19,547	3,322
Revenue Refunding Series 2002	13,826,500	13,826,500	15,664,691	1,838,191
Permanent Improvement Refunding Series 2015A	-	-	9	9
Permanent Improvement Refunding Series 2006A	9,645,762	9,645,762	1,289,142	(8,356,620)
Tax & Subordinate Lien Refunding Series 2009C	3,581,200	3,581,200	537,193	(3,044,007)
Tax & Subordinate Lien Refunding Series 2012A	5,863,600	7,842,100	7,842,775	675
Permanent Improvement Refunding Series 2008B	9,346,288	9,346,288	9,073,352	(272,936)
Permanent Improvement Refunding Series 2009A	1,218,996	1,218,996	1,184,224	(34,772)
Permanent Improvement Refunding Series 2009B	22,190,054	22,190,054	19,389,819	(2,800,235)
Permanent Improvement Refunding Series 2010A	10,099,707	10,099,707	9,655,036	(444,671)
Permanent Improvement Refunding Series 2010B	9,195,160	9,195,160	4,689,197	(4,505,963)
Permanent Improvement Refunding Series 2011A	9,386,563	9,386,563	8,764,079	(622,484)
Permanent Improvement Refunding Series 2012A	6,938,196	6,938,196	4,888,602	(2,049,594)
Permanent Improvement Refunding Series 2012B	1,488,046	1,488,046	6,242,614	4,754,568
Permanent Improvement Refunding Series 2015A - DS	13,070,686	13,070,686	17,120,142	4,049,456
Permanent Improvement Refunding Series 2015A - COI	505	505	33	(472)
Permanent Improvement Refunding Series 2015B - DS	8,297,637	8,297,637	15,015,039	6,717,402
Permanent Improvement Refunding Series 2015B - COI	100	100	5	(95)
Total Revenues and Transfers In	240,738,062	242,716,562	240,248,575	(2,467,987)

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
GENERAL FUND

SCHEDULE OF AVAILABLE RESOURCES
BUDGET AND ACTUAL - BUDGETARY BASIS

For The Year Ended February 28, 2017

	Adopted Budget	Adjusted Budget	Actual	Over (Under)
Total Available Resources:				
HC/FC Agreement 2008A CP Refunding	26,385,411	26,385,411	24,530,395	(1,855,016)
HC/FC Agreement 2008C CP Refunding	14,686,153	14,686,153	14,443,805	(242,348)
HC/FC Agreement 2010A CP Refunding	17,982,909	17,982,909	17,719,774	(263,135)
HC/FC Agreement 2014A CP Refunding	5,681,524	5,681,524	5,763,462	81,938
HC/FC Agreement 2014B CP Refunding	31,408,708	31,408,708	34,598,013	3,189,305
HC/FC Agreement 2015B CP Refunding	3,347,104	3,347,104	2,597,497	(749,607)
Permanent Improvements Refunding Series 1996	19,266,855	19,266,855	19,123,258	(143,597)
Commercial Paper Series B	372,728	372,728	517,463	144,735
Commercial Paper Series C	2,725,528	2,725,528	2,075,241	(650,287)
Permanent Improvements Refunding Series 2008C	8,900,587	8,900,587	9,228,259	327,672
Commercial Paper Series A1	41,947,105	41,947,105	36,401,860	(5,545,245)
Permanent Improvement Commercial Paper Series D	56,303,737	56,303,737	62,209,154	5,905,417
Flood Control Comm Paper Agreement	31,506	31,506	38,486	6,980
Revenue Refunding Series 2002	24,328,702	24,328,702	27,429,961	3,101,259
Permanent Improvement Refunding Series 2015A	10,018	10,018	7,924	(2,094)
Permanent Improvement Refunding Series 2006A	18,508,829	18,508,829	9,353,070	(9,155,759)
Tax & Subordinate Lien Refunding Series 2009C	3,591,365	3,591,365	3,595,977	4,612
Tax & Subordinate Lien Refunding Series 2012A	7,826,444	9,804,944	9,804,838	(106)
Permanent Improvement Refunding Series 2008B	18,035,155	18,035,155	17,889,072	(146,083)
Permanent Improvement Refunding Series 2009A	2,342,001	2,342,001	2,296,545	(45,456)
Permanent Improvement Refunding Series 2009B	43,172,160	43,172,160	40,988,992	(2,183,168)
Permanent Improvement Refunding Series 2010A	19,403,909	19,403,909	19,077,404	(326,505)
Permanent Improvement Refunding Series 2010B	17,647,109	17,647,109	13,085,090	(4,562,019)
Permanent Improvement Refunding Series 2011A	18,018,118	18,018,118	17,560,509	(457,609)
Permanent Improvement Refunding Series 2012A	13,399,575	13,399,575	11,195,645	(2,203,930)
Permanent Improvement Refunding Series 2012B	2,863,835	2,863,835	7,601,054	4,737,219
Permanent Improvement Refunding Series 2015A - DS	25,107,129	25,107,129	28,904,811	3,797,682
Permanent Improvement Refunding Series 2015A - COI	29,027	29,027	27,814	(1,213)
Permanent Improvement Refunding Series 2015B - DS	15,933,942	15,933,942	22,806,015	6,872,073
Permanent Improvement Refunding Series 2015B - COI	6,169	6,169	3,977	(2,192)
Total Available Resources - General Fund - Debt Service	459,263,342	461,241,842	460,875,365	(366,477)
TOTAL GENERAL FUND				
Beginning Cash and Investments	1,377,412,563	1,377,412,563	1,361,429,546	(15,983,017)
Revenues and Transfers In	2,139,370,072	2,163,471,453	2,215,245,277	51,773,824
TOTAL GENERAL FUND	$ 3,516,782,635	$ 3,540,884,016	$ 3,576,674,823	$ 35,790,807

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS

For The Year Ended February 28, 2017

	Adopted Budget	Adjusted Budget	Actual	(Over) Under
GENERAL FUND DEPARTMENTS				
Public Infrastructure	$ 624,000	$ 674,000	$ 595,814	$ 78,186
PID Shared Operations	-	15,350,222	3,646,325	11,703,897
Right of Way	5,000,000	5,250,000	4,477,714	772,286
Construction Programs Division	10,075,000	10,428,909	9,542,617	886,292
Appraisal District	10,700,000	12,551,100	12,551,100	-
County Judge	7,500,000	10,887,815	6,241,596	4,646,219
Commissioner Precinct 1	63,329,000	63,289,502	28,808,506	34,480,996
Commissioner Precinct 2	62,391,000	62,153,187	30,574,449	31,578,738
Commissioner Precinct 3	56,734,000	56,884,151	35,715,259	21,168,892
Commissioner Precinct 4	65,410,000	65,468,827	34,252,451	31,216,376
Tunnel and Ferries Operation	5,653,000	7,177,738	5,515,697	1,662,041
Budget Management	9,390,000	12,612,595	6,982,158	5,630,437
General Administration	864,377,661	740,647,969	34,115,255	706,532,714
Legislative Services	1,400,000	1,902,022	1,358,089	543,933
Public Infrastructure - Architecture & Engineering	28,766,000	31,884,981	26,538,776	5,346,205
Fire Marshal's Office	6,153,000	6,857,349	6,154,994	702,355
Institute of Forensic Science	28,834,000	30,450,375	29,421,698	1,028,677
Pollution Control Department	4,177,000	4,379,964	4,153,285	226,679
Public Health Services	23,650,000	26,042,285	24,358,598	1,683,687
Public Library	28,306,000	28,987,419	28,073,784	913,635
Domestic Relations	3,431,000	4,577,388	2,815,239	1,762,149
Community Services	10,424,000	10,587,712	10,036,425	551,287
Central Technology Services	48,491,000	52,678,701	47,935,573	4,743,128
Central Technology Services Repairs	-	7,916,244	7,538,112	378,132
MHMRA	19,457,000	19,457,000	19,457,000	-
FPM Repairs and Replacement	-	1,912,428	1,541,435	370,993
FPM Utilities and Leases	26,520,000	26,133,699	22,694,149	3,439,550
Facilities and Property Management	35,285,000	36,458,959	35,051,819	1,407,140
Constable Precinct 1	35,129,000	37,136,947	34,913,312	2,223,635
Constable Precinct 2	7,918,000	8,556,131	8,001,863	554,268
Constable Precinct 3	15,525,000	18,139,645	14,980,275	3,159,370
Constable Precinct 4	46,461,000	50,984,022	43,829,613	7,154,409
Constable Precinct 5	38,945,000	46,384,836	41,776,466	4,608,370
Constable Precinct 6	9,485,000	11,444,110	9,108,551	2,335,559
Constable Precinct 7	11,182,000	12,092,203	11,862,026	230,177
Constable Precinct 8	7,804,000	9,109,554	7,948,164	1,161,390
Justice of the Peace 1-1	2,023,000	2,179,242	1,949,086	230,156
Justice of the Peace 1-2	2,293,000	2,518,311	2,251,472	266,839
Justice of the Peace 2-1	1,014,000	1,155,381	987,143	168,238
Justice of the Peace 2-2	969,000	1,121,810	855,618	266,192
Justice of the Peace 3-1	1,851,000	2,327,208	1,758,962	568,246
Justice of the Peace 3-2	1,195,000	1,362,397	1,179,661	182,736
Justice of the Peace 4-1	2,824,000	3,875,835	2,199,779	1,676,056
Justice of the Peace 4-2	1,525,000	1,702,393	1,339,846	362,547
Justice of the Peace 5-1	2,181,000	2,771,136	2,126,631	644,505
Justice of the Peace 5-2	3,172,000	3,913,574	2,716,485	1,197,089
Justice of the Peace 6-1	742,000	818,674	699,165	119,509
Justice of the Peace 6-2	848,000	1,049,167	766,744	282,423
Justice of the Peace 7-1	1,171,000	1,683,485	990,227	693,258
Justice of the Peace 7-2	1,034,000	1,228,429	958,779	269,650
Justice of the Peace 8-1	1,306,000	1,527,004	1,223,957	303,047
Justice of the Peace 8-2	1,139,000	1,372,422	965,803	406,619
County Attorney	21,544,000	22,183,917	21,831,766	352,151

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS

For The Year Ended February 28, 2017

	Adopted Budget	Adjusted Budget	Actual	(Over) Under
County Clerk	29,010,000	32,478,244	29,592,877	2,885,367
County Treasurer	1,150,000	1,257,738	1,085,120	172,618
Tax Assessor-Collector	27,600,000	29,157,588	26,125,898	3,031,690
County Sheriff	216,415,000	205,366,506	204,163,094	1,203,412
Dentention	186,000,000	211,205,486	209,994,827	1,210,659
Dentention Medical	62,000,000	68,336,900	67,976,518	360,382
District Attorney	77,050,000	78,781,574	77,594,969	1,186,605
District Clerk	32,415,000	36,100,592	31,991,308	4,109,284
Public Defender Pilot Program	9,040,000	9,997,339	9,373,451	623,888
Community Supervision and Correction	1,250,000	1,979,597	1,778,633	200,964
Pretrial Services	7,491,000	8,761,739	7,261,160	1,500,579
County Auditor	21,559,923	21,559,923	19,540,670	2,019,253
Purchasing Agent	8,225,000	8,225,000	7,506,328	718,672
District Courts	25,271,000	26,622,012	24,116,179	2,505,833
Court Appointed Attorney	36,618,000	45,782,860	45,782,860	-
Texas Agrilife Extension Services	950,000	1,382,522	830,584	551,938
Juvenile Probation	76,000,000	76,432,202	76,167,944	264,258
Triad Juvenile Probation	1,520,000	1,449,149	1,157,455	291,694
Sheriff's Civil Service	270,000	289,789	212,625	77,164
Protective Services- Children and Adults	24,130,000	26,462,035	23,171,748	3,290,287
Children's Assessment Center	5,741,000	7,599,115	6,308,573	1,290,542
1st Court of Appeals	92,000	92,000	47,964	44,036
14th Court of Appeals	92,000	92,000	47,964	44,036
County Courts	14,300,000	15,009,243	13,767,098	1,242,145
Court Appointed Attorney	3,684,000	3,884,000	3,849,452	34,548
Probate Court 1	1,366,000	1,408,130	1,325,709	82,421
Probate Court 2	1,366,000	1,508,770	1,335,902	172,868
Probate Court 3	3,700,000	4,426,436	4,304,262	122,174
Probate Court 4	1,366,000	1,412,278	1,347,428	64,850
Total General Fund By Department	2,521,029,584	2,527,301,141	1,595,127,911	932,173,230
Public Improvement Contingency	107,043,377	107,043,377	9,288,589	97,754,788
MOBILITY FUND DEPARTMENTS				
PID Shared Operations	2,074,580	14,074,580	1,950,528	12,124,052
Harris County Commissioner Pct. 1	132,339,000	132,360,579	26,680,246	105,680,333
Harris County Commissioner Pct. 2	75,385,000	75,385,000	19,325,429	56,059,571
Harris County Commissioner Pct. 3	74,701,000	78,233,217	40,591,804	37,641,413
Harris County Commissioner Pct. 4	107,468,000	107,750,958	38,975,422	68,775,536
General Administration	37,478,752	37,420,936	-	37,420,936
Total Mobility Fund By Department	429,446,332	445,225,270	127,523,429	317,701,841

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - BUDGETARY BASIS

For The Year Ended February 28, 2017

	Adopted Budget	Adjusted Budget	Actual	(Over) Under
GENERAL FUND DEBT SERVICE				
1050 HC/FC Agreement 2008A CP Refunding	26,385,411	26,385,411	12,335,000	14,050,411
1080 HC/FC Agreement 2008C CP Refunding	14,686,153	14,686,153	7,273,000	7,413,153
10A0 HC/FC Agreement 2010A CP Refunding	17,982,909	17,982,909	8,914,000	9,068,909
10C0 HC/FC Agreement 2014A CP Refunding	5,681,524	5,681,524	2,895,000	2,786,524
10D0 HC/FC Agreement 2014B CP Refunding	31,408,708	31,408,708	17,391,000	14,017,708
10E0 HC/FC Agreement 2015B Refunding	3,347,104	3,347,104	1,210,000	2,137,104
1250 Permanent Improvement Refunding Series 1996	19,266,855	19,266,855	9,630,000	9,636,855
1390 Commercial Paper Series B	372,728	372,728	135,599	237,129
1400 Commercial Paper Series C	2,725,528	2,725,528	965,944	1,759,584
1410 Permanent Improvement Refunding Series 2008C	8,900,587	8,900,587	4,645,650	4,254,937
1420 Commercial Paper Series A-1	41,947,105	41,947,105	20,842,220	21,104,885
1470 Commercial Paper Series - Flood Control	56,303,737	56,303,737	28,486,373	27,817,364
1480 Flood Control CP Agreement	31,506	31,506	-	31,506
1600 Revenue Refunding Series 2002	24,328,702	24,328,702	13,825,000	10,503,702
17G0 Road Refunding Bond Series 2015A COI	10,018	10,018	7,924	2,094
1850 Permanent Improvement Refunding Series 2006A	18,508,829	18,508,829	8,517,550	9,991,279
18A0 Tax & Subordinate Lien Refunding Series 2009C	3,591,365	3,591,365	3,590,663	702
18C0 Tax & Subordinate Lien Refunding Series 2012A	7,826,444	9,804,944	7,841,500	1,963,444
1910 Permanent Improvement Refunding Series 2008B	18,035,155	18,035,155	9,001,100	9,034,055
1960 Permanent Improvement Refunding Series 2009A	2,342,001	2,342,001	1,155,150	1,186,851
19A0 Permanent Improvement Refunding Series 2009B	43,172,160	43,172,160	21,835,513	21,336,647
19C0 Permanent Improvement Refunding Series 2010A	19,403,909	19,403,909	9,604,338	9,799,571
19E0 Permanent Improvement Refunding Series 2010B	17,647,109	17,647,109	8,790,600	8,856,509
19G0 Permanent Improvement Refunding Series 2011A	18,018,118	18,018,118	8,963,500	9,054,618
19I0 Permanent Improvement Refunding Series 2012A	13,399,575	13,399,575	6,633,550	6,766,025
19K0 Permanent Improvement Refunding Series 2012B	2,863,835	2,863,835	1,420,657	1,443,178
19M0 Tax Permanent Improvement Ref. Series 2015A	25,107,129	25,107,129	12,486,826	12,620,303
19N0 Tax Permanent Improvement Ref. Series 2015A-COI	29,026	29,026	27,813	1,213
19P0 Permanent Improvement Refunding Series 2015B	15,933,942	15,933,942	7,925,446	8,008,496
19Q0 Permanent Improvement Ref. Series 2015B-COI	6,169	6,169	3,976	2,193
Total General Fund Debt Service	459,263,341	461,241,841	236,354,892	224,886,949
Total General Fund	$ 3,516,782,634	$ 3,540,811,629	$ 1,968,294,821	$ 1,572,516,808

See notes to required supplementary information.

