



PORT OF HOUSTON AUTHORITY

2014 BUDGET LETTER

The mission of the Port of Houston Authority (the “Authority”) includes promotion of sustainable trade and commerce, as well as delivery of economic prosperity to the local region, Texas, and the nation. Management considers transparency, fiscally sound business practices, and prudent evaluation of risks and opportunities to be necessary elements for achieving such goals. In addition, a greater focus on financial planning and liquidity management is considered essential, in light of significant infrastructure investments required in the next few years. Expense management and creating operating efficiencies also continue as major objectives for the Authority.

In accordance with statutory requirements specified in Chapter 5007, Special District Local Laws Code, the Port Commission, as the governing body of the Authority, approves an annual budget and a one-year capital plan. The Authority also develops a five-year forecast and a long-range plan addressing goals, strategies and priorities.

The Authority’s budget presentations and other materials are posted on its website (www.portofhouston.com) in compliance with the statutes, and in line with the Authority’s commitment to financial transparency and its participation in the Texas Comptroller Leadership Circle program.

Operating Budget

A proposed 2014 operating and capital budget was developed to guide staff in the operation and management of Authority facilities and activities for Fiscal Year 2014, and presented to the Port Commission for discussion at a budget workshop on November 11, 2013. Based on questions and comments from the governing body, the proposed budget was revised and presented the following month. The 2014 operating and capital budget was approved by the Port Commission in open meeting on December 10, 2013.

From a sustainability perspective, the Authority's operating revenues, derived primarily from tariffs related to its vessel and cargo activities, dredge material agreements and lease revenues, have generally been sufficient to cover its operating and maintenance costs. The Authority expects to generate annual cash flows of \$90-110 million per annum over the next several years. Such excess cash is reinvested in the Authority's capital infrastructure.

In order to make the budget numbers understandable to the general public, the budget presentations posted on the Authority's website include additional narrative on cargo volume assumptions, detail of major changes in revenues and expenses (e.g., increases in tariff rates, depreciation, and equipment and terminal maintenance, etc.), as well as information on the Authority's budgeted expenditures for promotion and development in compliance with State statutes.

Shown below are highlights of the 2014 operating budget, compared to 2013 (in millions):

	<u>2013 Budget</u>	<u>2014 Budget</u>
Operating Revenues	\$ 230.5	\$ 249.1
Non-operating Revenues*	<u>21.4</u>	<u>6.8</u>
Total Revenues	\$ 251.9	\$ 255.9
Total Expenses	<u>216.4</u>	<u>219.5</u>
Net Income	<u>\$ 35.5</u>	<u>\$ 36.4</u>
Cash Flow	\$ 96.0	\$ 95.5

* Consists primarily of federal grants, insurance claims, and interest income.

For 2014, the Authority budgeted total operating revenues of \$249.1 million. This represents an 8% increase over the 2013 budget of \$230.5 million, reflecting anticipated growth of import and export loads and a 3% general tariff increase effective January 1, 2014. Total expenses (including operating, general and administrative expenses) are budgeted at \$219.5 million, a 4% increase versus the prior year. Excluding revenues and expenses related to property taxes (see the next section on "Tax Revenues and Debt Service"), the Authority projects net income of \$36.4 million for 2014, essentially flat compared to 2013.

Tax Revenues and Debt Service

It should be noted that the operating budget does not include tax revenues. As the Authority's ad valorem tax bonds were approved by Harris County voters at duly-called bond elections, the Authority works closely with the County on an annual basis to ensure that sufficient taxes are levied to cover the principal and interest debt service payments due on the Authority's outstanding bonds.

Net tax receipts, after payment of collection fees to the Harris County Tax Assessor-Collector, are deposited in a segregated account and the funds are used exclusively to meet such debt service requirements, which are approximately \$52.1 million for calendar year 2014. Information on the Authority's outstanding debt is posted on the Authority's website, including the official statements of bond issuances and details of annual debt service payments.

Capital Plan

During 2013, the Authority invested \$115 million in capital improvements, of which \$24 million was funded using proceeds of tax bonds issued in prior years. The balance was funded from the Authority's general fund and grant monies received from federal and other governmental programs. The proceeds from tax bonds issued in prior years have now been fully committed.

Infrastructure improvements, including deepening and widening of the Bayport and Barbours Cut channels, are being planned to help ensure that the Authority, which serves as local sponsor of the federal Houston Ship Channel, and over 150 private sector entities comprising the Port of Houston, are better prepared to accommodate the larger vessels that carriers are building for their shipping fleets, as well as the increased cargo volumes resulting from future demographic growth in the region. Replacing aging facilities with more modern equipment and terminals also supports the Authority's mandate to facilitate commerce, navigation and safe waterways.

The Authority's 2014 capital budget was approved by the Port Commission on December 10, 2013 for up to \$325 million for various improvements. Approximately \$283 million relates to continuing development at Bayport and modernization at Barbours Cut, including railroad and channel development projects. Another \$26 million will likely be used for concrete repair, wharf rehabilitation, and other projects at the general cargo and bulk terminals in the Turning Basin area. The balance of the 2014 capital budget covers a variety of projects, including building renovations, information technology, fire department, and port security.

While the capital plan may be approved as to maximum annual amount of capital expenditures, individual items exceeding \$50,000 (both operating expenditures and capital projects) will continue to be presented separately to the Port Commission for approval in accordance with statutory requirements.

Five Year Plan and Liquidity

The Authority has estimated that capital improvements of about \$1 billion are required every five to seven years, in order to accommodate industry growth and continue to meet its mission for job creation and economic development. As outlined in the Five Year Plan (posted on the website), despite strong operational and financial performance, the Authority is not be able to fund such capital projects entirely from internally-generated cash.

In the past, the Authority has relied on ad valorem tax bonds to help fund its capital infrastructure investments. The Authority has also considered other interim financing alternatives (e.g., bank lines of credit, note purchase agreements, etc.), to provide added liquidity in the next couple of years, before executing any long-term debt obligations.

Summary

The Authority has produced strong financial results in recent years. The budgeting and planning processes are designed to help the Port Commission and Authority staff, as stewards of the public's trust, make informed decisions that enhance sustainability. The economic impact of activities along the Houston Ship Channel is significant – \$178.5 billion and over 1 million jobs in Texas alone. It is incumbent upon all of us to ensure that this economic engine continues to produce jobs and economic development for the region, the State and the nation.

Questions relating to the Authority's budget and financial results may be directed to Ramon Yi, Managing Director, Finance and Administration, ryi@poha.com, or submitted as a public information request by following the instructions on the Authority's website (<http://www.portofhouston.com/financial-information-and-transparency/public-information-requests/>).