

I N D E X

PORT COMMISSION  
OF THE  
PORT OF HOUSTON AUTHORITY  
OF THE PORTS OF HARRIS COUNTY, TEXAS

November 14, 2017

Minute No.

Event/Action

**General**

Chairman Longoria convened the meeting of the Port Commission

2017-1114-01 Approve the proposed Fiscal Year 2018 Operating and Capital Budget

2017-1114-02 Staff briefing regarding the proposed Five Year Operating and Capital Plan

2017-1114-03 Approve increases in Port Authority tariff charges including dockage, wharfage, throughput charges, container storage rates, container crane and private crane rental rates, water hookup rates, freight handling rates, and miscellaneous other tariff charges at amounts equal to the change in the Consumer Price Index average for a 12-month period ending October 2017 as published by the U.S. Bureau of Labor Statistics on or about November 15, 2017, such increased charges to be included and published in Port Authority Tariff Nos. 8, 14, and 15 effective January 1, 2018

**Adjourn Meeting**

**Port of Houston Authority  
Port Commission Public Meeting**

**Houston, Texas  
November 14, 2017**

A public meeting of the Port Commission of the Port of Houston Authority of Harris County, Texas was convened on November 14, 2017 at 10:00 a.m., at the Port of Houston Authority Executive Offices, Fourth Floor Boardroom, at 111 East Loop North, Houston, Texas 77029. The following Commissioners, staff, and counsel were present:

Janiece Longoria, Chairman  
Theldon R. Branch, III, Commissioner  
Dean E. Corgey, Commissioner  
Stephen H. DonCarlos, Commissioner  
Clyde E. Fitzgerald, Commissioner  
Roy D. Mease, Commissioner  
Roger Guenther, Executive Director  
Erik Eriksson, Chief Legal Officer  
Tom Heidt, Chief Operating Officer  
Tim Finley, Chief Financial Officer  
J. Kent Friedman, Orrick, Herrington & Sutcliffe LLP

Chairman Longoria convened the meeting of the Port Commission and welcomed everyone.

(2017-1114-01) Chairman Longoria called for Item D1 on the agenda, "Consideration and possible action regarding the proposed Fiscal Year 2018 Operating and Capital Budget."

Mr. Guenther called on Mr. Finley to give a presentation on the proposed 2018 Operating and Capital Budget.

Mr. Finley greeted all those present and referenced the meeting materials distributed to the Port Commission and shown on the screen. He advised there were no tax revenues included in the operating budget, since those revenues are used exclusively for debt service. Mr. Finley added that staff was also asking for approval of the proposed \$275 million capital plan for 2018, and that any expenditure over \$50,000 would continue to be bought to the Port Commission for its approval. He added that references to "2017 Budget Reforecast" refer to an update to the 2017 budget that was prepared by staff as of July.

Mr. Finley stated that 2018 revenue growth is projected to be just under 9% over the 2017 mid-year forecast, fueled by containers in anticipation of new resin production.

Total expenses for 2018 are up, driven largely by the increase in container volume activity and related labor costs, and investments in assets and terminal infrastructure, with 80% of expenses driven by operations.

Net Operating Income is projected to increase by 14% to \$88 million, with the margin on revenue growth funding Port Authority operating and strategic objectives. It is anticipated that headcount growth will include 21 new positions for 2018: 18 in the Operations Division (almost entirely in maintenance), and three general and administrative (“G&A”) positions.

Cash flow is projected to increase by 6% in 2018 to \$158 million. Mr. Finley noted that the \$275 million capital plan focuses largely on container terminal development, whether continued build out at Bayport Terminal or reinvestment in Barbours Cut Terminal. He added that liquidity projections show sufficient resources to fund capital plans through 2019.

Total revenue forecast of \$345 million for 2017 compares with an expected \$374 million for 2018, driven by container revenue expectations, largely growth in export loads. Revenue increases are also expected through Channel Development, due to Dredged Material Agreement fees, as private terminals bring materials to Port Authority placement areas, and the launch of the submerged lands leasing program in 2018. Combined with a decrease in non-operating revenues, primarily driven by reduced interest income and a decline in grant funds, an overall increase of \$29 million in total revenue is expected in 2018.