HARRIS COUNTY, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
February 28, 2017

1. RECONCILIATION OF ACCOUNTING BASIS

A reconciliation of revenues and expenditures on a cash basis ("budgetary basis") compared to modified accrual basis (GAAP) for the general fund is as follows:

	GENERAL FUND
REVENUES AND OTHER SOURCES	
Cash (budgetary) basis	$ 3,576,674,823
Beginning Cash and Investments	(1,361,429,546)
Accrued in 2016, received in 2017	(57,035,946)
Entry to eliminate transfers between funds	(7,393,452)
Accrued in 2017, to be received in 2018	52,403,694
Internal special revenue funds	28,241
Revenues and other sources on modified accrual (GAAP) basis	2,203,247,814
EXPENDITURES AND OTHER USES	
Cash (budgetary) basis	1,968,294,821
Incurred during 2016, paid in 2017	(59,627,423)
Entry to eliminate transfers between funds	(7,393,452)
Incurred during 2017, payable in 2018	53,948,034
Internal special revenue funds	9,613,642
Expenditures and other uses on modified accrual (GAAP) basis	1,964,835,622
Changes in Fund Balances	$ 238,412,192

2. ANALYSIS OF SIGNIFICANT EXPENDITURE VARIANCES

In five departments, the Public Improvement Contingency Sub-fund, the Mobility Sub-fund and several general fund debt service accounts, there were significant variances between the budgeted amount and actual expenditures.

Four of the departments with significant variances are the Commissioner Precincts, which have a combined positive variance of $118,445,002. The precinct budgets include capital projects for roads and bridges. These budgets are set at the beginning of the projects and roll year-to-year. Therefore, these variances are anticipated. The other department is General Administration which has a positive variance of $706,532,714, which is primarily the reserve.

The Public Improvement Contingency Sub-fund has a positive variance of $97,754,788. These funds are set aside by Commissioners Court to assist with capital projects and for use in unforeseen emergency events.

The Mobility Sub-fund has a positive variance of $317,701,841. These funds are set aside to increase general mobility within the County.

The combined positive variance for all the general fund debt service accounts was $224,886,949. The County's practice is to have a full year's worth of payments available for tax supported debt. As the tax year and budget year are not the same, there will always be a variance between the budget and actual expenditures. In these cases, the debt payment amounts are high enough to cause a significant variance, and will continue to cause significant variances in the future.

HARRIS COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
February 28, 2017

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
2015	3/1/2013	-	1,189,670,446	1,189,670,446	0%	900,961,148	132.0%
2016	3/1/2015	-	1,311,021,556	1,311,021,556	0%	961,963,878	136.3%
2017	3/1/2015	-	1,332,343,309	1,332,343,309	0%	1,050,715,841	126.8%

The above table includes information for the 5 participating employers to the agent multiple-employer defined benefit post employment healthcare plan that the County administers. Two of the employers, Emergency 911 and Community Supervision are not considered departments or component units of the County; the UAAL for these entities are $1,932,762 and $10,973,012 respectively.

HARRIS COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS
(Amounts in thousands)

	Year Ended December 31, 2015	Year Ended December 31, 2016
TOTAL PENSION LIABILITY		
Service cost	$ 131,567	$ 149,334
Interest on total pension liability	411,525	437,989
Effect of economic/demographic gains	(7,458)	(27,493)
Benefit payments/refunds of contributions	(220,100)	(238,220)
Net change in total pension liability	$ 337,800	$ 321,610
Total pension liability, beginning	5,113,052	5,450,852
Total pension liability, ending (a)	$ 5,450,852	$ 5,772,462
FIDUCIARY NET POSITION		
Employer contributions	$ 132,346	$ 136,391
Member contributions	66,878	68,371
Investment income net of investment expenses	(30,646)	349,499
Benefit payments/refunds of contributions	(220,100)	(238,220)
Administrative expenses	(3,419)	(3,799)
Other	363	(7,961)
Net change in fiduciary net position	(54,578)	304,281
Fiduciary net position, beginning	4,781,059	4,726,481
Fiduciary net position, ending (b)	$ 4,726,481	$ 5,030,762
Net pension liability, ending = (a) - (b)	$ 724,371	$ 741,700
Fiduciary net position as a % of total pension liability	86.71%	87.15%
Pension covered-employee payroll	$ 953,501	$ 974,217
Net pension liability as a % of covered-employee payroll	75.97%	76.13%

Note: The County implemented GASB 68 in fiscal year 2016. Information prior to fiscal year 2016 is not available, ten years of data will accumulate over time.

HARRIS COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
February 28, 2017

Year Ending December 31	Actuarially Determined Contribution (1)	Actual Employer Contribution (1)	Contribution Deficiency (Excess)	Pensionable Covered Payroll (2)	Actual Contribution as a % of Covered Payroll
2007	$ 78,835,454	$ 78,835,454	$ -	$755,852,867	10.4%
2008	80,968,198	80,968,198	-	839,919,068	9.6%
2009	85,977,877	85,977,877	-	882,729,740	9.7%
2010	96,038,173	96,038,173	-	849,143,883	11.3%
2011	77,988,234	77,988,234	-	794,141,978	9.8%
2012	83,215,181	83,215,181	-	779,898,383	10.7%
2013	92,818,576	92,818,576	-	800,850,524	11.6%
2014	106,802,688	106,802,688	-	859,233,866	12.4%
2015	132,345,738	132,345,738	-	953,501,308	13.9%
2016	132,006,399	136,390,929	(4,384,529)	974,216,968	14.0%

(1) TCDRS calculated actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

(2) Payroll is calculated based on contributions as reported to TCDRS.

Notes to Schedule

Valuation date:	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	14.5 years (based on contribution rate calculated in 12/31/2016 valuation)
Asset valuation method	5-year smoothed market
Inflation	3.0%
Salary increases	Varies by age and service. 4.9% average over career including inflation.
Investment rate of return	8.00%, net of investment expenses, including inflation
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in plan provisions reflected in the schedule	Effective with the 2015 calendar year, employer contributions reflect that the member contribution rate was increased to 7%. No changes in plan provisions in 2016.

Toll Road Authority Enterprise Fund of Harris County, Texas

Financial Statements As of February 28, 2017 and for the Year Then Ended and Independent Auditors' Report

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED FEBRUARY 28, 2017

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INTRODUCTORY SECTION

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MICHAEL POST, C.P.A., M.B.A.
HARRIS COUNTY AUDITOR

August 25, 2017

Honorable District Judges of Harris County, Honorable Members of the Harris County Commissioners Court, and Citizens of Harris County, Texas

The Harris County Auditor's Office (the "Auditor's Office") is pleased to present the Basic Financial Statements of the Harris County Toll Road Authority Enterprise Fund (the "Authority"), a department of Harris County, Texas (the "County") for the fiscal year ended February 28, 2017. This report is submitted in accordance with Section 114.025 of the Texas Local Government Code and was prepared by the staff of the County Auditor's Office. The Basic Financial Statements of the Authority includes all disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities. The information and data contained herein are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Toll Road Authority in accordance with generally accepted accounting principles in the United States of America ("GAAP").

The Financial Statements consists of management's representations concerning the finances of the Toll Road Authority, a department of Harris County, and management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide reasonable basis for making these representations, management of the Toll Road Authority has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the Authority's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Authority's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

The Toll Road Authority's financial statements were audited by Deloitte & Touche LLP, an independent audit firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for fiscal year ended February 28, 2017, are free of material misstatement. The independent auditor concluded based upon the audit that there was a reasonable basis for rendering an unmodified opinion that the Toll Road Authority's financial statements are fairly presented in conformity with GAAP in all material respects. The independent auditor's report is presented as the first component of the financial section of this report. Management's discussion and analysis (MD&A), which immediately follows the independent auditor's report, provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE AUTHORITY

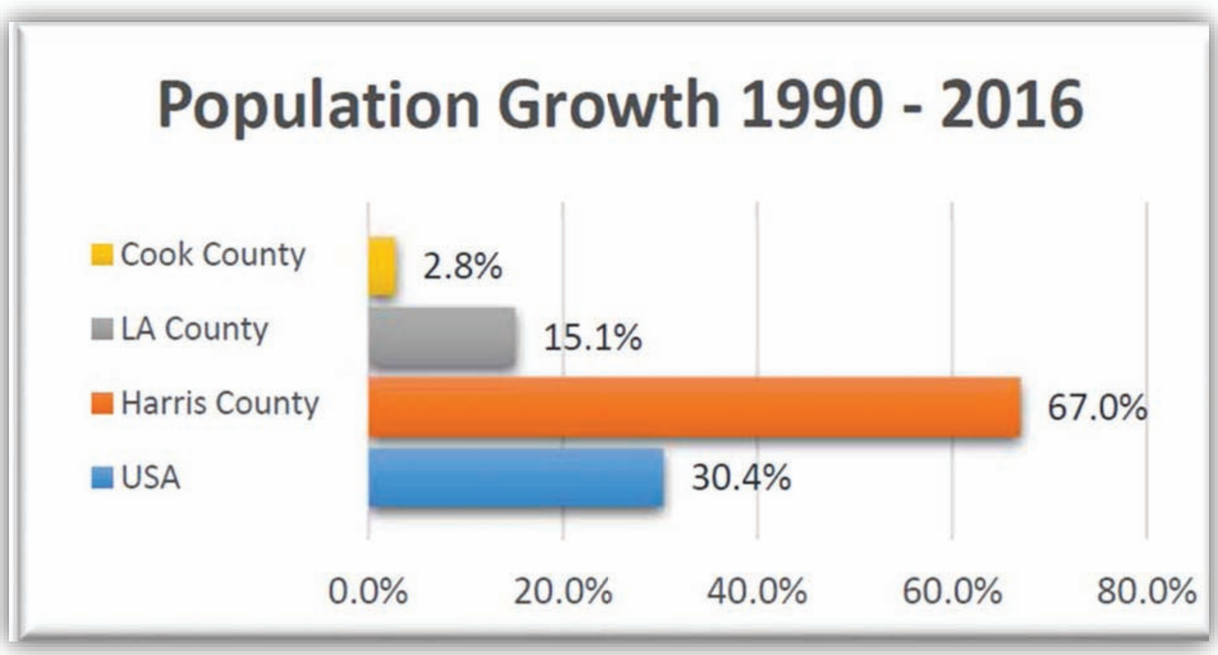
History, Location, and Population

The Harris County Toll Road Authority was established in 1983 by the Harris County Commissioners

Court pursuant to Chapter 284 of the Texas Transportation Code. Also in 1983, Harris County voters authorized issuance of up to $900 million in bonds to construct, operate and maintain toll roads in Harris County.

The Harris County Toll Road Authority operates and maintains the roadways listed below. The six-mile Tomball Tollway opened in 2015 along the State Highway 249 corridor between Spring Cypress Road and Farm to Market Road 2920. The Katy Managed Lanes extend 12 miles from State Highway 6 to Interstate 610. The Sam Houston Tollway is the second-most outer loop encompassing the City of Houston and surrounding areas within Harris County and spans a distance of 70 miles. Harris County's 13 mile segment of the Westpark Tollway begins at Interstate 610 and extends to the County line and offering an alternative east-west corridor for West Houston residents. The Hardy Toll Road generally parallels Interstate 45 and spans approximately 21 miles with an additional 2 miles connecting it to George Bush Intercontinental Airport.

Harris County is located in the upper Gulf Coast in Southeast Texas approximately 50 miles from the Gulf of Mexico. The County's population has grown to an estimated 4.6 million residents. Harris County continues to be the nation's third largest county in terms of population and one of the fastest growing counties with 67% growth since 1990. Over a 26-year period, Harris County's population has grown more than twice as fast as the nation's population. This growth has created transportation challenges that the Harris County Toll Road Authority is responding to by connecting communities and improving mobility through a commitment to excellence in the operation of a toll road system.



Authority Structure and Services
The Authority relies on charges from users of the toll road system to fund operations, debt service, and future projects.

The Authority is organized into multiple operating units, all of which report directly to the Executive Director: (i) Infrastructure Support; (ii) Engineering; (iii) Customer Service; (iv) Administrative Services and Toll Operations; (v) Finance; (vi) Communications; (vii) Maintenance and Traffic Engineering; and

(viii) Human Resources. The Authority currently has approximately 1,100 employees of which approximately 798 are full-time employees.

Budget Process

In accordance with Chapter 111 of the Texas Local Government Code, the County prepares and adopts an annual operating budget, which serves as a financial plan for the Authority for the new fiscal year beginning March 1. The County Auditor is responsible for the preparation of the annual estimate of available resources for the County (including the Toll Road Authority) to be used in the preparation of the annual budget. The County budget (including the Toll Road budget) may not exceed the available resources of the County funds as determined by the County Auditor. After adoption of the budget by Commissioners Court, the County Auditor is responsible for ensuring the expenditures are made in compliance with budgeted appropriations. The level of budgetary control for the Toll Road Authority is at the fund level. Commissioners Court may also adopt supplemental budgets for the limited purposes of spending grant or aid money, for capital projects through the issuance of bonds, for intergovernmental contracts, and for new source revenue not anticipated at budget adoption. Encumbrance accounting is utilized to ensure effective budgetary control and accountability.

INFORMATION USEFUL IN ASSESSING ECONOMIC CONDITION

Local Economy

Economic conditions have a direct impact on the County's revenues and demand for services. Harris County has experienced tremendous growth since the start of the 21st century with an expanding, diversified local economy that has outperformed most of the country. The energy business has played a large part in this growth, along with the relatively low cost of living, affordable housing, and an expanding transportation system.

The Houston region is designated as the Houston-Woodlands-Sugar Land Metropolitan Statistical Area (MSA), and comprises Harris County and eight other counties. The U.S. Bureau of Economic Analysis estimates metro Houston's Gross Domestic Product (GDP) at approximately $503.3 billion. If the MSA were an independent nation, its economy would rank 23rd largest in the world. Twenty-four companies on the 2016 Fortune 500 list are headquartered in Houston; only the New York and Chicago MSAs have a greater concentration. No single industry dominates Houston employment.

Oil prices fell below $70 per barrel starting in late 2014 and continue to remain at this lower level. The current price of West Texas Intermediate (WTI) crude oil as of March 2017 is approximately $49 per barrel, which is an increase from March 2016 per the U.S. Energy Information Administration.

The preliminary March 2017 unemployment rate (not seasonally adjusted) for the Houston MSA was 5.7% compared to the national average of 4.6%. The State's preliminary unemployment rate (not seasonally adjusted) for March 2017 was 5%. Both the Houston MSA and the State of Texas unemployment rates increased from their March 2016 levels of 4.9% and 4.5%, respectively.

The Houston-Galveston-Brazoria, Texas area had a Consumer Price Index (CPI) that was 2% lower than other large urban areas as calculated for February 2017 by the Bureau of Labor Statistics. The Houston area's lower CPI is due in part to a lower CPI for housing, fuel, and utilities than other large urban areas.

Houston has one the world's busiest ports and an excellent airport system that are integral components of the regional economy. The Port of Houston is the tenth largest port in the world. The Port of Houston includes the Houston ship channel, which connects the Houston area terminals and the Gulf of Mexico, and is the location of one of the world's largest petrochemical complexes. The Houston Airport System includes three airports and has nonstop flights from Houston to 190 destinations and five continents. The airport system served 54.5 million passengers during 2016, of which 21% were international passengers.

Per the Multiple Listing Service of the Houston Association of Realtors, "the Houston real estate market enjoyed across-the-board gains in all statistical indictors during the month of March 2017, with single-family home sales, total property sales, total dollar volume and pricing all up versus March 2016." Total property sales increased 10.5% and total dollar volume of sales increased 15.7% during this time-period.

Financial Policies and Long-Term Financial Planning

Some of the County's financial policies are:

- The County will continue to focus on building a strong balance sheet to maintain both financial stability and current high bond ratings, as well as allocating resources to "be prepared" for flood, hurricanes, or similar unexpected events;

- It is likely that the County has sufficient resources to not issue any Tax Anticipation Notes during Fiscal Year 2017-2018;

- Budget Management will review the collection procedures, contracts, and balances for all components of the County's accounts receivable, including fines, fees, tolls, and notes receivable related to the County and the Harris County Toll Road Authority, the Harris County Sports Corporation, and the Harris County Sports Authority.

Key elements in maintaining the County's financial strength and high bond rating are the County's management of investments and debt (including the investments and debt of the Toll Road Authority). The Harris County Investment Policy, including investment strategies, is reviewed and approved at least annually by Commissioners Court. Additional information regarding the County's investment and debt management has been included in Note 2 of the notes to the Authority's financial statements, Deposits and Investments, and Note 7 of the notes to the Authority's financial statements, Long-Term Liabilities.

Risk management and self-insurance with stop-loss policies (as applicable) for medical, workers' compensation, and property continue to be effective. Various actuarial studies are periodically performed to aid in liability calculation, as well as financial planning.

The County provides retirement for all of its employees (excluding temporary employees) through the County and District Retirement System (TCDRS). The County's net pension liability at February 28, 2017, was $741,699,679, which includes the Authority's net pension liability of $26,341,183. The County currently provides a post-employment healthcare plan; the net ending obligation for this post-employment healthcare plan was $647,659,984 at February 28, 2017, which includes $33,926,229 for the Authority. Additional information regarding the County's retirement plan and post-employment healthcare plan is located in Notes 8 and 9 of the notes to the Authority's financial statements.

