



## PORT OF HOUSTON AUTHORITY

### **2015 BUDGET LETTER**

Originally constituted in 1911, the Port of Houston Authority (the “Authority”) is a political subdivision of the State of Texas and operates as a navigation district under the Texas Constitution. The Authority serves as the local sponsor of the Houston Ship Channel, a federal waterway stretching 52 miles from the City of Houston to the Gulf of Mexico.

The Authority’s mission 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](http://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 2015 operating and capital budget was developed to guide staff in the operation and management of Authority facilities and activities for Fiscal Year 2015. It was presented to the Port Commission for discussion at a budget workshop on November 20, 2014, and approved on that date.

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 ranging from \$97 million to \$121 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 terminal maintenance costs and depreciation resulting from investments in equipment and capital assets, 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 2015 operating budget, compared to 2014 (in millions):

	<u>2014 Budget</u>	<u>2015 Budget</u>
Operating Revenues	\$ 249.1	\$ 263.6
Non-operating Revenues*	<u>6.8</u>	<u>3.5</u>
Total Revenues	\$ 255.9	\$ 267.1
Total Expenses	<u>219.5</u>	<u>229.9</u>
Net Income	<u>\$ 36.4</u>	<u>\$ 37.2</u>
Cash Flow	\$ 95.5	\$ 97.0

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

For 2015, the Authority budgeted total operating revenues of \$263.6 million. This represents a 6% increase over the 2014 budget of \$249.1 million, reflecting growth of import and export loads, and increases in bulk cargo and lease revenues. Total expenses (including operating, general and administrative expenses) are budgeted at \$229.9 million, an increase of 5% 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 \$37.2 million for 2015, essentially flat compared to the 2014 budget.

### **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 2015. 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**

In recent years, the local region and the State of Texas have experienced significant population growth and economic expansion, due to the business-friendly environment and the expansion of the petrochemical industry. Investments made by Harris County taxpayers in the Authority's facilities and areas along the Houston Ship Channel over the years also have contributed to economic growth, job creation and expansion of the county, region and state tax base.

In order to accommodate larger vessels and increased cargo demands in the next 10 to 20 years, the Authority must develop, expand and renew its facilities. Replacing aging infrastructure, such as the Barbours Cut Terminal built in 1977, with more modern equipment supports our legislative mandate to facilitate commerce, navigation and safe waterways. We estimate that \$1.2 billion in capital investments will be required during the next five years.

In July 2014, we commenced a dredging project in the Barbours Cut and Bayport channels, where we are increasing the operating depth by 5 feet and widening those channels to accommodate larger vessels. As the uncertain federal appropriation process was estimated to take at least 10 years, the Authority is funding this \$80 million dredging project in its entirety to ensure there will be no lost opportunity for cargo through our Port and for the benefit of our region.

During 2014, the Authority invested \$85 million in Land, Facilities and Equipment, including construction in progress. Major projects include Wharf 1 reconstruction at Barbours Cut, rehabilitation of Wharf 20 and reconstruction of High Level Road at the Turning Basin Terminal, and the purchase of rubber-tyred gantry (“RTG”) cranes for Barbours Cut and Bayport. These capital improvements were largely funded from the Authority’s general fund. Grant monies received from federal and other governmental programs, and proceeds from tax bonds issued in prior years, provided partial funding.

The Authority’s 2015 capital budget was approved by the Port Commission on November 20, 2014 for up to \$275 million for various infrastructure improvements (see the chart on Page 5). Approximately \$184 million will be allocated to our container terminals for continuing development of Bayport and modernization at Barbours Cut, and another \$35 million is geared towards improvements at the general cargo and bulk terminals in the Turning Basin area. The remaining 2015 capital budget funds will be used for railroad improvements, channel development, port security, building renovations and information technology.

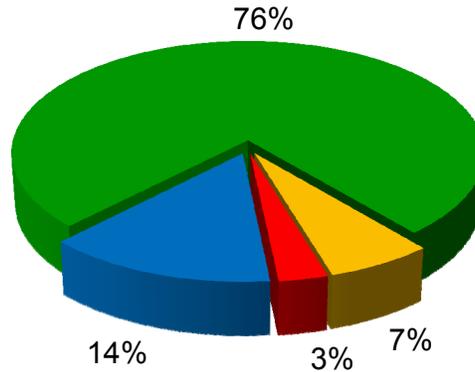
Although the capital plan may be approved as to maximum annual amount of capital expenditures, individual items exceeding \$50,000 (both operating expenditures and capital projects) will continue to be presented separately to the Port Commission for approval in accordance with statutory requirements.