Mr. Finley advised that expenses are forecast at \$272 million in 2017 compared with an expected \$284 million for 2018. Expenses are driven by operating and infrastructure related changes including International Longshoremen’s Association (ILA) labor costs tied to the increase in container volumes, terminal asset maintenance largely at Barbours Cut Terminal, depreciation, and the Port Authority’s facility inspection and condition asset program (“FICAP”), which will evaluate marine assets for future development. Additionally, increases in general and administrative expenses include fees and services for capacity studies and master planning, cyber security, People Division activities, and freight mobility spending.

Headcount projections include an additional 21 positions. Mr. Finley noted revenue of \$466,000 per employee in 2016 growing to \$550,000 of revenue per employee in 2018.

Mr. Finley advised the Port Commission that funding of the 2018 Strategic Plan objectives would be \$10.2 million and include the following projects:

- People and Organization: cascaded leadership development program; Port Houston Academy; and process improvement initiatives.

- Growth: container and general cargo capacity studies; trade lane trends analysis; and Dredged Material Placement Area (“DMPA”) long range demand planning.
- Infrastructure: marine structures condition assessments; Enterprise Asset Management software; and various freight mobility studies.
- Stewardship: cyber security program; environmental leadership sustainability study; and stakeholder engagement and communications.

Mr. Finley reviewed the overall income statement, pointing out that net operating income is expected to be just under \$144 million in 2018 which is a 39% gross margin rate, compared to 35% in 2017, demonstrating the efficiency of operations as the Port Authority continues to best utilize its capital and assets while not growing expenses more quickly. He pointed out that 18% of revenue was budgeted for G&A expenses in 2017, with a 15% target for 2018.

Mr. Finley noted that in 2016 the Port Authority generated \$97.6 million of cash flow that was reinvested in the business, i.e. 34 cents of every dollar of revenue generated by the Port Authority. In 2018, \$157 million cash flow is expected; 43 cents per every dollar generated will be reinvested in the Port Authority.

Mr. Finley gave a brief overview of the 2018 Capital Improvement Program and advised the Port Commission that of the \$275 million proposed total, \$79 million was designated for recapitalization projects (largely at Barbours Cut Terminal), \$179 million for strategic projects which are aligned with growth and development of existing Port Authority assets (Bayport Container Yard 7, new cranes at Barbours Cut Terminal, and commercial development of property at Bayport), \$14 million for channel projects (berth and dredge maintenance), and the remaining \$3 million for DMPA capacity-related work. He added that this does not include all berth maintenance dredging that may be required as a result of siltation from Hurricane Harvey. As that comes in, the Port Authority will apply for Federal Emergency Management Agency (FEMA) reimbursement and will bring that to Port Commission for approval as those projects develop.

Regarding liquidity projections, Mr. Finley advised the Port Commission \$56 million is expected to be available at the end of 2019 for future projects.

Chairman Longoria called for a motion to approve the proposed Fiscal Year 2018 Operating and Capital Budget, moved by Commissioner Branch, seconded by Commissioner Corgiey. Chairman Longoria, and Commissioners Branch, Corgiey, DonCarlos, Fitzgerald, and Mease voted Aye. Nays None. THE MOTION PASSED.

(2017-1114-02) Chairman Longoria called for Item D2 on the agenda, “Staff briefing, discussion, and possible action regarding the proposed Five Year Operating and Capital Plan.”

Mr. Finley presented a brief overview, for informational purposes only, of the Five Year Operating and Capital Plan. He pointed out an expected annual compounded growth rate of between 3 to 5% for the next five years, with the gross margin of operating income at 38 to 39%. G&A expenses are targeting minimal growth as the Port Authority continues to operate efficiently. Cash flow is expected to grow to \$200 million by 2021, assuming business and markets hold consistent over time.

Mr. Finley noted that at some point in 2020 some sort of interim or incremental financing would need to be made available. He advised that the note purchase program (line of credit) secured by Ramon Yi, Senior Director, Treasury, may take the Port Authority through 2020. Mr. Finley added that this prediction does not include any deepening and widening projects that may come about as a result of the mega study. Chairman Longoria asked when the mega study was expected to be completed; Mr. Guenther responded that the authorization and Army Corps of Engineers Chief of Engineer’s report was expected in 2019, to be followed by the federal funding process; the Port Authority’s match is not included in the plan being presented.