Major Initiatives

The Harris County Toll Road Authority's Fiscal Year 2017-2018 capital improvement program includes:

- $30.7 million allocated for the Hardy Toll Road- Downtown Connector (Phase I)
- $238.5 million for the widening Sam Houston Tollway (East)
- $567 million budgeted for the Ship Channel Bridge (Sam Houston Tollway)
- $44.5 million for system-wide roadway improvements

ACKNOWLEDGMENTS

The timely completion of this report could not have been achieved without the dedicated efforts of the Auditor's Office and the professional services provided by our independent auditor, Deloitte & Touche LLP. I wish to express my gratitude to the Commissioners Court, District Judges, and other County officials and departments for their interest and support in planning and conducting the financial affairs of the Authority in a responsible and professional manner.

REQUEST FOR INFORMATION

This financial report is designed to provide an overview of the Authority's finances for individuals who are interested in this information. Questions concerning any of the data provided in this report should be addressed to the County Auditor's Office, 1001 Preston, Suite 800, Houston, Texas 77002. Additional financial information is provided on the County Auditor's webpage, which can be accessed from the County's website, www.co.harris.tx.us.

Michael Post, C.P.A.
County Auditor

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

County Judge Ed Emmett
and Members of Commissioners Court of Harris County, Texas:

Report on the Financial Statements

We have audited the accompanying financial statement of net position of the Toll Road Authority (the "Authority" or "Toll Road") Enterprise Fund of Harris County, Texas (the "County"), as of February 28, 2017, and the related statements of revenues, expenses, and change in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Toll Road's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Toll Road as of February 28, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7-14, and the Other Post Employment Benefits – Schedule of Funding Progress, Schedule of Changes in Net Pension Liability and Related Ratios, and the Texas County and District Retirement System – Schedule of Employer Contributions on pages 47-50 be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Toll Road's basic financial statements. The Introductory Section and Other Information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory Section and Other 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. Such 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 auditing standards generally accepted in the United States of America. In our opinion, the Introductory and Other Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Deloitte & Touche LLP

August 25, 2017

Toll Road Authority Enterprise Fund of Harris County, Texas
Management's Discussion and Analysis
Year Ended February 28, 2017
(Unaudited)

This section of the Toll Road Authority Enterprise Fund of Harris County financial statements presents management's discussion and analysis ("MD&A") of the financial performance of the Harris County Toll Road Authority ("Authority") during the fiscal year ended February 28, 2017.

The Authority is an enterprise fund of Harris County, Texas (the "County") and is included in the County's financial statements. This analysis presents information about the Authority and its operations and activities only and is not intended to provide information about the entire County. Please read this section in conjunction with the financial statements and related footnotes following this section.

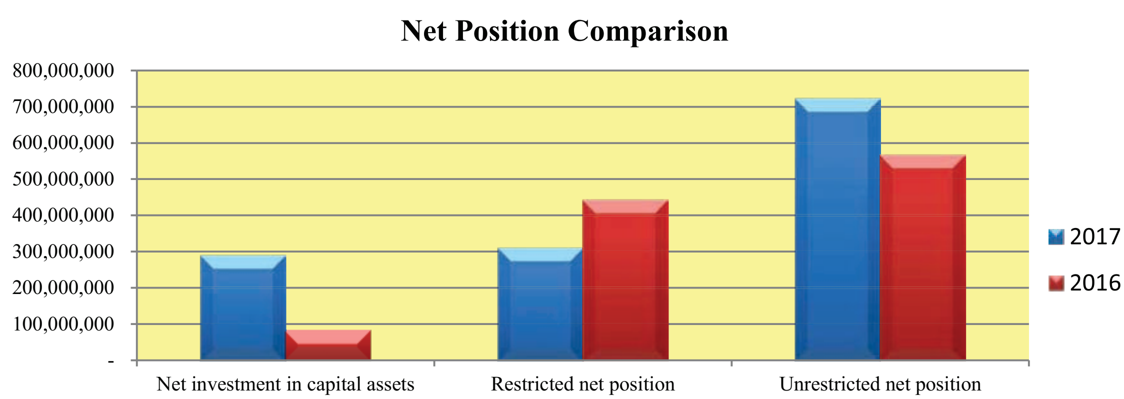
FINANCIAL HIGHLIGHTS

- Total net position is comprised of the following:

  (1) Net investment in capital assets of $290,476,431, includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets. This category of net position increased $208,831,229 from the previous year, primarily due to various ongoing construction projects throughout Harris County related to the Toll Road.

  (2) Net position of $309,648,964 is restricted by constraints imposed from outside the Authority such as debt obligations, laws, or regulations. Restricted net position decreased by $133,088,526 from the prior year primarily due to a decrease in restricted capital projects.

  (3) Unrestricted net position of $722,001,787 represents the portion available to meet ongoing obligations of the Authority. Unrestricted net position increased $155,024,218 from the previous year.



OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of 1) Financial statements and 2) Notes to the basic financial statements.

Financial Statements for the Authority include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. Since the Authority is an enterprise fund, its financial statements are presented with a flow of economic resources measurement focus and use the accrual basis of accounting. Funds are a self-balancing set of accounts used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to account for resources that are segregated for specific purposes in accordance with special regulations, restrictions, or limitations. The Authority is used to account for the acquisition, operation and maintenance of toll roads within Harris County.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found beginning on page 18 of this report.

FINANCIAL ANALYSIS

The total net position of the Authority exceeded liabilities and deferred inflows of resources at February 28, 2017 by $1,322,127,182 and $1,091,360,261 for fiscal year ended 2016. Revenues exceeded expenses during the current year, increasing net position by $230,766,921.

Harris County Toll Road Authority Enterprise Fund
Condensed Statement of Net Position
February 28, 2017 and February 29, 2016
(Amounts in thousands)

	2017	2016
Current assets	$ 961,016	$ 929,867
Capital assets, net	2,367,866	2,242,988
Other non-current assets	279,884	308,070
Total assets	3,608,766	3,480,925
Deferred outflows of resources	134,456	101,897
Current liabilities	232,003	232,633
Non-current liabilities	2,137,141	2,184,026
Total liabilities	2,369,144	2,416,659
Deferred inflows of resources	51,951	74,803
Net position:		
Net investment in capital assets	290,476	81,645
Restricted	309,649	442,737
Unrestricted	722,002	566,978
Total net position	$ 1,322,127	$ 1,091,360

The largest portion of the Authority's current fiscal year net position is unrestricted net position, which is used for the ongoing operations of the Authority. The remaining balance of the Authority's current fiscal year net position represents restricted net position, which are subject to external restrictions on how they may be used. The Authority's restricted net position is for capital projects, debt service, and operating reserve per debt covenant.

The following table reflects how the Authority's net position changed during the year:

Harris County Toll Road Authority Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Position
(In Thousands)
For the Years Ended February 28, 2017 and February 29, 2016

	2017	2016
Revenues:		
Operating revenues:		
Toll revenue	$ 774,026	$ 759,276
Intergovernmental revenue	19,176	2,995
Nonoperating Revenues:		
Investment income	7,001	15,966
Lease revenue	19	19
Miscellaneous revenue	-	46,074
Gain on disposal of capital assets	3,031	-
Total revenues	803,253	824,330
Expenses:		
Operating Expenses:		
Salaries	65,351	57,563
Materials and supplies	20,876	12,595
Services and fees	151,572	150,321
Utilities	3,788	3,540
Transportation and travel	6,980	3,043
Depreciation and amortization	106,852	101,301
Nonoperating Expenses:		
Interest expense	75,454	87,108
Bond Issuance Costs	3,234	1,745
Amortization expense	4,051	2,881
Loss on disposal of capital assets	328	3,164
Total expenses	438,486	423,261
Income before transfers	364,767	401,069
Transfers out	(134,000)	(124,031)
Change in net position	230,767	277,038
Net position - beginning	1,091,360	825,774
Implementation of new accounting standard	-	(11,452)
Net position - beginning, as restated	1,091,360	814,322
Net position - ending	$ 1,322,127	$ 1,091,360

Revenues

Total revenues for fiscal year 2017 were $803,252,595, a decrease of $21,077,021 compared to the previous fiscal year. Revenues from fiscal year 2016 was $824,329,616.

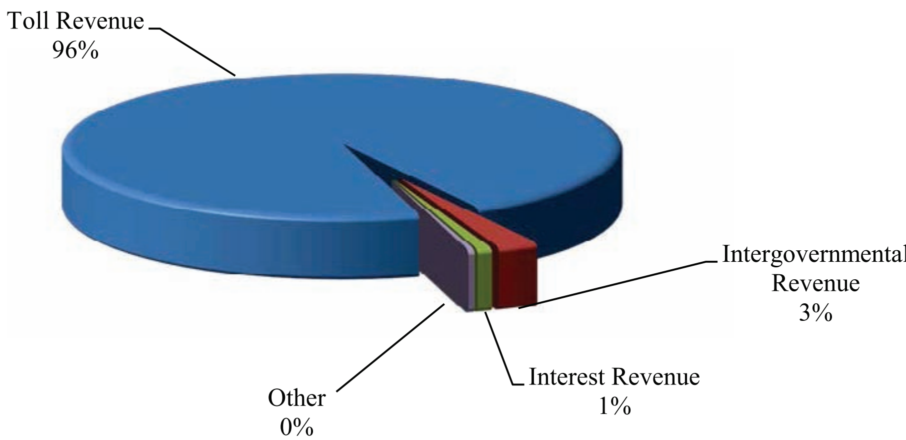
The largest revenue source is toll revenue of $774,025,958 or 96% of total revenues. This revenue category increased $14,750,031 from fiscal year 2016, primarily due to increased usage of the toll roads, such as the Tomball Tollway which opened in April 2015, and a new revenue stream option called the Banc Pass cash-based account system. The biggest increases were noted at the Tomball Parkway ($7M), Sam Houston North/East, ($3.3M), Sam Houston South/West ($1.9M), Westpark Tollway ($993k) and

Sam Houston South/East ($581k). There was an overall increase of $22.3M from EZ tag fees, unpaid tolls, replacement fees, etc., and interlocal agreement programs.

Intergovernmental revenue totaled $19,175,649 or 2.4% of total revenues. This revenue source reflects payment made by the Texas Department of Transportation (TxDOT) for the design and construction of the Hardy Toll Road & Grand Parkway (SH99) interchange, as per the agreement between TxDOT, the Grand Parkway Commission, and HCTRA.

Interest revenue for fiscal year 2017 totaled $7,000,884 and comprises 1% of total revenues. This revenue source decreased by $8,965,022 compared to fiscal year 2016 revenue of $15,965,906, due to matured debt service bonds. Other revenues totaled $3,050,104 or less than 1% of total revenues. Other revenue consists of lease revenue of $18,900 and gain on the disposal of capital assets of $3,031,204 in connection with a segment of the Grand Parkway.

REVENUES BY SOURCE
Year ended February 28, 2017



Expenses

For fiscal year ended February 28, 2017, expenses totaled $438,485,674 an increase of $15,225,066 compared to the prior fiscal year. In fiscal year 2016, expenses totaled $423,260,608.

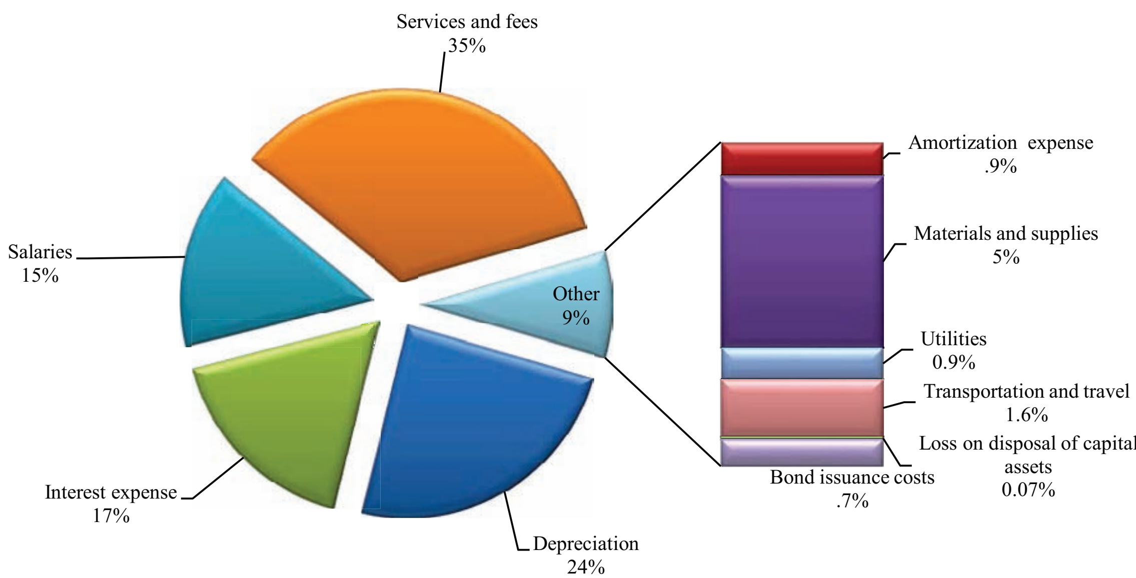
Services and fees of $151,572,050 is the largest expense category and is 35% of total expenses. This increased by $1,250,752 primarily due to increases in building repair and maintenance, software and hardware maintenance and related items.

Interest expense of $75,454,167 is one of the Authority's largest expense categories and is 17% of total expenses. Interest expense reflects the interest and fees incurred on outstanding debt balances and activities during the year.

Salaries expense of $65,351,353 or 15% of total expenses increased by $7,788,580 from fiscal year 2016, due to converting part-time to full-time employees in addition to committing consulting/traffic engineers on various construction projects.

The remaining 33% of expenses consists of depreciation (24%), amortization expense (less than 1%), and other expenses (9%) and consists of outlays relative to materials and supplies, utilities, transportation and travel, bond issuance costs and loss on disposal of capital assets. All of these expense categories are necessary for the operation of the toll road.

EXPENSES
Year Ended February 28, 2017



Transfers

Transfers consisted of transfers out of $134,000,000, which was for funding a county thoroughfare program to increase general mobility.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets net of depreciation as of February 28, 2017 and February 29, 2016, amounted to $2,367,866,546 and $2,242,988,976, respectively. These capital assets include land, construction in progress, intangibles, buildings, equipment, and infrastructure. The Authority's capital assets, net of accumulated depreciation/amortization increased $124,877,570 from fiscal year 2016.

	Balance February 28, 2017	Balance February 29, 2016
Land	$ 76,493,131	$ 57,888,865
Easement	129,962	-
Right-of-way	276,696,094	276,696,094
Construction in progress	495,636,622	295,288,589
License agreement	237,500,000	237,500,000
Land improvements	18,865,805	18,865,805
Infrastructure	2,574,438,539	2,574,449,452
Other tangible assets	19,538,963	29,503,155
Buildings	18,226,713	14,344,930
Equipment	96,358,461	98,747,993
	3,813,884,290	3,603,284,883
Less: Accumulated depreciation/amortization	(1,446,017,744)	(1,360,295,907)
Totals	$ 2,367,866,546	$ 2,242,988,976

For further information regarding capital assets, see Note 6 to the financial statements.

Long-term liabilities

At the end of the fiscal year, the balance of the Authority's total outstanding long-term liabilities and deferred inflows of resources was $2,238,381,723. Refer to Note 7 to the financial statements for further detail on the Authority's long-term liabilities.

	Outstanding at February 28, 2017	Outstanding at February 29, 2016
Bonds payable	$ 2,176,172,225	$ 2,222,767,555
Compensatory time payable	1,119,161	1,160,190
OPEB obligation	33,926,229	29,416,889
Net pension liability	26,341,183	26,473,095
Pollution remediation obligation	822,925	2,119,625
Totals	$ 2,238,381,723	$ 2,281,937,354

The Authority has a continuing goal to upgrade the Authority's debt rating. The bond rating services of Moody's Investor's Service, Inc., Standard & Poor's Ratings Services, and Fitch IBCA, Inc. have assigned the Authority long term bond ratings of Aaa, AAA, and AAA, respectively, for the Unlimited Tax and Subordinate Lien Bonds and Aa2, AA-, and AA, respectively, for the Senior Lien Revenue Bonds.

See Note 9 and Note 8 to the financial statements for further information on the County's OPEB obligation and Net Pension Liability.

ECONOMIC FACTORS

- Harris County has a vibrant and diverse economy driven largely by the region's energy industry, international export and import shipping through the Port of Houston, two major airports, the Medical Center, and a variety of other industries. These other industries primarily include banking, technology, construction, manufacturing and education.
- The Houston region has recently experienced some of the highest population and Gross Domestic Product (GDP) growth rates in the nation. According to a forecast provided by the Houston Galveston Area Council, population in the Metro Houston area will grow by 1.1 million residents from the 2014 U.S. Census estimate through the year 2025. These underlying factors drive strong demand for transportation infrastructure in the region.
- Metro, a regional transit authority, currently operates an extensive bus and rail fleet serving Harris County and the City of Houston. Metro also offers "park-and-ride" services, which include free automobile parking at suburban Metro lots and bus service to and from Houston's central business district. Metro's High Occupancy Toll ("HOT") lanes and expanded rail service provide some additional alternatives to the Toll Road System.

Major Construction Projects by The Authority:
The Authority continues to expand the Toll Road System to meet growing demand. The following construction projects were underway in fiscal year 2017: 1) Hardy Toll Road extension from IH610 to downtown; 2) Widening of the southeast Sam Houston Tollway; 3) SH249 extension north of FM 2920 to the Harris County line; 4) Widening and extension of the Hardy Toll Road from FM 1960 to the Grand Parkway.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor's Office, 1001 Preston, Suite 800, Houston, Texas 77002, or visit the County's website at www.co.harris.tx.us.