### **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.

Assuming that the Authority undertakes all of these capital projects, the liquidity forecast on Page 6 below indicates that additional financing will be required in 2016-2017. In the past, the Authority has relied on ad valorem tax bonds to help fund its capital infrastructure investments, but it may also consider interim financing alternatives to provide added liquidity in the next couple of years. As the capital improvement plan is implemented, the Authority will balance the infrastructure needs against available cash and funding resources to provide the greatest return on investment to the taxpayers in the form of jobs and economic growth.

## 2015 Capital Improvement Program \$275 Million



- Recapitalization
- Strategic
- Channel Development
- Maintenance/Other

- Strategic projects = \$210 million
  - *These investments support new growth opportunities*
- Recapitalization projects = \$37 million
  - *Investments required to sustain high service levels and/or enhance productivity*
- Channel projects = \$18 million
  - *Dredging and development of Dredged Material Area Management sites*
- Remaining projects = \$10 million
  - *Includes required maintenance, equipment replacement, etc.*

**PORT OF HOUSTON AUTHORITY  
2015-2019 FIVE YEAR PLAN  
LIQUIDITY (\$'000's)**

	2014	2015	2016	2017	2018	2019
<b>Discretionary Funds Available, Beginning of Period</b>	<b>\$389,584</b>	<b>\$203,316</b>	<b>\$24,922</b>	<b>(\$12,614)</b>	<b>(\$109,947)</b>	<b>(\$361,847)</b>
Less:						
Contingency	(35,000)					
Debt Service and Other Reserves	(20,209)					
Outstanding Capital PO's and Commitments	(96,149)					
<b>Subtotal</b>	<b>\$238,226</b>	<b>\$203,316</b>	<b>\$24,922</b>	<b>(\$12,614)</b>	<b>(\$109,947)</b>	<b>(\$361,847)</b>
Sources:						
Operating Cash Flow	114,398	97,021	110,060	110,278	120,439	121,818
Additional Borrowings	-	-	-	-	-	-
<b>Available Resources</b>	<b>\$352,624</b>	<b>\$300,337</b>	<b>\$134,982</b>	<b>\$97,664</b>	<b>\$10,492</b>	<b>(\$240,029)</b>
Uses:						
New Capital Investment						
Bayport Terminal	(25,784)	(110,317)	(23,538)	(35,023)	(216,594)	(226)
Barbours Cut Terminal	(19,819)	(73,898)	(41,381)	(111,341)	(28,648)	(131,235)
Turning Basin Terminals	(8,129)	(35,268)	(43,700)	(7,510)	(7,000)	(11,613)
Bayport Railroad	(1,722)	(25,893)	(17,145)	(23,789)	(92,630)	-
Channel Development	(75,561)	(17,580)	(11,690)	(17,985)	(22,710)	(5,050)
HSSE	(3,342)	(3,825)	(975)	(1,478)	(450)	(490)
Real Estate	(513)	(2,690)	(1,749)	(1,639)	(1,784)	-
Information Technology	(3,676)	(1,400)	(1,150)	(250)	(150)	-
Other	(10,762)	(4,544)	(6,268)	(8,596)	(2,372)	(3,260)
<b>Subtotal - New Capital Investment</b>	<b>(149,307)</b>	<b>(275,415)</b>	<b>(147,595)</b>	<b>(207,612)</b>	<b>(372,339)</b>	<b>(151,873)</b>
<b>Net Uses</b>	<b>(149,307)</b>	<b>(275,415)</b>	<b>(147,595)</b>	<b>(207,612)</b>	<b>(372,339)</b>	<b>(151,873)</b>
<b>Discretionary Funds Available, End of Period</b>	<b>\$203,316</b>	<b>\$24,922</b>	<b>(\$12,614)</b>	<b>(\$109,947)</b>	<b>(\$361,847)</b>	<b>(\$391,902)</b>

**Notes:**

1. Capital expenditures as of 10/28/2014.
2. Negative ending balances indicate additional financing required.

**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 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 stakeholders 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](mailto: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/>).*