Commissioner Fitzgerald inquired about the \$300 million line of credit. Mr. Finley explained that it expires in 2018, and he expected during the first quarter Mr. Yi would present a proposal to renew or revise the line of credit. Discussion ensued regarding the potential funding opportunities from the federal government and matching funds required from the Port Authority, and the timeline of the authorization and funding process. Mr. Finley reminded the Port Commission that no action needed to be taken on this item.

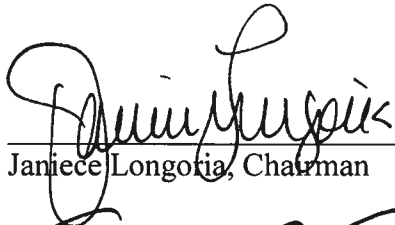
(2017-1114-03) Chairman Longoria called for Item D3 on the agenda, “Approve increases in Port Authority tariff charges including dockage, wharfage, throughput charges, container storage rates, container crane and private crane rental rates, water hook-up rates, freight handling rates, and miscellaneous other tariff charges at amounts equal to the change in the Consumer Price Index average for a 12 month period ending October 2017 as published by the U.S. Bureau of Labor Statistics on or about November 15, 2017, such increased charges to be included and published in Port Authority Tariff Nos. 8, 14, and 15 effective January 1, 2018.”

Mr. Finley asked the Port Commission for approval to raise the tariff equal to the increase in the Consumer Price Index (expected to be within 1.9% to 2.5%), to permit staff to communicate the increase to customers, but which would be effective January 1, 2018.

Chairman Longoria called for a motion to approve Item D3, moved by Commissioner Fitzgerald, seconded by Commissioner Branch. Chairman Longoria, and Commissioners Branch, Corgay, DonCarlos, Fitzgerald, and Mease voted Aye. Nays none. THE MOTION PASSED.

At 10:22 a.m., Chairman Longoria adjourned the Port Commission meeting.

The above is a correct copy of the Minutes of the November 14, 2017 meeting of the Port Commission of the Port of Houston Authority.



\_\_\_\_\_  
Janiece Longoria, Chairman



\_\_\_\_\_  
Erik A. Eriksson, Assistant Secretary

**D. EXECUTIVE**

---

<b>Subject</b>	<b>1. Consideration and possible action regarding the proposed Fiscal Year 2018 Operating and Capital Budget.</b>
Meeting	Nov 14, 2017 - SPECIAL PORT COMMISSION OF THE PORT OF HOUSTON AUTHORITY
Access	Public
Type	Action
Recommended Action	The Port Commission, at its meeting on November 14, 2017, consider and take possible action regarding the proposed Operating and Capital Budget for Fiscal Year 2018, and further authorize the Executive Director to do any and all things in his opinion reasonable or necessary to give effect to the foregoing.

**Category:**  
General

**Department:**  
Finance

**Staff Contact:**  
Tim Finley / Alex Skinner-Klee

**Background:**  
The Special District Local Laws Code includes the following requirements:

Sec. 5007.223. BUDGET. The Port Commission shall annually adopt a budget for the authority in an open meeting.

Sec. 5007.224. ONE-YEAR CAPITAL PLAN.

(a) Appropriate staff shall develop a one-year capital plan, including associated financing that is integrated with the budget of the authority.

(b) The port commission shall adopt the one-year capital plan in an open meeting.

(c) The port commission shall establish and document a detailed process for the analysis and approval of a project proposed for inclusion in the one-year capital plan. A project may be included in the one-year capital plan only if it is approved in accordance with that process.

A proposed Operating Budget was developed to guide staff in the operation and management of Port Authority facilities and activities for Fiscal Year 2018. In addition, staff has followed its standard process for review and analysis of capital projects, and prepared a proposed 2018 Capital Budget to address the most urgent infrastructure needs in line with the Port Authority's strategic direction.

**Staff Evaluation/Justification:**

In accordance with its Strategic Planning Policy, the Port Authority has made available to the public by posting on its website the proposed Fiscal Year 2018 Operating and Capital Budget at least seventy-two hours prior to this meeting.