BASIC FINANCIAL STATEMENTS

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF NET POSITION
FEBRUARY 28, 2017

ASSETS	
Current assets:	
Cash and cash equivalents	$ 175,418,065
Investments	757,414,854
Receivables, net	6,033,537
Accrued interest receivable	2,138,847
Other receivables, net	10,310,010
Due from other governmental units	73,265
Prepaids and other assets	3,507,163
Inventories	6,119,936
Total current assets	961,015,677
Non-current assets:	
Restricted cash and cash equivalents	21,238,868
Restricted investments	258,584,642
Notes receivable	60,650
Capital Assets:	
Land and construction in progress	848,955,809
License agreement, net of amortization	199,428,750
Other capital assets, net of depreciation	1,319,481,987
Total non-current assets	2,647,750,706
Total assets	3,608,766,383
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refundings	77,894,852
Pension contributions after measurement date	811,266
Difference in projected and actual earnings on pension assets	9,854,173
Changes in pension assumptions	1,211,022
Unamortized costs on swap liability	44,684,612
Total deferred outflows of resources	134,455,925
LIABILITIES	
Current liabilities:	
Vouchers payable	36,824,094
Accrued payroll and compensated absences	4,362,484
Retainage payable	10,799,555
Customer deposits	198,217
Due to primary government	600,425
Unearned revenue	78,649,035
Current portion of long-term liabilities	100,569,273
Total current liabilities	232,003,083
Non-current liabilities:	
Bonds payable	2,075,602,952
Pollution remediation payable	822,925
Compensatory time payable	447,664
OPEB obligation	33,926,229
Net pension liability	26,341,183
Total non-current liabilities	2,137,140,953
Total liabilities	2,369,144,036
DEFERRED INFLOWS OF RESOURCES	
Difference in projected and actual earnings on pension assets	990,275
Accumulated decrease in fair value of hedging derivatives	50,960,815
Total deferred inflows of resources	51,951,090
NET POSITION	
Net investment in capital assets	290,476,431
Restricted for capital projects	11,252,783
Restricted for debt service	258,572,640
Restricted for operating reserve per bond covenant	39,823,541
Unrestricted	722,001,787
Total net position	$ 1,322,127,182

See notes to the financial statements.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED FEBRUARY 28, 2017

OPERATING REVENUE	
Toll revenue	$ 774,025,958
Intergovernmental	19,175,649
Total operating revenue	793,201,607
OPERATING EXPENSES	
Salaries	65,351,353
Materials and supplies	20,875,511
Services and fees	151,572,050
Utilities	3,788,013
Transportation and travel	6,979,787
Depreciation and amortization	106,852,470
Total operating expenses	355,419,184
Operating income	437,782,423
NONOPERATING REVENUES	
Investment income	7,000,884
Lease income	18,900
Gain on disposal of capital assets	3,031,204
Total nonoperating revenues	10,050,988
NONOPERATING EXPENSES	
Interest expense	75,454,167
Bond issuance costs	3,233,525
Amortization expense	4,051,144
Loss on disposal of capital assets	327,654
Total nonoperating expenses	83,066,490
Income before transfers	364,766,921
Transfers out	(134,000,000)
Change in net position	230,766,921
Net position, beginning of year	1,091,360,261
Net position, end of year	$ 1,322,127,182

See notes to the financial statements.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tolls	$ 798,947,220
Payments to employees	(63,976,053)
Payments to vendors	(192,911,814)
Other payments	(543,019)
Net cash provided by operating activities	541,516,334
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Internal receipts from other funds	(109,093)
Payments to other governments	(792,475)
Transfers to other funds	(134,000,000)
Other receipts	165,914
Net cash used for noncapital financing activities	(134,735,654)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from lease of capital assets	18,900
Purchases of capital assets	(242,022,375)
Gain on disposal of capital assets	(3,574,223)
Principal paid on capital debt	(93,585,000)
Interest paid on capital debt	(82,427,601)
Net cash used for capital and related financing activities	(421,590,299)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(1,031,929,736)
Proceeds from sale and maturity of investments	983,010,926
Interest received	17,796,878
Bond issuance cost	(18,636)
Net cash used for investing activities	(31,140,568)
Net change in cash and cash equivalents	(45,950,187)
Cash and cash equivalents, beginning	242,607,120
Cash and cash equivalents, ending	$ 196,656,933
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 437,782,423
Adjustments to operations:	
Depreciation and amortization	106,852,470
Other nonoperating revenues	(543,019)
Changes in assets and liabilities:	
Receivables, net	(2,967,222)
Notes and leases receivable	7,581
Prepaids and other assets	(2,127,112)
Inventories	(1,155,945)
Vouchers payable and accrued liabilities	(7,673,126)
Retainage payable	4,709,445
Due to other units	189,775
Other liabilities	(962,680)
Pollution Payable	(1,296,700)
Unearned revenue	8,705,254
Compensatory time payable	(4,810)
Net cash provided by operating activities	$ 541,516,334
Noncash operating, capital and related financing and investing activities:	
Increase in fair value of hedging derivatives	$ 23,615,262
Decrease in the fair value of investments	(5,384,255)
Purchase of capital assets on account	(7,417,789)

See notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Harris County Toll Road Authority (the "Authority" or "Toll Road") was created by Harris County, Texas, (the "County") by order of the Harris County Commissioners Court on September 22, 1983, with the Commissioners Court designated as the governing body and the operating board of the Authority. The Authority is a department and fund of the County and is charged with overseeing the acquisition, construction, improvement, operation and maintenance of the County toll road facilities (the "Toll Road Project"). The Commissioners Court has full oversight responsibility for the Authority, and the Toll Road Project is an integral part of the County's financial statements. Construction of the Hardy Toll Road, the Sam Houston Tollway, Westpark Tollway and Spur 90A Tollway and acquisition of the Jesse H. Jones Toll Bridge, now referred to as the "Sam Houston Ship Channel Bridge" (the "Toll Roads") have been financed with a combination of unlimited tax and subordinate lien revenue bonds and senior lien revenue bonds. When all of the debt service, as discussed in Note 7, has been paid or provided for in a trust fund, the Toll Roads will become a part of the State of Texas Highway System.

Implementation of New Standards - In the current year, the Authority implemented the following standards issued by the Governmental Accounting Standards Board ("GASB"):

GASB Statement No.72, *Fair Value Measurement and Application* ("GASB 72"), addresses accounting and financial reporting issues related to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes and guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No.73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"), establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No.76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"), has the objective to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles ("GAAP").

GASB Statement No.78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* ("GASB 78"), amends the scope of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is also used to provide defined benefit pensions employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

GASB Statement No.79, *Certain External Investment Pools and Pool Participants* ("GASB 79"), addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools.

GASB Statement No.80, *Blending Requirements for Certain Component Units*, clarifies the financial statement presentation requirements for certain component units which are incorporated as not-for-profit entities.

GASB Statement No.81, *Irrevocable Split-Interest Agreements,* establishes recognition and measurement requirements for irrevocable split-interest agreements.

Basis of Presentation and Measurement Focus- The accompanying basic financial statements have been prepared on the full accrual basis of accounting as prescribed by the GASB. Full accrual accounting uses a flow of economic resources measurement focus.

The basic financial statements of the Authority consist of Management's Discussion and Analysis ("MD&A"), Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

Enterprise Fund – Revenues are recognized in the period earned. The Authority's operating revenues are derived from charges to users of the Toll Roads in the County. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources to the extent they are needed.

Expenses are recognized in the period incurred. The Authority's operating expenses consist primarily of direct charges attributable to the operations of the Authority, including depreciation. Interest expense and other similar charges not directly related to the Authority's operations are reported as non-operating expenses.

Deposits and Investments – Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date of 90 days or less from date of purchase. All investments are recorded at fair value or amortized cost based upon quoted market prices as of the Authority's fiscal year end, with the difference between the purchase price and market price being recorded as investment income.

Restricted Assets and Restricted Net Position– Certain assets of the Authority are required to be segregated under terms of various bond indentures. These assets are legally restricted for certain purposes, including operations and maintenance, debt service and construction. The Authority purchased surety policies to satisfy certain reserve fund requirements. During the fiscal year ended February 28, 2017, the Authority was in compliance with these covenants.

In the financial statements, restricted net position is reported for amounts that are externally restricted by 1) creditors (e.g. bond covenants), grantors, contributors, or laws and regulations of other governments or 2) law through constitutional provision or enabling legislation.

Inventories – Inventory is stated at the lower of cost or market value, using the first-in, first-out method. EZ tags are recorded as inventory based on the number of tags by type (sticker, license plate, or motorcycle) as of February 28, 2017 multiplied by the cost per tag type.

Capital Assets – Capital assets include land, construction in progress, intangibles, buildings, equipment and infrastructure that are used in the Authority's operations and benefit more than a single fiscal year. Infrastructure assets are long-lived assets that are generally stationary in nature and can typically be preserved for a significantly greater number of years than other capital assets. Infrastructure assets of the Authority include roads, bridges, sewers and right-of-way.

Capital assets of the Authority are defined as assets with individual costs of $5,000 or more and estimated useful lives in excess of one year. Exceptions to the $5,000 capitalization threshold are as follows: all land

and easements are capitalized regardless of cost. Purchased software greater than $100,000 is capitalized and internally developed software greater than $1,000,000 is capitalized. The threshold for capitalizing buildings is $100,000 and the threshold for infrastructure ranges from $25,000 to $250,000, depending on the asset.

All capital assets are stated at historical cost or estimated fair value at the date of purchase. Donated fixed assets are stated at their estimated acquisition value on the date donated. Depreciation is computed using the straight-line method over the estimated useful life of the asset ranging from 3 to 45 years. Infrastructure is depreciated over a 30-year useful life. Equipment is depreciated over 3 to 20 years, depending on the type. Buildings are depreciated over 45 years. Amortization of the intangible license agreement is based upon the revenues received and will continue until the license in fully amortized.

Harris County (acting through the Harris County Toll Road Authority) entered into a tri-party agreement in March 2003 with Texas Department of Transportation ("TxDOT"), and Federal Highway Administration to participate in the reconstruction portion of the IH10 Katy Freeway. Under this agreement, the Authority funded $237.5 million for the license to the real property for the right to operate the Toll Facility and paid an additional $12.5 million for the design and construction, and other allowable expenses related to the Toll Facility.

In April 2012, Harris County approved a memorandum of understanding with TxDOT (the "MOU") that contains a general outline for the development, funding, construction, operation and maintenance of toll projects for US 290, State Highway 288 and the tolled segments of the Grand Parkway. The County's responsibilities were further clarified in subsequent agreements and actions with TxDOT, including an agreement with respect to the ownership and operation of the Katy Tollway (Managed Lanes). Below is a summary of the terms of the MOU and the subsequent agreements and actions.

The MOU specified that Harris County would provide $400 million toward TxDOT's reconstruction of US290 from IH 610 to SH 99 and that the County would waive its primacy development rights for and decline to develop a toll facility along the Hempstead corridor of US 290. The reconstruction would include building a two to three lane reversible managed lane facility to accommodate both high occupancy vehicle (HOV) and toll traffic, as well as adding one general purpose lane in each direction. The MOU further provided that the County would operate and maintain the managed lanes facility and TxDOT would maintain the remainder of the US 290 facility. Harris County would retain all toll revenues for use on projects at the County's discretion.

In August 2014, TxDOT and Harris County agreed to reallocate responsibilities and resources for the US 290 reconstruction program. The County's commitment towards the US 290 project was reduced from $400 million to $200 million, payable in equal bi-annual installments in 2014 and 2015. Of the $200 million commitment, the County paid $100 million in FY15 and accrued the remaining $100 million. During fiscal year 2016, transactions pertaining to agreements between TxDOT and Harris County resulted in $45 million that was reported as miscellaneous revenue. However, there were no such transactions during fiscal year 2017 and thus no miscellaneous revenue is recorded in this year.

Similar to the funding the County committed toward the IH10 Katy reconstruction program in 2003, the bi-annual installments were funded with revenues of the County's toll system. The current agreement specifies that the County has no obligation or responsibility for development, construction, installation, or operation of a reversible managed lanes facility on the US 290 project. The County further waived its primacy rights for the development of toll facilities in the US 290 and Hempstead Highway corridors. As consideration for the reduction in the County's commitment towards the US 290 project, the County agreed, subject to certain legal requirements, to transfer ownership and/or all responsibility for operation, maintenance and enforcement of the Katy Managed Lanes to the State of Texas in 2014. The County is to be reimbursed for its financial contribution to the Katy Managed Lanes project by retaining one third of all tolls paid by EZ Tag customers for the use of the Katy Managed Lanes. The County's right to retain tolls shall terminate once the County has been fully reimbursed for its financial contribution to the Katy Managed Lanes. In December 2014, the County and TxDOT agreed to postpone the date of the transfer until December 31, 2015. In January 2016, the County and TxDOT agreed to postpone the transfer to later that year. Prior to the transfer being effective, TxDOT and the County will need to satisfy certain legal requirements, including the adoption by the County of a finding that the transfer is in the best interest of the project and will not be materially adverse to the rights of the Owners of the Series 2012B-1 Bonds, Parity Notes or other Parity Obligations. To date, however, the parties have been unable to reach a definitive agreement and the assets remain in the possession of the Authority.

The Authority capitalizes, as a cost of its constructed property, the interest expense and certain other costs of bonds issued for construction purposes less the interest earned on the proceeds of those bonds from the date of the borrowing until the date the property is ready for use. All interest expense, interest earnings and the amortization of related bond costs were capitalized until September 1987 when the first of four sections of the Toll Road were opened for operations. Prior to fiscal year 2001, net interest and other bond costs have been capitalized based on the percentage of miles of the uncompleted sections to the total miles of the project. Since fiscal year 2001, interest had been capitalized based on the weighted average accumulated expenses multiplied by the weighted average interest rate. Such capitalization increased the total cost of assets constructed by the Toll Road Project by $3,061,000 during fiscal year 2017.

Premiums (Discounts) on Bonds Payable - Premiums (discounts) on bonds payable are amortized using the effective interest method over the term of the bonds.

Risk Management - The Authority's risk-of-loss exposures include exposure to liability and accidental loss of real and personal property as well as human resources. Toll Road operations involve a variety of high-risk activities including, but not limited to, cash collections, construction and maintenance activities. The County's Office of Risk Management is responsible for identifying, evaluating and managing the Authority's risk in order to reduce the exposure from liability and accidental loss of property and human resources. The Authority is treated as a County department by the County's Risk Management Office and is assessed premiums and charges similar to those assessed to other County departments.

The Authority is covered by the Harris County workers' compensation program. The County is self-insured for workers' compensation medical and indemnity payments. Claims adjusting services are provided by a third-party administrative claims adjusting service. Interfund premiums on workers' compensation are determined by position class code, at actuarially determined rates.

The County has excess insurance coverage for employer's liability. No claims settled during the last three fiscal years have exceeded this coverage.

Through the County, the Authority provides medical, dental, vision and basic life and disability insurance to eligible employees. The Authority pays the full cost of employee coverage and 50% of the cost of dependent premiums. The disability insurance will pay up to 50% of an employee's salary for two years with an employee option to extend the benefits period to age 65 and increase the percentage to 60%.

The Authority's group insurance premiums, as well as employee payroll deductions for premiums for dependents and optional coverage, are paid into the County's Health Insurance Management Fund, which in turn makes disbursements to contracted insurance providers based upon monthly enrollment and premium calculations.

Billings to the Authority for property insurance, professional liability insurance and crime and fidelity policies are handled through the County's Risk Management Fund as are payments to the insurance carriers. Claim payments made up to the deductible limit are expensed by the Authority when paid by the Risk Management Fund. Payments for the Authority's general, vehicle and property damage liability claims, for which the County is self-insured, are made through the Risk Management Fund and billed to the Authority.

Compensated Absences - Accumulated compensatory absences are recorded as an expense and liability as the benefit accrues for the employee.

Employees accrue 9.75 days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 720 hours of sick leave. Unused sick leave benefits are not paid at termination. Employees accrue from three to ten hours of vacation per pay period depending on years of service and pay period type, standard versus extra. Employees may accumulate from 120 to 280 hours of vacation benefits, depending on years of service. Upon termination, employees are paid the balance of unused vacation benefits.

Non-exempt employees earn compensatory time at one and one-half times their worked hours in excess of 40 hours per week. Non-exempt employees may accrue up to 240 hours of compensatory time. Compensatory time in excess of the 240 hour maximum is paid at the regular rate of pay on the next pay period. Upon termination, non-exempt employees will be paid for any compensatory time balances.

Exempt employees earn compensatory time at a rate of one times their worked hours in excess of 40 hours a week. Exempt employees can accumulate up to 240 hours of compensatory time. Upon termination, exempt employees are paid one-half of the compensatory time earned at the wage rate at time of termination.

Statements of Cash Flows – All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority's deferred outflows consist of deferred charge on refundings, unamortized swap liability, pension contributions after measurement date, the differences in projected and actual earnings on pension assets, and changes in pension assumptions. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. The pension contributions after measurement date are deferred and recognized in the following fiscal year. The differences in projected and actual earnings on pension assets are amortized over a closed five year period. Pension assumption changes are recognized over the average remaining service life for all members.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority's deferred inflows consist of the changes in fair value of the Toll Road's hedging derivative instruments that are applicable to future reporting periods and differences in expected and actual pension experience which are amortized over a closed six year period. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. Actual results could differ from these estimates.

2. DEPOSITS AND INVESTMENTS

Deposits: Chapter 2257 of the Texas Government Code is known as the Public Funds Collateral Act. This act provides guidelines for the amount of collateral that is required to secure the deposit of public funds. Federal Depository Insurance (FDIC) is available for funds deposited at a financial institution up to a maximum of $250,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. The Public Funds Collateral Act requires that the deposit of public funds be collateralized in an amount not less than the total deposit, reduced by the amount of FDIC insurance available.

The custodial credit risk for deposits is the risk that the Authority will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. As of February 28, 2017, the balance per various financial institutions was $238,962,384. The Authority's deposits are not exposed to custodial credit risk since all deposits are either covered by FDIC insurance or an irrevocable standby letter of credit with the Federal Home Loan Bank of Des Moines, in accordance with the Public Funds Collateral Act.

Investments: Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes Harris County to invest its funds pursuant to a written investment policy which primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity.

The Harris County Investment policy is reviewed and approved annually by Commissioners Court. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type, and the maximum weighted average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy. Additionally, the policy includes specific investment strategies for fund groups that address each group's investment options and describes the priorities for suitable investments.

AUTHORIZED INVESTMENTS

Funds of Harris County (including Authority funds) may be invested as authorized by the Public Funds Investment Act which is located in Chapter 2256 of the Texas Government Code. Allowable investments include:

1. Direct obligations of the United States, its agencies and instrumentalities.

2. Other obligations, the principal and interest of which are unconditionally guaranteed, insured or backed by the full faith and credit of the State of Texas, the United States, or any obligation fully guaranteed or fully insured by the FDIC.

3. Direct obligations of the State of Texas or its agencies provided the agency has the same debt rating as the State of Texas.

4. Obligations of states, agencies, counties, cities, and other political subdivisions located in the United States, rated not less than A, or its equivalent, by a nationally recognized investment rating firm.

5. Fully insured or collateralized certificates of deposit/share certificates issued by state and national banks, or a savings bank, a state or federal credit union (having its main or branch office in Texas) guaranteed or insured by the FDIC or its successor; and secured by obligations in number 1 above. In addition to the County's authority to invest funds in certificates of deposit and share certificates as stated above, made in accordance with the following conditions is an authorized investment under Texas Gov't. Code Section 2256.010(b): (1) the funds are invested by the County through a clearing broker registered with

the Securities and Exchange Commission (SEC) and operating pursuant to SEC rule 15c3-3 (17 C.F.R. Section 240.15c3-3) with its main office or branch office in Texas and selected from a list adopted by the County as required by Section 2256.025; or a depository institution that has its main office or a branch office in this state and that is selected by the County; (2) the broker or the depository institution selected by the County 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 County; (3) 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; (4) the broker or depository institution selected by the County acts as custodian for the County with respect to the certificates of deposit issued for the account of the County.

6. Fully collateralized repurchase agreements, provided the County has on file a signed Master Repurchase Agreement detailing eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination. The repurchase agreement must have a defined termination date and be secured by obligations in number 1 above. It is required that the securities purchased as part of the repurchase agreement must be assigned to the County, held in the County's name, and deposited at the time the investment is made with the County's custodian or with a third-party approved by the County. Securities purchased as part of a repurchase agreement shall be marked-to-market no less than weekly. All repurchase agreements must be conducted through a primary government securities dealer as defined by the Federal Reserve or a financial institution doing business in Texas. Maturities shall be limited to 90 days. The 90-day limit may be exceeded in the case of flexible repurchase agreements ("flex repos") provided the investment type is specifically authorized within individual bond ordinances and final maturity does not exceed the anticipated spending schedule of bond proceeds.

7. Securities lending programs if the loan is fully collateralized, including accrued income, by securities described in Texas Gov't. Code, Section 2256.009, by irrevocable bank letters of credit issued by a bank under the laws of the United States or any other state, continuously rated not less than A by at least one nationally recognized investment rating firm, or by cash invested in accordance with the Investment Act. Securities held as collateral must be pledged to the investing entity, held in the investing entity's name, and deposited at the time the investment is made. A loan must be placed through a primary government securities dealer or a financial institution doing business in Texas. A loan must allow for termination at any time and must have a term of one year or less.

8. Commercial paper with a stated maturity of 270 days or less from the date of issuance, rated A-1 or P-1 or an equivalent rating by at least two nationally recognized agencies, and not under review for possible downgrade at the time of purchase.

9. Local government investment pools with a dollar weighted average maturity of 60 days or less, approved through resolution of Commissioners Court to provide services to the County, continuously rated no lower than AAA or equivalent by at least one nationally recognized rating service. The County may not invest an amount that exceeds 10 percent of the total assets of any one local government investment pool. On a monthly basis, the Investment Officer shall review a list of securities held in the portfolio of any pool in which County funds are being held. To be eligible to receive funds from and invest funds on behalf of the County an investment pool must furnish to the Investment Officer or other authorized representative an offering circular or other similar disclosure instrument that contains information required by Tex. Gov't. Code Sec. 2256.016. Investments will be made in a local government investment pool only after a thorough investigation of the pool and review by the Finance Committee.

10. A Securities and Exchange Commission (SEC) registered, no load money market mutual fund which has a dollar weighted average stated maturity of 60 days or less and whose investment objectives includes

the maintenance of a stable net asset value of $1 for each share. Furthermore, it must be rated not less than AAA or equivalent by at least one nationally recognized rating service and the County must be provided with a prospectus and other information required by the SEC Act of 1934 or the Investment Company Act of 1940. The County may not invest an amount that exceeds 10 percent of the total assets of any one fund. Investments will be made in a money market mutual fund only after a thorough investigation of the fund and review by the Finance Committee.

Summary of Cash and Investments

The Authority's cash and investments are stated at fair value or amortized cost. The following is a summary of the Authority's cash and investments at February 28, 2017.

	Totals
Cash and Cash Equivalents	$ 175,418,065
Investments	757,414,854
Restricted Cash and Cash Equivalents	21,238,868
Restricted Investments	258,584,642
Total Cash and Investments	$ 1,212,656,429

The table below indicates the fair value and maturity value of the Authority's investments as of February 28, 2017, summarized by security type. Also demonstrated are the percentages of the total portfolio, the weighted average modified duration in years, and the credit ratings for each summarized security type.

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Weighted Avg Modified Duration (Years)	Credit Rating S&P/ Moody's
US Agency Notes					
FHLB	159,711,950	13.07%	160,000,000	0.1246	AA+/Aaa
FHLMC	229,484,146	18.78%	230,400,000	0.2228	AA+/Aaa
FNMA	123,135,560	10.07%	124,000,000	0.1524	AA+/Aaa
FNMA Discount Note	24,953,750	2.04%	25,000,000	0.0007	AA+/Aaa
Total US Agency Notes	537,285,406		539,400,000		
Commercial Paper					
TMCC	45,000,000	3.68%	45,000,000	0.0000	A-1/P-1
TMCC-Disc	251,007,048	20.53%	251,889,000	0.0564	A-1/P-1
Total Commercial Paper	296,007,048		296,889,000		
Local Governments					
AZ St School Facilities Board Rev Txbl	5,007,700	0.41%	5,000,000	0.0055	AAA/Aaa
Auburn Wash Utility Sys Rev BAB	2,079,885	0.17%	1,865,000	0.0118	AA
Austin TX Rev 11A	2,093,360	0.17%	2,000,000	0.0187	AAA/Aaa
AZ State School Facilities Board	13,020,020	1.06%	13,000,000	0.0142	AAA/Aaa
AZ Transportation	2,812,236	0.23%	2,800,000	0.0031	AA+/Aa2
Bexar County TX GO	4,817,115	0.39%	4,500,000	0.0537	AAA/Aaa
Burien WA BAB Taxable GO	1,241,084	0.10%	1,160,000	0.0072	A1
Clayton Cty GA & Wtr Auth Rev Txbl	944,168	0.08%	945,000	0.0009	AA+/Aa2
College Station TX Independent School	1,375,744	0.11%	1,280,000	0.0089	AA-/Aa2
Conroe TX Industrial Development Rev	5,976,634	0.49%	5,445,000	0.0410	AA
Cty Boulder CO Wtr Swr Rev TX Emp	1,386,531	0.11%	1,350,000	0.0030	Aa4

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Weighted Avg Modified Duration (Years)	Credit Rating S&P/ Moody's
Cty Columbus OH GO Unlt TX Exmpt	9,458,406	0.77%	8,935,000	0.0405	Aa5
Dallas TX Ref GO Bond	2,130,930	0.17%	2,000,000	0.0099	AA/Aa2
Denver CO BAB	3,752,152	0.31%	3,540,000	0.0280	AAA/Aaa
Ellis County TX GO	2,680,709	0.22%	2,640,000	0.0151	Aa2
Greensboro, NC Build America Bonds	2,140,480	0.18%	2,000,000	0.0145	AAA/Aaa
Hays Cnty TX GO LTD TX Exmpt	1,424,613	0.12%	1,325,000	0.0022	AA-/A2
Hillsborough County FL Utility	15,063,995	1.23%	14,165,000	0.0752	AA+/Aa1
Houston TX Utility Systems	2,366,973	0.19%	2,100,000	0.0163	AA
Idaho Bond Bank Authority Rev	4,549,732	0.37%	4,240,000	0.0252	Aa1
Katy, TX ISD BAB	2,158,980	0.18%	2,000,000	0.0111	AAA/Aaa
Louisiana St UTGO Txbl	2,016,860	0.16%	2,000,000	0.0036	AA/Aa3
Minnesota Pub Facs Rev TX Exmpt	4,263,160	0.35%	4,000,000	0.0131	AA+/Aa2
Montgomery County TX GO	3,773,525	0.31%	3,500,000	0.0310	AA+/Aa1
N Orange Cnty CA Cmnty Clg Dist	1,251,862	0.10%	1,250,000	0.0004	AA/Aa1
North TX Municipal Water District BAB	2,908,257	0.24%	2,700,000	0.0156	AAA/Aa2
North TX Tollway	3,635,791	0.30%	3,500,000	0.0315	AA/A1
Northwest TX	150,501	0.01%	150,000	0.0010	Aaa
Oregon State Alt Energy Project	2,968,317	0.24%	2,780,000	0.0258	AA+/Aa1
Pearland, TX Ref-Perm Improvement	1,075,187	0.09%	1,075,000	0.0059	AA/Aa2
Pecos Barstow TXISD	1,414,673	0.12%	1,390,000	0.0055	AAA
Port Auth NY NJ	15,193,061	1.24%	15,220,000	0.1009	AA-/Aa3
Red River TX Education Finance	2,625,184	0.21%	2,535,000	0.0243	Aa3
Regional Trans Dist Co SA	4,022,160	0.33%	4,000,000	0.0063	AAA/Aa2
Round Rock, TX ISD BAB	4,666,756	0.38%	4,375,000	0.0199	Aaa
Salt Lake County Utah Sales Tax	1,755,494	0.14%	1,630,000	0.0137	AAA
San Antonio, TX Build America Bnds	1,832,917	0.15%	1,635,000	0.0173	AAA/Aaa
San Antonio TX Water Rev BAB	3,209,050	0.26%	3,000,000	0.0153	AA+/Aa1
Snohomish County WA BAB	2,936,668	0.24%	2,760,000	0.0173	AA+/Aa3
ST of Delaware GO Unlt TX Exmpt	2,805,129	0.23%	2,620,000	0.0094	AA+/Aa4
ST of Georgia GO Unlt TX Exmpt	5,552,730	0.45%	5,150,000	0.0084	AA+/Aa5
Sugar Land, TX CTFS	5,788,368	0.47%	5,400,000	0.0520	AAA/Aaa
Texas City, TX ISD	1,362,627	0.11%	1,285,000	0.0102	AA
Texas State Tech University Rev Bnds	1,918,200	0.16%	1,850,000	0.0144	AA
Travis County, TX Certificates of Obligation	1,505,000	0.12%	1,505,000	0.0090	AAA/Aaa
Trinity River TX Rev TX Exmpt	1,239,179	0.10%	1,215,000	0.0034	
Virginia ST HSG Development Auth	1,462,189	0.12%	1,375,000	0.0157	AA+/Aa1
Washington Cnty Ore Sch	1,000,680	0.08%	1,000,000	0.0002	AA+/Aa1
Wayne Township in Met Sch District	244,664	0.02%	245,000	0.0000	AA+
West Univ Place, TX	998,830	0.08%	1,000,000	0.0005	AAA
Total Local Governments	170,058,466		162,435,000		
US Treasury Note					
US Treasury Note	17,983,080	1.47%	18,000,000	0.0123	AAA/Aaa
Total US Treasury Note	17,983,080		18,000,000		
Money Market Funds					
MMF-TLRD	105,364,294	8.62%	105,364,294	N/A	AAAm/Aaa
LOGIC Investment Pool	34,245,305	2.80%	34,245,305	N/A	AAAm/Aaa
Lone Star Investment Pool	29,709,375	2.43%	29,709,375		
Texas Class Investment Pool	32,099,901	2.64%	32,099,901	N/A	AAAm/Aaa
Total Money Market Funds	201,418,875		201,418,875		
Total Investments & Cash Equivalents	$ 1,222,752,875	100.00%	$ 1,218,142,875		
Demand and Time Deposits	(10,096,446)				
Total Cash & Investments	$ 1,212,656,429				

Fair Value Measurements
The County categorizes its fair value measurements within the fair value hierarch established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of February 28, 2017, the County has the recurring fair value measurements for U.S. Agency Notes, Commercial Paper, Local Governments and U.S. Treasury Notes totaling $1,021,334,000, all of which are valued using quoted prices for similar assets in active markets (Level 2 inputs). The Money Market Funds through External Investment Pools totaling $201,418,875 have been valued at amortized cost or fair value in accordance with GASB No.79. For pools shown above, MMF-TLRD, LOGIC and Texas Class portfolios have been valued at fair value (Level 2 input) with Lone Star at amortized cost.

RISK DISCLOSURES

Interest Rate Risk: All investments carry 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. One of the ways that the County manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by matching cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

According to the County investment policy, no more than 50% of the portfolio, excluding those investments held for construction/capital projects, special revenue, flood control, proprietary and enterprise, Public Improvement Contingency, District Clerk Registry, County Clerk Registry, and bond reserves may be invested beyond three years. Additionally at least 15% of the portfolio, excluding those investments held for future major capital expenditures, debt service payments, bond fund reserve accounts, and capitalized interest funds, is invested in overnight instruments or in marketable securities which can be sold to raise cash within one day's notice. Overall, the average maturity of the portfolio, with the previous exceptions, shall not exceed three years. As of February 28, 2017, the Authority was in compliance with all of these guidelines to manage interest rate risk.

Credit Risk and Concentration of Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The County mitigates these risks by emphasizing the importance of a diversified portfolio. All funds must be sufficiently diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In particular, no more than 25% of the overall portfolio may be invested in time deposits, including certificates of deposit, of a single issuer. Concentration by issuer for other investment instruments is not specifically addressed in the investment policy. However, the policy does specify that acceptable investment instruments must have high quality credit ratings and, consequently, risk is minimal.

The County's investment policy establishes minimum acceptable credit ratings for certain investment instruments. Securities of states, agencies, counties, cities and other political subdivisions must be rated as to investment quality by a nationally recognized investment rating firm as A or its equivalent. Money market mutual funds and public funds investment pools must be rated AAA or its equivalent by at least one nationally recognized rating firm.

Custodial Credit Risk: Investments are exposed to custodial credit risk if the investments are uninsured, are not registered in the County's name and are held by the counterparty. In the event of the failure of the counterparty, the County may not be able to recover the value of its investments that are held by the counterparty. As of February 28, 2017, all of the Authority's investments are held in the County's name.

Foreign Currency Risk: Foreign currency risk is the risk that fluctuations in the exchange rate will adversely affect the value of investments denominated in a currency other than the US dollar. The County Investment Policy does not list securities denominated in a foreign currency among the authorized investment instruments. Consequently, the Authority is not exposed to foreign currency risk.

FUND INVESTMENT CONSIDERATIONS

The Investment Policy outlines specific investment strategies for each fund or group of funds identified on the Harris County and Authority's financial statements. The two investment strategies employed by Harris County are the Matching Approach and the Barbell Approach. The Matching Approach is an investment method that matches maturing investments with disbursements. Matching requires an accurate forecast of disbursement requirements. The Barbell Approach is an investment method where maturities are concentrated at two points, one at the short end of the investment horizon and the other at the long end. The investment strategies and maturity criteria are outlined in the following table.

Fund Type	Investment Strategy	Maximum Maturity Per Policy (Years)	Maturity Amount	Average Remaining Years To Maturity
Toll Road Project Funds	Matching/Barbell	6	$ 648,845,000	2.89
Toll Road Renewal/Replacement	Matching/Barbell	6	133,595,000	0.98
Toll Road Bond Reserve	Matching	Maturity of the bonds	234,284,000	7.92
Money Market Mutual Funds	N/A	N/A	201,418,875	N/A
			$ 1,218,142,875	

Note: Money Market Mutual Funds are excluded from the various fund types, which may affect the average remaining days to maturity.