Staff recommends that the proposed Operating and Capital Budget be adopted for Fiscal Year 2018.

**D. EXECUTIVE**

---

**Subject**                    **2. Staff briefing, discussion, and possible action regarding the proposed Five Year Operating and Capital Plan.**

Meeting                    Nov 14, 2017 - SPECIAL PORT COMMISSION OF THE PORT OF HOUSTON AUTHORITY

Access                    Public

Type                    Action

Recommended Action Discussion, Information

**Category:**

General

**Department:**

Finance

**Staff Contact:**

Tim Finley / Alex Skinner-Klee

**Background:**

The Special District Local Laws Code includes the following requirements:

Sec. 5007.222. MID-RANGE PLANNING.

(a) Appropriate staff shall develop a mid-range plan consistent with the long-range plan. The mid-range plan must include:

- (1) a five-year financial forecast addressing the financial needs and financing options of the authority for the five-year period, with information about the relative cost of the options;
- (2) a five-year capital plan, including a preliminary analysis and prioritization of projects; and
- (3) other detailed action plans as the port commission or staff finds necessary to achieve the goals of the mid-range plan or long-range plan.

(b) The staff shall present the mid-range plan in an open meeting of the port commission. The port commission is not required to adopt a mid-range plan.

**Staff Evaluation/Justification:**

In accordance with its Strategic Planning Policy, the Port Authority has made available to the public by posting on its website the proposed Five Year Operating and Capital Plan at least seventy-two hours prior to this meeting.



**D. EXECUTIVE**

---

**Subject**                    **3. Approve increases in Port Authority tariff charges including dockage, wharfage, throughput charges, container storage rates, container crane and private crane rental rates, water hookup rates, freight handling rates, and miscellaneous other tariff charges at amounts equal to the change in the Consumer Price Index average for a 12-month period ending October 2017 as published by the U.S. Bureau of Labor Statistics on or about November 15, 2017, such increased charges to be included and published in Port Authority Tariff Nos. 8, 14, and 15 effective January 1, 2018.**

**Meeting**                    Nov 14, 2017 - SPECIAL PORT COMMISSION OF THE PORT OF HOUSTON AUTHORITY

**Access**                    Public

**Type**                      Action

**Recommended Action** The Port Commission, at its November 14, 2017 meeting, approve increases in Port Authority tariff charges including dockage, wharfage, throughput charges, container storage rates, container crane and private crane rental rates, water hookup rates, freight handling rates, and miscellaneous other tariff charges at amounts equal to the change in the Consumer Price Index average for a 12-month period ending October 2017 as published by the U.S. Bureau of Labor Statistics on or about November 15, 2017, such increased charges to be included and published in Port Authority Tariff Nos. 8, 14, and 15 effective January 1, 2018, and further authorize the Executive Director to do any and all things in his opinion reasonable or necessary to give effect to the foregoing.

**Category:**  
General

**Department:**  
Operations

**Staff Contact:**  
Jeff Davis

**Background:**  
Port Authority terminals must remain competitive to meet the increasing demands of the maritime trades.

Staff anticipates that the cost of operations, including third party expenses, will continue to increase in 2018 as illustrated by the change in the Consumer Price Index (CPI) for All Urban Consumers (CPI-U), U.S. city average, measured over the 12-month period ending October 2017. It is anticipated that the CPI when published on or about November 15, 2017 will reflect an increase of 2.0% to 2.5%.

**Staff Evaluation/Justification:**

In view of escalating costs and expense increases and recognizing the need to keep Port Authority terminals competitive and operating at compensatory levels to meet the ever increasing demands of the maritime trades, it is necessary to implement increases in certain tariff charges, including dockage, wharfage, throughput charges, container storage rates, container crane and private crane rental rates, water hookup rates, freight handling rates, and miscellaneous other rates. These increases should enable the Port Authority to maintain its facilities and services as a competitive port and continue to meet the needs of its customers. The average of the proposed rate increases based on the change in CPI would result in approximately an equivalent rate of increase in revenue for the Port Authority.

Staff proposes that these increases in tariff charges be included and published in Tariff Nos. 8, 14, and 15 effective January 1, 2018.