3. OTHER RECEIVABLES AND UNEARNED REVENUE

Other receivables as of February 28, 2017 are comprised of credit card receivables and toll violations for EZ tag collections. The other receivables amount of $10,310,010 is reported net of allowance for doubtful accounts of $257,102,759.

Proprietary funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the Authority reported $78,649,035 in unearned EZ tag revenues.

4. NOTES RECEIVABLE

Notes receivable as of February 28, 2017 are comprised of the following:

	Outstanding March 1, 2016	Issued	Receipts	Outstanding February 28, 2017
Sam Houston Race Park	$ 68,231	$ -	$ (7,581)	$ 60,650
Notes receivable	$ 68,231	$ -	$ (7,581)	$ 60,650

5. PREPAIDS AND OTHER ASSETS

Other assets as of February 28, 2017 are comprised of the following:

Prepaid surety expense	$ 244,885
Prepaid office expenses	3,262,278
Total	$ 3,507,163

6. CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2017 was as follows:

	Balance March 1, 2016	Additions	Deletions	Transfers	Balance February 28, 2017
Land	$ 57,888,865	$ 19,619,115	$ (1,014,849)	$ -	$ 76,493,131
Easement	-	129,962	-	-	129,962
Right-of-way	276,696,094	-	-	-	276,696,094
Construction in progress	295,288,589	204,229,816	-	(3,881,783)	495,636,622
Total capital assets not depreciated	629,873,548	223,978,893	(1,014,849)	(3,881,783)	848,955,809
License agreement	237,500,000	-	-	-	237,500,000
Land improvements	18,865,805	-	-	-	18,865,805
Infrastructure	2,574,449,452	-	(10,913)	-	2,574,438,539
Other tangible assets	29,503,155	131,119	(10,095,311)	-	19,538,963
Buildings	14,344,930	-	-	3,881,783	18,226,713
Equipment	98,747,993	8,962,531	(11,352,063)	-	96,358,461
	2,973,411,335	9,093,650	(21,458,287)	3,881,783	2,964,928,481
Less accumulated depreciation/amortization for:					
License agreement	(30,186,250)	(7,885,000)	-	-	(38,071,250)
Land improvements	(3,861,878)	(943,458)	-	-	(4,805,336)
Infrastructure	(1,251,002,219)	(86,911,949)	-	-	(1,337,914,168)
Other tangible assets	(30,371,175)	(1,481,725)	9,887,785	-	(21,965,115)
Buildings	(3,068,310)	(312,785)	-	-	(3,381,095)
Equipment	(41,806,075)	(9,317,553)	11,242,848	-	(39,880,780)
	(1,360,295,907)	(106,852,470)	21,130,633	-	(1,446,017,744)
Total capital assets being depreciated, net	1,613,115,428	(97,758,820)	(327,654)	3,881,783	1,518,910,737
Total capital assets, net	$ 2,242,988,976	$ 126,220,073	$ (1,342,503)	$ -	$ 2,367,866,546

7. LONG-TERM LIABILITIES

The Authority has financed the Toll Road Projects with a combination of unlimited tax and subordinate lien revenue bonds, senior lien revenue bonds, and commercial paper. The proceeds from such bonds, including the interest earned thereon, are being used to finance the construction costs, the related debt service, and a portion of the maintenance and operating expenses.

Changes in the Authority's Long-Term Liabilities for fiscal year 2016-2017 were as follows:

	Outstanding March 1, 2016	Issued/ Increased	Paid/ Decreased	Outstanding February 28, 2017	Due Within One Year
Senior Lien Revenue Bonds	$ 1,798,195,000	$ 530,105,000	$ (655,950,000)	$ 1,672,350,000	$ 70,600,000
Tax Bonds	329,085,000	-	(26,380,000)	302,705,000	26,610,000
Total Bond Principal	2,127,280,000	530,105,000	(682,330,000)	1,975,055,000	97,210,000
Unamortized Premium, Revenue Bonds	79,703,720	130,779,436	(23,263,102)	187,220,054	-
Unamortized Premium, Tax Bonds	12,165,446	-	(1,627,548)	10,537,898	-
Accrued Interest Payable	3,618,389	86,824,236	(87,083,352)	3,359,273	3,359,273
Total Bonds Payable	2,222,767,555	747,708,672	(794,304,002)	2,176,172,225	100,569,273
Compensatory Time Payable	1,160,190	666,687	(707,716)	1,119,161	671,497
OPEB Obligation	29,416,889	4,509,340	-	33,926,229	-
Net Pension Liability	26,473,095	-	(131,912)	26,341,183	
Pollution Remediation Obligation	2,119,625	-	(1,296,700)	822,925	-
Totals - Toll Road Fund Liabilities	$ 2,281,937,354	$ 752,884,699	$ (796,440,330)	$ 2,238,381,723	$ 101,240,770

A. Outstanding Bonded Debt – February 28, 2017 – Pertinent Information by Issue

Issue	Original Issue Amount	Interest Rate Range %	Term Issue	Maturity Range	Outstanding Balance February 28, 2017
Senior Lien Revenue Bonds					
Refunding Series 2007A	275,340,000	4.00-5.00	2007	2008-2033	$ 233,275,000
Refunding Series 2007B	145,570,000	Floating	2007	2034-2036	145,570,000
Refunding Series 2008B	324,475,000	4.625-5.25	2008	2012-2047	8,695,000
Series 2009A	215,455,000	4.00-5.00	2009	2016-2038	52,425,000
Series 2009C	250,000,000	5.00	2009	2016-2049	67,500,000
Refunding Series 2010D	35,420,000	3.00-5.00	2010	2011-2030	22,775,000
Refunding Series 2012A	60,415,000	Floating	2012	2015-2018	39,915,000
Refunding Series 2012B	139,500,000	Floating	2012	2012-2021	139,500,000
Refunding Series 2012C	252,845,000	2.00-5.00	2012	2013-2033	229,695,000
Refunding Series 2012D	98,010,000	.40-1.68	2012	2013-2018	41,320,000
Refunding Series 2015B	161,575,000	5.00	2015	2020-2036	161,575,000
Refunding Series 2016A	530,105,000	2.75-5.00	2016	2019-2047	530,105,000
Total Principal Senior Lien Revenue Bonds					1,672,350,000
Unamortized Premiums and Discounts					187,220,054
Total Senior Lien Revenue Bonds					$ 1,859,570,054

Issue	Original Issue Amount	Interest Rate Range %	Term Issue	Maturity Range	Outstanding Balance February 28, 2017
Unlimited Tax and Subordinate Lien Bonds (Tax Bonds)					
Refunding Series 1997	$ 150,395,000	5.00-5.125	1997	2014-2024	$ 26,005,000
Refunding Series 2007C	321,745,000	5.00-5.25	2007	2014-2033	276,700,000
Total Tax Bonds					302,705,000
Unamortized Premiums and Discounts					10,537,898
Total Tax Bonds					$ 313,242,898

B. Covenants and Conditions

The Senior Lien Revenue Bonds are payable from operating revenues generated from the Toll Roads. The Tax Bonds are secured by and payable from a pledge of the County's unlimited ad valorem taxing power and are also secured by a pledge of and lien on the revenues of the Toll Roads, subordinate to the lien of the Senior Lien Revenue Bonds. The Authority has covenanted to assess a maintenance tax to pay project expenses if revenues, after paying debt service, are insufficient. The Authority also has covenanted to collect tolls to produce revenues at the beginning of the third fiscal year following completion of the Toll Roads equal to at least 1.25 times the aggregate debt service on all Senior Lien Revenue Bonds accruing in such fiscal year. The 1.25 revenue coverage covenant went into effect during fiscal year 1994. The revenue coverage ratio was 5.39 as of February 28, 2017.

C. Debt Service Requirements

Total interest expense was $75,454,167 for the fiscal year. The following are the debt service requirements for bonds payable:

Fiscal Year	Principal	Interest	Total
2018	$ 97,210,000	$ 92,535,797	$ 189,745,797
2019	99,180,000	88,701,407	187,881,407
2020	102,945,000	84,416,116	187,361,116
2021	106,865,000	79,354,619	186,219,619
2022	101,610,000	74,342,706	175,952,706
2023-2027	391,740,000	310,565,584	702,305,584
2028-2032	413,265,000	214,234,643	627,499,643
2033-2037	449,020,000	100,598,429	549,618,429
2038-2042	107,815,000	37,334,875	145,149,875
2043-2047	80,875,000	16,573,125	97,448,125
2048-2050	24,530,000	1,088,250	25,618,250
	$ 1,975,055,000	$ 1,099,745,551	$ 3,074,800,551

D. Unissued Authorized Bonds

In an election held on September 13, 1983, the voters of the County endorsed using toll roads to alleviate the County's traffic problems by authorizing the County to issue up to $900,000,000 of bonds secured by a pledged of its unlimited ad valorem taxing power. As of February 28, 2017, the unissued authorized bonds for the toll road project are $15,148,000.

E. Defeasance of Debt

In the current year and prior years, the Authority has defeased certain bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service on the refunded bonds.

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. As of February 28, 2017, the outstanding principal balance of these defeased bonds was $2,425,664,000.

F. <u>Debt Issuances</u>

On March 1, 2016, the County pledged an additional $1,500,000 in FNMA note to Citibank to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On May 4, 2016, the County released $16,500,000 in FNMA note pledged to JP Morgan Chase as collateral and replaced it with $15,000,000 in FHLMC note to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On June 13, 2016, the County pledged an additional $1,000,000 in FHLMC note to JP Morgan Chase to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On June 17, 2016, the County pledged an additional $1,000,000 in FHLMC note to JP Morgan Chase to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On June 28, 2016, the County pledged an additional $1,000,000 in FHLMC note to JP Morgan Chase to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On July 1, 2016, the County released $1,762,000 in FNMA note pledged to Citibank as collateral on the $199,915,000 interest rate swap for the Series 2012A&B bonds.

On July 1, 2016, the County pledged an additional $1,762,000 in FNMA note to Citibank to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On July 6, 2016, the County pledged an additional $500,000 in FHLMC note to JP Morgan Chase to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On July 12, 2016, the County issued $530,105,000 of Toll Road Senior Lien Revenue Refunding Bonds, Series 2016A to refund and defease a portion of the County's outstanding Toll Road Senior Lien Revenue Refunding Bonds, Series 2008B, 2009A and 2009C, and to pay the cost of issuance. The annual interest rate is 2.75% to 5.00%. The issuance had a premium of $126,351,985. The interest accrues semi-annually and the bonds mature in 2047. The refunding resulted in a savings of $130,309,963 due to a decrease in cash flow and had an economic gain of $82,277,810.

On August 1, 2016 the County released $862,000 in FNMA note pledged to Citibank as collateral on the $199,915,000 interest rate swap for the Series 2012A&B bonds.

On August 1, 2016 the County pledged an additional $862,000 in FNMA note to Citibank to cover the collateral threshold shortfall on the $72,785,000 interest rate swap for the Series 2007B bonds.

On August 15, 2016 the County remarketed $30,000,000 of Toll Road Senior Lien Revenue Refunding Bonds, Series 2012B-2. Interest is payable semi-annually. The interest rate is 70% of the one month London Interbank Offered Rate ("LIBOR") plus a spread. The bonds mature in 2021. The refunding resulted in no savings or economic benefit.

On November 1, 2016 the County released $2,000,000 in FNMA note pledged to Citibank as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On November 1, 2016 the County released $2,536,000 in FHLMC note pledged to JP Morgan Chase as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On December 2, 2016 the County released $4,000,000 in FNMA note pledged to Citibank as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On December 2, 2016 the County released $4,074,000 in FHLMC note pledged to JP Morgan Chase as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On January 3, 2017 the County released $2,000,000 in FNMA note pledged to Citibank as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On January 3, 2017 the County released $2,035,000 in FHLMC note pledged to JP Morgan Chase as collateral on the $72,785,000 interest rate swap for the Series 2007B bonds.

On February 3, 2017 the County released $1,676,000 in FNMA note pledged to Citibank as collateral on the $199,915,000 interest rate swap for the Series 2012A&B bonds.

G. Commercial Paper

In addition to the outstanding long-term debt of the Authority, the Commissioners Court has established a commercial paper program secured by the payable from Toll Road revenues. During fiscal year 2017, the commercial paper program consisted of Harris County Toll Road Senior Lien Revenue Notes, Series E ("Series E Notes") in an aggregate principal amount not to exceed $200 million outstanding at any one time. As of February 28, 2017, the Toll Road has no outstanding commercial paper and there was no commercial paper activity during the year ended February 28, 2017.

The purpose of the Series E Notes is to provide funding for costs of acquiring, constructing, operating and maintaining, and improving Toll Road Project components, as well as to fund reserves, pay interest during construction, refinance, refund, and renew the notes themselves, and fund issuance costs. On January 10, 2017, the previous Commercial Paper Program Series E was terminated. Also on this date, approval was granted for the creation and establishment of the Toll Road Senior Lien Revenue Commercial Paper Programs, Series E-1 and E-2, in the amounts of $200,000,000 each. The creation of Series E-1 and E-2 was finalized in fiscal year 2018.

H. Arbitrage Rebate Liability

The Tax Reform Act of 1986 established regulations for the rebate to the federal government of arbitrage earnings on certain local government bonds issued after December 31, 1985, and all local governmental bonds issued after August 31, 1986. Issuing governments must calculate any rebate due and remit the amount due at least every five years. There were no arbitrage rebate payments made during fiscal year 2017. As of February 28, 2017 there were no estimated liabilities for arbitrage rebate on enterprise debt.

I. Interest Rate Swap

The County entered an interest rate swap with Citibank, N.A., New York, relating to the Toll Road Authority, Series 2012A and Series 2012B, and the Senior Lien Revenue Refunding Bonds, Series 2007B. The County entered an interest rate swap with JPMorgan Chase Bank, National Association, relating to the Senior Lien Revenue Refunding Bonds, Series 2007B. The purpose of the swaps was to create a fixed cost of funds on certain maturities of the related bonds that is lower than the fixed cost achievable in the cash bond market.

Terms:

Harris County Toll Road Authority	Citibank–Senior Lien Revenue Refunding Bonds, Series 2012A&B	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Trade Date:	November 28, 2006	May 22, 2007	May 22, 2007
Effective Date:	August 15, 2009	June 14, 2007	June 14, 2007
Termination Date:	August 15, 2019	February 15, 2035	February 15, 2035
Initial Notional Amount: (a)	$199,915,000	$72,785,000	$72,785,000
Current Notional Amount:	$179,415,000	$72,785,000	$72,785,000
Authority Pays Fixed:	3.626%	4.398%	4.398%
Counterparty Pays Floating:	70% of 1 Month LIBOR	67% of 3 Month LIBOR + .67%	67% of 3 Month LIBOR + .67%
Payment Dates:	The 15th day of each month	The 15th day of February, May, August and November	The 15th day of February, May, August and November
Collateral Threshold: (b)	($15,000,000)	($15,000,000)	($15,000,000)
Fair Value as of 2/28/17:	($9,959,545)	($20,500,635)	($20,500,635)
Collateral Pledged:	$0	$8,924,000 (c)	$9,855,000 (d)

(a) The notional amount for the swaps amortizes to match the outstanding bond.
(b) Collateral threshold represents the maximum exposure that the counterparty is required to accept without a pledge of collateral. The difference between the fair value and the collateral threshold must be covered by County collateral. The maximum collateral threshold ceiling is $45,000,000.
(c) The County pledged an $8.9 million FNMA note with a $20,000,000 par, at 1.03% to Citibank as collateral under the terms of the swap agreements related to the Toll Road Senior Revenue Refunding Bonds, Series 2007B.
(d) The County pledged a $9.9 million FHLMC note with a $44,000,000 par at 1.05% to JP Morgan as collateral under the terms of the swap agreements related to the Toll Road Senior Lien Revenue Refunding Bonds, Series 2007B.

Fair Value: Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using information obtained from generally recognized sources with respect to quotations, reporting of specific transactions and market conditions and based on accepted industry standards and methodologies. The County's over-the-counter interest rate swaps are valued using Level 2 inputs and the value of the swaps includes non-performance risk considerations.

Summary of GASB 53 Effectiveness Testing:

Harris County Toll Road Authority	Citibank–Senior Lien Revenue Refunding Bonds, Series 2012A&B	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Derivative Instrument	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap
Hedge Type	Cash Flow Hedge	Cash Flow Hedge	Cash Flow Hedge
Method of Effectiveness Testing	Regression Historical	Consistent Critical Terms	Consistent Critical Terms
Result of Effectiveness Testing	Effective	Effective	Effective

Risks:

Harris County Toll Road Authority	Citibank–Senior Lien Revenue Refunding Bonds, Series 2012A&B	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Credit Risk: Credit Ratings Moody's, S&P, and Fitch	A1, A+, and A+	A1, A+, and A+	Aa3, A+, and AA-
Interest Rate Risk – risk that changes of rates in the bond market will negatively affect the cash flow to the County in a SWAP transaction.	Citi Bank NA pays 70% of 1 month LIBOR, while the County pays a fixed rate of 3.626%.	Citi Bank NA pays 67% of 3 month LIBOR + 67bp, while the County pays a fixed rate of 4.398%.	JP Morgan Chase Bank NA pays 67% of 3 month LIBOR + 67bp, while the County pays a fixed rate of 4.398%.
Termination Risk – risk that the SWAP must be terminated prior to its stated final cash flow.	The exposure to the County is $9,959,545, which is based on a fair market value calculation.	The exposure to the County is $20,500,635, which is based on a fair market value calculation.	The exposure to the County is $20,500,635, which is based on a fair market value calculation.

J. Subsequent Debt Related Activity

The Authority did not issue any debt subsequent to year end.

8. RETIREMENT PLAN

Plan Description. Harris County provides retirement, disability, and survivor benefits for all of its employees (excluding temporary) through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). This is accounted for as an agent multiple-employer defined benefit pension plan. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or the website at www.TCDRS.org.

Harris County's pension plan includes Toll Road and three other participating employers. Toll Road Authority has reported its participation in the Harris County plan as a cost sharing employer. The Harris County plan is allocated to participating employers based upon contributions. The Authority's allocated share was 3.551%.

Benefits Provided. The plan provisions are adopted by Commissioners Court of the County, within the options available in the state statutes governing TCDRS ("TCDRS Act"). Members can retire at ages 60 and above with eight or more years of service, with 30 years of service regardless of age, when the sum of their age and years of service equals 75 or more, or if they become disabled. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest and employer-financed monetary credits. The level of these monetary credits is adopted by Commissioners Court, within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. By law, employee accounts earn 7% interest. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. The County's current match is 225%.

Employees Covered by Benefit Terms. At the measurement date, the following employees were covered by the benefit terms of the Harris County plan:

	12/31/15	12/31/16
Inactive employees or beneficiaries current receiving benefits	7,469	7,979
Inactive employees entitled but not yet receiving benefits	7,885	8,279
Active employees	16,342	16,772
Total	31,696	33,030

Contributions. The County has elected the annually determined contribution rate ("ADCR") plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually as of December 31, two years prior to the end of the fiscal year in which contributions are reported. The County contributed using an actuarially determined rate of 13.88% of covered payroll for the months of the calendar year in 2015, and 14.00% for the months of the calendar year in 2016.

The contribution rate payable by the employee members for 2015 and 2016 is 7% as adopted by Commissioners Court. The employee contribution rate and the employer contribution rate may be changed by Commissioners Court, within the options available in the TCDRS Act.

Actuarial Assumptions. For the County's fiscal year ending February 28, 2017, the net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary Increases	3.5%
Investment rate of return	8.1%

The County has no automatic cost-of-living adjustments ("COLA") and one is not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculation or in the funding valuation. Each year, the County may elect an ad-hoc COLA for its retirees.

The annual salary increases rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion, and longevity component that on average approximates 1.4% per year for a career employee.

Mortality rates for depositing members were based on the RP-2000 Active Employee Mortality Table for males and females as appropriate, with adjustments, with the projection scale AA. Service retirees, beneficiaries, and non-depositing members were based on RP-2000 Combined Mortality Table for males and females as appropriate, with adjustments with the projection scale AA. Disabled retirees were based on RP-2000 Disabled Mortality Table for males and females as appropriate, with adjustments, with the projection scale AA.

The actuarial cost method was Entry Age Normal, as required by GASB 68. Straight-line amortization over Expected Working Life with a 5 year smoothing period, and a non-asymptotic recognition method with no corridor were utilized in the actuarial calculations.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68. Updated mortality assumptions were adopted in 2015.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The numbers shown are based on January 2017 information for a 7-10 year time horizon and are re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The following target asset allocation was adopted by the TCDRS board in April 2017. The geometric real rate of return is net of inflation, assumed at 2.0%.

Asset Class	Target Allocation	Geometric Real Rate of Return
US Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities - Developed	10.00%	4.70%
International Equities - Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships (MLPs)	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%
	100.00%	

Discount Rate. The discount rate used to measure the total pension liability was 8.1%. Using the alternative method, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments based on the funding requirements under the County's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the unfunded actuarial accrued liability ("UAAL") shall be amortized as a level percent of pay over 20-year layered periods.
2. Under the TCDRS Act, the County is legally required to make the contribution specified in the funding policy.
3. The County's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments.

Changes in Net Pension Liability (amounts in thousands):

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2015	$ 5,450,852	$ 4,726,481	$ 724,371
Changes for the year:			
Service cost	149,334		149,334
Interest on total pension liability	437,989		437,989
Effect of economic/demographic gains or losses	(27,493)		(27,493)
Refund of contributions	(8,537)	(8,537)	-
Benefit payments	(229,683)	(229,683)	-
Administrative expenses		(3,799)	3,799
Member contributions		68,371	(68,371)
Net investment income		349,499	(349,499)
Employer contributions		136,391	(136,391)
Other	-	(7,961)	7,961
Balances as of December 31, 2016	$ 5,772,462	$ 5,030,762	$ 741,700

The net pension liability allocated to the Authority at February 29, 2016 and February 28, 2017 was $26,473,095 and $26,341,183 respectively and employer contributions for the same period were $3,970,428 and $4,843,872 respectively.

Sensitivity Analysis. The following presents the net pension liability of the County, calculated using the discount rate of 8.1%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate (amounts in thousands):

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	$ 6,523,457	$ 5,772,462	$ 5,146,072
Fiduciary net position	5,030,762	5,030,762	5,030,762
Net pension liability	$ 1,492,695	$ 741,700	$ 115,310

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TCDRS financial report.

Pension Expense and Deferred Inflows/Outflows of Resources Related to Pensions. For the measurement period ending December 31, 2016, the County recognized pension expense of $242,748,438, the Authority's share was $8,525,845 as of February 28, 2017; the County reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources (amounts in thousands):

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 27,884	$ -
Changes of assumptions	-	34,099
Net difference between projected and actual earnings	-	277,468
Contributions made subsequent to the measurement date	-	21,813
	$ 27,884	$ 333,380

Toll Road Authority's Allocation:	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 990	$ -
Changes of assumptions	-	1,211
Net difference between projected and actual earnings	-	9,854
Contributions made subsequent to the measurement date	-	811
	$ 990	$ 11,876

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension, other than contributions subsequent to the measurement date, will be recognized in pension expense for the Harris County plan as follows:

Year ended December 31:	
2017	$ 93,085,471
2018	93,085,471
2019	93,085,471
2020	9,009,564
2021	(4,582,266)

Payable to the Pension Plan. At February 28, 2017, the County reported a payable of $16,211,191 for the outstanding amount of contributions to the pension plan.

The above information includes four participating employers to the agent multiple employer defined benefit pension plan. One of the employers, Community Supervision (“CS”) is not considered a department or a component unit of the County. The net pension liability for CS at February 29, 2016 and February 28, 2017 is $27,678,584 and $23,093,168, respectively.

The deferred inflows and outflows reported for CS at February 28, 2017 were (amounts in thousands):

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 868	$ -
Changes of assumptions	-	1,062
Net difference between projected and actual earnings	-	8,639
Contributions made subsequent to the measurement date	-	655
	$ 868	$ 10,356

For the measurement period ended December 31, 2016, CS recognized pension expense of $6,990,304. The RSI following the notes to the financial statements contains: the schedule of changes in the County’s net pension liability and related ratios, and the schedule of County contributions.

9. OTHER POST EMPLOYMENT BENEFITS

THE PLAN:

Plan Description. Harris County administers an agent multiple-employer defined benefit post employment healthcare plan that covers retired employees of participating governmental entities. The plan provides medical, dental, vision, and basic life insurance benefits to plan members. Local Government Code Section 157.101 assigns the authority to establish and amend benefit provisions to Commissioner's Court.

Membership in the plan at March 1, 2015, the date of the latest actuarial valuation, consists of the following:

Retirees and beneficiaries receiving benefits	4,594
Active plan members	14,599
Number of participating employers	5

Summary of Significant Accounting Policies
Basis of Accounting. The Plan's transactions are recorded using the accrual basis of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable.

Contributions. Local Government Code Section 157.102 assigns to Commissioner's Court the authority to establish and amend contribution requirements of the plan members and the participating employers. The following tables present the criteria for the employers' contribution to the retiree's and qualifying dependent's benefits:

Retired Prior to March 1, 2002:

Years of Service	10 yrs.	9 yrs.	8 yrs.	< 8yrs. with proportionate service and/or disability
Retiree - Employer Share	100%	90%	80%	50%
Retiree - Retiree Share	0%	10%	20%	50%
Dependent - Employer Share	50%	45%	40%	25%
Dependent - Retiree Share	50%	55%	60%	75%

Retired or Eligible to Retire Prior to March 1, 2011:

Employee's age plus years of service	75	75	70-74	< 70	N/A
Years of service	10	8-9	8	4-7	< 4
Consecutive service years at retirement	4	4	4	4	N/A
Retiree - Employer Share	100%	80%	80%	50%	0%
Retiree - Retiree Share	0%	20%	20%	50%	100%
Dependent - Employer Share	50%	40%	40%	25%	0%
Dependent - Retiree Share	50%	60%	60%	75%	100%

Eligible to Retire March 1, 2011 or After:

A combination of age plus a minimum of 10 years of non-forfeited Harris County/TCDRS service equal to 80 or at least age 65 (or Medicare eligible) with a minimum of 10 years of non-forfeited Harris County/TCDRS service to receive 100% of the County contributions for retiree coverage and 50% for dependent coverage.

Employees Hired on or After March 1, 2007:

A combination of age plus a minimum of 20 years of non-forfeited Harris County/TCDRS service equal to 80 or at least age 65 (or Medicare eligible) with a minimum of 15 years of non-forfeited Harris County/TCDRS service to receive any County contributions for retiree or dependent coverage.

Effective March 1, 2012:

Harris County pays no more for retiree healthcare than the premium it pays for active employees for each rate tier structure (retiree only, retiree + spouse, retiree + child, retiree + 2 or more dependents). As a result all non-Medicare retirees pay an additional amount for their coverage regardless of their retirement date.

The Plan rates are set annually by Commissioner's Court based on the combination of premiums and costs of the self-funded portion of the plan. The Plan is funded on a pay-as-you-go basis. For the year ended February 28, 2017, plan members or beneficiaries receiving benefits contributed $10.53 million, or approximately 20.2 percent of total benefits paid during the year. Participating employers contributed $41.68 million. The total contributions for the year ended February 28, 2017 were $52.2 million. Total contributions included actual medical claims paid, premiums for other insurance and administrative costs calculated through an annual rate calculation.

The latest actuarial valuation for the plan was performed as of March 1, 2015, which continued to be effective for the County's fiscal year ending February 28, 2017. In February 2017 the County made a change in the provisions of the plan to become effective March 1, 2017. Using the March 1, 2015 Valuation, its actuary updated the results, reflecting the impact of the change made in the plan's provisions. The updated UAAL increased from $1,311,021,556 to $1,332,343,309—an increase of 1.6%. It was rolled forward to $1,397,045,655 as of February 28, 2016. The impact on the Annual OPEB Cost was an increase of 16%, from $108,983,297 to $126,379,573 with the resulting Net OPEB Obligation increasing to $647,659,984. The County assessed the impact to be insignificant in determining whether to use the update as opposed to a new valuation. The results from the update are reflected in the County's financial statements and note disclosures.

THE EMPLOYER:

Annual OPEB Cost. For 2017, the County's annual OPEB cost (expense) was $126,379,573 (including Toll Road of $5,409,179) for the post employment healthcare plan. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended February 28, 2017 were as follows:

Annual Required Contribution	$ 127,785,934
Add interest on Net OPEB Obligation	21,110,872
Less adjustment to Annual Required Contribution	(22,517,233)
Annual OPEB Cost	126,379,573
Less Contributions made	(41,676,170)
Change in Net OPEB Obligation	84,703,403
Net OPEB Obligation, beginning of the year	562,956,581
Net OPEB Obligation, end of the year	$ 647,659,984

Trend Information:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net Ending OPEB Obligation
2/28/2015	$ 101,776,459	$ 39,543,124	39%	$ 492,980,243
2/29/2016	108,983,297	39,006,959	36%	562,956,581
2/28/2017	126,379,573	41,676,170	33%	647,659,984

The above tables include information for the 5 participating employers to the agent multiple-employer defined benefit post employment healthcare plan that the County administers. Two of the employers, Emergency 911 and Community Supervision, are not considered departments or component units of the County. The net OPEB obligation for Emergency 911 and Community Supervision is $1,149,819 and $0 respectively for fiscal year 2016 and the net OPEB obligation for Emergency 911 and Community Supervision is $1,376,415 and $0 respectively at February 28, 2017. Toll Road's portion of the net OPEB obligation above is $33,926,229.

Funded Status and Funding Progress. The funded status of the plan as of March 1, 2015 (most recent actuarial valuation) was as follows:

	All Participants	Toll Road Portion
Unfunded actuarial accrued liability (UAAL)	$ 1,332,343,309	$ 46,723,318
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered Payroll (active plan members)	$ 1,050,715,841	$ 40,313,416
UAAL as a percentage of covered payroll	127%	116%

The "All Participants" column in the above table includes UAAL of $1,932,762 for Emergency 911 and UAAL of $10,973,012 for Community Supervision.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The actuarial assumptions used in calculating the County's UAAL and ARC are elaborated later in this note. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are made on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In order to perform the valuation, it was necessary for the County and the actuary to make certain assumptions regarding such items as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare trend and interest rates.

In the March 1, 2015 actuarial valuation, a 3.75% discount rate was used. The medical trend rates of 6% for 2015 graded down to an ultimate rate of 5% by 2020 were used per the actuary's best estimate of expected long-term plan experience. The economic assumptions used in this valuation implicitly assume a general inflation level of approximately 2.5%.

The actuarial cost method used in valuing the County's liabilities was the Projected Unit Credit Cost Method. Under this method the benefits of each individual included in the valuation were allocated by a consistent formula over the years. The amortization period and method utilized was 30 year level dollar open period.

Additional Disclosures. Texas Local Government Code, Chapter 175 requires counties to make available continued health benefits coverage under certain circumstances to retirees and their dependents beyond the end of an individual's employment with the County ("Continuation Coverage") by permitting covered employees to purchase continued health benefits coverage in retirement. Texas law does not require counties to fund all or any portion of such coverage.

Because the County is given the authority to pay OPEB for its retired employees, it may incur a debt obligation to pay for OPEB so long as the County follows the constitutional requirement that it have sufficient taxing authority available at the time such debt is incurred to provide for the payment of the debt and has in fact levied a tax for such purpose concurrently with the incurrence of the debt. Any debt incurred in contravention of this constitutional requirement is considered void and payment will not be due. Harris County has not incurred a legal debt obligation for OPEB and has not levied a tax for the same. The County funds the cost associated with OPEB on a current "pay as you go" basis for a single fiscal year through an annual appropriation authorized by Commissioner's Court during the County's annual budget adoption process.

GAAP requires governmental organizations to recognize an actuarially calculated accrued liability for OPEB, even though it may not have a legally enforceable obligation to pay OPEB benefits.

Information and amounts presented in the County's Comprehensive Annual Financial Report relative to OPEB expense/expenditures, related liabilities (assets), note disclosures, and supplementary information are only intended to achieve compliance with the requirements of generally accepted accounting principles (GASB 45) and does not constitute or imply that the County is legally obligated to provide OPEB benefits.

The schedule of funding progress, presented as Required Supplementary Information, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

10. COMMITMENTS AND CONTINGENCIES

Construction Commitments

The Authority is committed under various contracts in connection with the construction of Authority facilities, buildings, and roads of $441,490,637.

Litigation and Claims

The Authority is involved in lawsuits and other claims in the ordinary course of operations. Although the outcome of such pending lawsuits and other claims are not presently determinable, management of the Authority believes that the resolution of these matters is not expected to have a materially adverse effect on the financial condition of the Authority. There are several civil cases that have resulted in settlements, consent decrees or are expected to have financial impact on the Authority in subsequent fiscal years.

Pollution Remediation

The Authority is subject to numerous Federal, State and Local environmental laws and regulations. GAAP established standards for the accounting and reporting of obligations incurred to address current or potential detrimental effects of existing pollution. The Authority recorded in the financial statements pollution remediation liabilities of $822,925. This liability is partially attributable to land acquired by the Authority with known pollution which is expected to be remediated before the land can be used for its intended purpose. The liability was calculated based on historical expenditures and professional judgment. The liability is an estimate and is subject to revision because of price increases or reductions, changes in technology, changes in applicable laws or regulations, or other circumstances that could cause changes. Although some uncertainties associated with environmental assessment remain and certain costs are not quantifiable, management believes the current provision for such costs is adequate. There are no estimated recoveries reducing the liability as of February 28, 2017. Additional costs, if any, are not expected to have a material effect on the financial condition of the Authority.

Metro Agreement

An amended agreement between Metro and the County related to the Westpark Corridor was approved by Commissioners' Court on May 7, 2013. Per this agreement the County is obligated to reimburse Metro for certain increased project costs if incurred. The County's liability to Metro under the agreement shall not exceed the cap of $41 million and the escalation thereof. Ad valorem taxes are irrevocably pledged to the payment.

11. TRANSFERS AND ADVANCES

The Commissioners Court approved a $134 million annual allocation for funding of a County thoroughfare program to increase general mobility.

12. REVENUE LEASES

Operating Leases

The Authority was the lessor in a lease for signage. In the current year, there was lease revenue recognized in the amount of $7,200.

There are contingent rentals which may be received under certain leases based on percentage of receipts. Contingent rentals amounted to $11,700 in 2017.

13. RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement No.74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 74"), replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. GASB 74 will be implemented by the Authority in fiscal year 2018 and the impact has not yet been determined.

GASB Statement No.75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"), replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. GASB 75 will be implemented by the Authority in fiscal year 2019 and the impact has not yet been determined.

GASB Statement No.82, *Pension Issues,* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, deviations from the guidance of the Actuarial Standards Board, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 will be implemented by the Authority in fiscal year 2018 and the impact has not yet been determined.

GASB Statement No.83, *Certain Asset Retirement Obligations* ("GASB 83"), addresses accounting and financial reporting for certain asset retirement obligations (AROs). This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred; the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually; and the disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. GASB 83 will be implemented by the Authority in fiscal year 2020 and the impact has not yet been determined.

GASB Statement No.84, *Fiduciary Activities* ("GASB 84"), establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be implemented by the Authority in fiscal year 2020 and the impact has not yet been determined.

GASB Statement No.85, *Omnibus 2017* ("GASB 85"), addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB 85 will be implemented by the Authority in fiscal year 2019 and the impact has not yet been determined.

GASB Statement No.86, *Certain Debt Extinguishment Issues* ("GASB 86"); Statement No.7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. GASB 86 will be implemented by the Authority in fiscal year 2019 and the impact has not yet been determined.

GASB Statement No.87, *Leases* ("GASB 87"), require recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB 87 will be implemented by the Authority in fiscal year 2021 and the impact has not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
February 28, 2017
(Unaudited)

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
2015	3/1/2013	-	$ 1,189,670,446	$ 1,189,670,446	0%	$ 900,961,148	132.0%
2016	3/1/2015	-	1,311,021,556	1,311,021,556	0%	961,963,878	136.3%
2017	3/1/2015	-	1,332,343,309	1,332,343,309	0%	1,050,715,841	126.8%

The above table includes information for the 5 participating employers to the agent multiple-employer defined benefit post employment healthcare plan that the County administers. Two of the employers, Emergency 911 and Community Supervision are not considered departments or component units of the County; the UAAL for these entities are $1,932,762 and $10,973,012 respectively.

Toll Road is an enterprise fund of the County and included in the above table. The following table contains Toll Road specific information:

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
2015	3/1/2013	-	$ 40,081,280	$ 40,081,280	0%	$ 32,810,502	122.2%
2016	3/1/2015	-	45,843,328	45,843,328	0%	35,243,520	130.1%
2017	3/1/2015	-	46,723,318	46,723,318	0%	40,313,416	115.9%

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS
(Amounts in thousands)

	Year Ended December 31	
	2016	2015
TOTAL PENSION LIABILITY		
Service cost	$ 149,334	$ 131,567
Interest on total pension liability	437,989	411,525
Effect of economic/demographic gains	(27,493)	(7,458)
Benefit payments/refunds of contributions	(238,220)	(220,100)
Net change in total pension liability	321,610	337,800
Total pension liability, beginning	5,450,852	5,113,052
Total pension liability, ending (a)	$ 5,772,462	$ 5,450,852
FIDUCIARY NET POSITION		
Employer contributions	$ 136,391	$ 132,346
Member contributions	68,371	66,878
Investment income net of investment expenses	349,499	(30,646)
Benefit payments/refunds of contributions	(238,220)	(220,100)
Administrative expenses	(3,799)	(3,419)
Other	(7,961)	363
Net change in fiduciary net position	304,281	(54,578)
Fiduciary net position, beginning	4,726,481	4,781,059
Fiduciary net position, ending (b)	$ 5,030,762	$ 4,726,481
Net pension liability, ending = (a) - (b)	$ 741,700	$ 724,371
Fiduciary net position as a % of total pension liability	87.15%	86.71%
Pension covered payroll	$ 974,217	$ 953,501
Net pension liability as a % of covered payroll	76.13%	75.97%
Toll Road's Portion:		
Allocated share	3.551%	3.655%
Employer contributon	$ 4,843,872	$ 4,836,751
Net pension liability, ending	$ 26,341,183	$ 26,473,095

Note: The County implemented GASB 68 in fiscal year 2016. Information prior to fiscal year 2016 is not available, ten years of data will accumulate over time.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
February 28, 2017

Year Ending December 31	Actuarially Determined Contribution (1)	Actual Employer Contribution (1)	Contribution Deficiency (Excess)	Pensionable Covered Payroll (2)	Actual Contribution as a % of Covered Payroll
2007	$78,835,454	$78,835,454	$ -	$755,852,867	10.4%
2008	80,968,198	80,968,198	-	839,919,068	9.6%
2009	85,977,877	85,977,877	-	882,729,740	9.7%
2010	96,038,173	96,038,173	-	849,143,883	11.3%
2011	77,988,234	77,988,234	-	794,141,978	9.8%
2012	83,215,181	83,215,181	-	779,898,383	10.7%
2013	92,818,576	92,818,576	-	800,850,524	11.6%
2014	106,802,688	106,802,688	-	859,233,866	12.4%
2015	132,345,738	132,345,738	-	953,501,308	13.9%
2016	132,006,399	136,390,929	(4,384,529)	974,216,968	14.0%

(1) TCDRS calculated actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

(2) Payroll is calculated based on contributions as reported to TCDRS.

Toll Road is an enterprise fund of the County and is included in the above table. The following table contains Toll Road specific information:

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2013	$ 3,567,312	$ 3,567,312	$ -	$ 30,783,564	11.6%
2014	3,970,459	3,970,459	-	31,942,561	12.4%
2015	4,836,615	4,836,615	-	34,846,113	13.9%
2016	4,843,872	4,999,587	(155,715)	34,598,952	14.5%

Additional years for the Toll Road Authority will be added as they become available.

Notes to Schedule

Valuation date:	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	14.5 years (based on contribution rate calculated in 12/31/2016 valuation)
Asset valuation method	5-year smoothed market
Inflation	3.0%
Salary increases	Varies by age and service. 4.9% average over career including inflation.
Investment rate of return	8.00%, net of investment expenses, including inflation

Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in plan provisions reflected in the schedule	Effective with the 2015 calendar year, employer contributions reflect that the member contribution rate was increased to 7%. No changes in plan provisions in 2016.

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APPENDIX D-1

OUTSTANDING TOLL ROAD SENIOR LIEN REVENUE BONDS

	Outstanding Principal Amount on the date of issuance of the Bonds
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds,	
Series 2007A	$14,850,000
Series 2007B	145,570,000
Harris County, Texas, Toll Road Senior Lien Revenue and Refunding Bonds,	
Series 2008B	4,455,000
Harris County, Texas Toll Road Senior Lien Revenue Bonds,	
Series 2009A	49,980,000
Harris County, Texas Toll Road Senior Lien Revenue Bonds,	
Series 2009C	62,500,000
Harris County, Texas Toll Road Senior Lien Revenue Refunding Bonds,	
Series 2010D	22,775,000
Harris County, Texas Toll Road Senior Lien Revenue Refunding Bonds,	
Series 2012A	20,625,000
Series 2012B	139,500,000
Harris County, Texas Toll Road Senior Lien Revenue and Refunding Bonds,	
Series 2012C	229,695,000
Series 2012D	21,750,000
Harris County, Texas Toll Road Senior Lien Revenue Refunding Bonds,	
Series 2015B	161,575,000
Harris County, Texas Toll Road Senior Lien Revenue Refunding Bonds,	
Series 2016A	530,105,000
Harris County, Texas Toll Road Senior Lien Revenue and Refunding Bonds,	
Series 2018A	559,900,000
TOTAL	**$1,963,280,000**

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APPENDIX D-2

OUTSTANDING TOLL ROAD UNLIMITED TAX AND SUBORDINATE LIEN REVENUE BONDS

	Outstanding Principal Amount at December 31, 2017
Harris County, Texas Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 1997	**$26,005,000**
Harris County, Texas Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2007C	**250,090,000**
TOTAL	**$276,095,000**

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APPENDIX E

FORM OF CO-BOND COUNSEL OPINION

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Orrick, Herrington & Sutcliffe LLP
609 Main Street, 40th Floor
Houston, Texas 77002

Bratton & Associates
12 Greenway Plaza, Suite 1100
Houston, Texas 77046

February 28, 2018

Harris County, Texas
Toll Road Senior Lien Revenue and Refunding Bonds, Series 2018A

(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel to Harris County, Texas (the "County") in connection with the issuance of $559,900,000 aggregate principal amount of bonds designated as "Harris County, Texas, Toll Road Senior Lien Revenue and Refunding Bonds, Series 2018A" (the "Bonds"). The Bonds are authorized by an order adopted by the Commissioners Court of the County on January 9, 2018 (the "Order"), a Third Amended and Restated Toll Road Senior Lien Revenue Bond Trust Indenture dated as of December 1, 2015, as supplemented and amended to date, and a Fortieth Supplemental Indenture dated as of February 1, 2018, providing for the issuance of the Bonds (together, the "Indenture"), between the County and The Bank of New York Mellon Trust Company, National Association, as Trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order or the Indenture.

In such connection, we have reviewed the Order, the Indenture, the tax certificate of the County dated the date hereof (the "Tax Certificate"), certificates of the County and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order, the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Order, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding obligations of the County.

2. The Bonds are payable, both as to principal and interest, from a pledge of and lien on the Trust Estate.

3. The Order has been duly adopted and the Indenture has been duly authorized, executed and delivered by the County, each is in full force and effect and constitutes a legal, valid and binding obligation of the County. The Indenture creates a valid pledge of and lien on the Trust Estate, subject only to the provisions of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth therein.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

APPENDIX F

CONTINUING DISCLOSURE SCHEDULES

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APPENDIX G

THE DEPOSITORY TRUST COMPANY AND BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and its book entry system has been obtained from DTC. The County believes such information to be reliable, but the County takes no responsibility for the accuracy or completeness thereof.

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 Standard & Poor's 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 and www.dtc.org.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other 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 will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest 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 County or the Paying Agent, on payable dates 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 nor its nominee, the County or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Paying Agent, 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 County and the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) under the circumstances set forth in the Orders. In that event, Bond certificates will be printed and delivered.

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

APPENDIX H

DESCRIPTION OF RESERVE FUND SURETY POLICY

Existing National Public Finance Guarantee Corporation Surety Policy—Toll Road Senior Lien Revenue Bonds

THE FOLLOWING INFORMATION HAS BEEN OBTAINED DIRECTLY FROM NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION ON JANUARY 15, 2018. NONE OF THE COUNTY, THE FINANCIAL ADVISOR TO THE COUNTY OR THE UNDERWRITERS MAKE ANY REPRESENTATIONS AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

The following information has been furnished by National for use in this Official Statement. National does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Reserve Fund Surety Insurance Policy (as defined below) and National set forth in this Appendix H. Additionally, National makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Reserve Fund Surety Policy

On April 1, 1998, Financial Guaranty Insurance Company ("FGIC") issued its surety insurance policy (the "Reserve Fund Surety Insurance Policy") which Policy remains in full force and effect.

On October 22, 2008, MBIA Insurance Corporation ("MBIA Corp.") and FGIC entered into a Reinsurance Agreement (the "FGIC Reinsurance Agreement"), effective September 30, 2008, and a Trust Agreement (the "FGIC Trust Agreement"), dated October 22, 2008, by and among FGIC, MBIA Corp. and the Bank of New York Mellon, as trustee, pursuant to which MBIA Corp. reinsured a portion of the U.S. public finance portfolio of FGIC (the "FGIC Covered Policies"). The Reserve Fund Surety Insurance Policy is one of the FGIC Covered Policies which was reinsured by MBIA Corp.

On February 18, 2009, MBIA Inc., the parent holding company of MBIA Corp., announced that it had established a new U.S. public finance financial guarantee insurance company within the MBIA Inc. group by restructuring MBIA Corp. and its subsidiaries through a series of transactions (the "Transactions"). As part of the Transactions, (i) the stock of MBIA Insurance Corp. of Illinois (which, effective March 19, 2009 was renamed National Public Finance Guarantee Corporation), an existing public finance financial guarantee insurance subsidiary of MBIA Corp., was transferred to a newly established intermediate holding company, National Public Finance Guarantee Holdings, Inc. ("National Holdings"), also a subsidiary of MBIA Inc.; and (ii) effective January 1, 2009, MBIA Corp. ceded to National all of MBIA Corp.'s U.S. public finance business, including the MBIA Reserve Fund Surety Policy, pursuant to that certain Amended and Restated Quota Share Reinsurance Agreement between MBIA Corp. and National (the "Reinsurance Agreement"). Pursuant to the Reinsurance Agreement, MBIA Corp. paid to National approximately $2.89 billion (which equals the net unearned premium, loss and loss adjustment expense reserves, net of the 22 percent ceding commission that MBIA Corp. received) as a premium to reinsure the policies covered under the Reinsurance Agreement (each a "Covered Policy"). The MBIA Reserve Fund Surety Policy is a Covered Policy. National was further capitalized with $2.09 billion from funds distributed by MBIA Corp. to MBIA Inc. as a dividend and return of capital, which was ultimately contributed to National through National Holdings. The Reinsurance Agreement provides a cut-through provision enabling the holder of a Covered Policy to make a claim for payment directly against National. In addition, National has also issued second-to-pay policies for the benefit of the holder of a Covered Policy, granting such policyholder the right to make a claim directly against National if MBIA Corp. did not honor such claim.

National Public Finance Guarantee Corporation ("National")

National is an operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against National. National is domiciled in the State of New York and is licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Territory of Guam and the U.S. Virgin Islands.

The principal executive offices of National are located at 1 Manhattanville Road, Suite 301, Purchase, New York 10577 and the main telephone number at that address is (914) 765-3333.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, National is also subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for National, limits the classes and concentrations of investments that are made by National and requires the approval of policy rates and forms that are employed by National. State law also regulates the amount of both the aggregate and individual risks that may be insured by National, the payment of dividends by National, changes in control with respect to National and transactions among National and its affiliates.

The Reserve Fund Surety Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of National

National's current financial strength ratings from the major rating agencies are summarized below:

Agency	Rating	Outlook
S&P	A	Stable
Moody's	A3	Negative
KBRA	AA+	Stable

Each rating of National should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of National and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. National does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Recent Litigation

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. may be involved in various legal proceedings that directly or indirectly impact National. For additional information concerning material litigation involving National and MBIA Inc., see MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 and Quarterly Report on Form 10-Q for the quarter ending September 30, 2017, which is hereby incorporated by reference into this appendix and shall be deemed to be a part hereof, as well as the information posted on MBIA Inc.'s web site at http://www.mbia.com.

MBIA Inc. and National are defending against/pursuing the aforementioned actions and expect ultimately to prevail on the merits. There is no assurance, however, that they will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on National's ability to implement its strategy and on its business, results of operations and financial condition.

Other than as described above and referenced herein, there are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.

National Financial Information

Based upon statutory financials, as of September 30, 2017, National had total net admitted assets of $4.2 billion (unaudited), total liabilities of $1.6 billion (unaudited), and total surplus of $2.6 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning National, see the financial statements of MBIA Inc. and its subsidiaries as of December 31, 2016, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 2016 and MBIA's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, which are hereby incorporated by reference into this appendix and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

The following documents filed by MBIA Inc. with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016;

MBIA Inc.'s Quarterly Report on Form 10-Q for the quarter ending September 30, 2017.

Any documents, including any financial statements of National that are included therein or attached as exhibits thereto, or any Form 8-K, filed by MBIA Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of MBIA Inc.'s most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds being remarketed hereby shall be deemed to be incorporated by reference in this appendix and to be a part hereof from the respective dates of filing such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this appendix, shall be deemed to be modified or superseded for purposes of this appendix to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this appendix.

MBIA Inc, files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of MBIA Inc.'s SEC filings (MBIA's Quarterly Report on Form 10-Q for the quarter ending September 30, 2017 and MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at MBIA Inc.'s web site at http://www.mbia.com; and (iv) at no cost, upon request to National at its principal executive offices.

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APPENDIX I

UNDERWRITER DISTRIBUTION AGREEMENTS

Jefferies LLC ("Jefferies"), an Underwriter of the Bonds, has entered into an agreement with E*TRADE Securities LLC ("E*TRADE") for the retail distribution of municipal securities. Pursuant to the agreement, Jefferies will sell Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

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COMMISSIONERS COURT OF HARRIS COUNTY

County Judge	Ed Emmett
Commissioner, Precinct 1	Rodney Ellis
Commissioner, Precinct 2	Jack Morman
Commissioner, Precinct 3	Steve Radack
Commissioner, Precinct 4	R. Jack Cagle

CERTAIN OTHER ELECTED OFFICIALS

County Assessor and Collector of Taxes	Ann Harris Bennett
County Attorney	Vince Ryan
County Clerk	Stan Stanart
County Treasurer	Orlando Sanchez
District Clerk	Chris Daniel

CERTAIN APPOINTED OFFICIALS AND EMPLOYEES

County Budget Officer	William J. Jackson
County Auditor	Michael Post, CPA, MBA
Director of Financial Management	Amy Perez

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