

Draft 11/15/2021

2022 Operating & Capital Budget Budget Presentation

Port of Houston Authority
November 18, 2021





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Foreword

- This proposed 2022 operating budget and capital plan has been developed to guide staff in the operation and management of Port Authority (“PHA”) facilities and activities for Fiscal Year 2022. It is being presented to the Port Commission on November 18, 2021.
- Note that the operating budget does not include Harris County property tax receipts, which are used exclusively for debt service on the Port Authority’s outstanding general obligation *ad valorem* tax bonds.
- While the capital plan may be approved as to maximum annual amount of capital expenditures, individual operating expense and capital projects exceeding \$50,000 will continue to be presented separately to the Port Commission for approval in accordance with statutory requirements.
- For purposes of this presentation, 2022 Budget comparisons are made to the 2021 Reforecast, which is an update to the 2021 Budget prepared by staff as of July 2021.

2022 Budget Presentation

Content



- Key assumptions and narrative overview
- Income Statement – summary & full view
- Cargo projections
- Revenue & expense analysis
- Headcount
- Capital & Liquidity

Note that totals on the following slides may be slightly off due to rounding differences.

Executive Summary – 2022 Operating & Capital Budget

Key assumptions and narrative



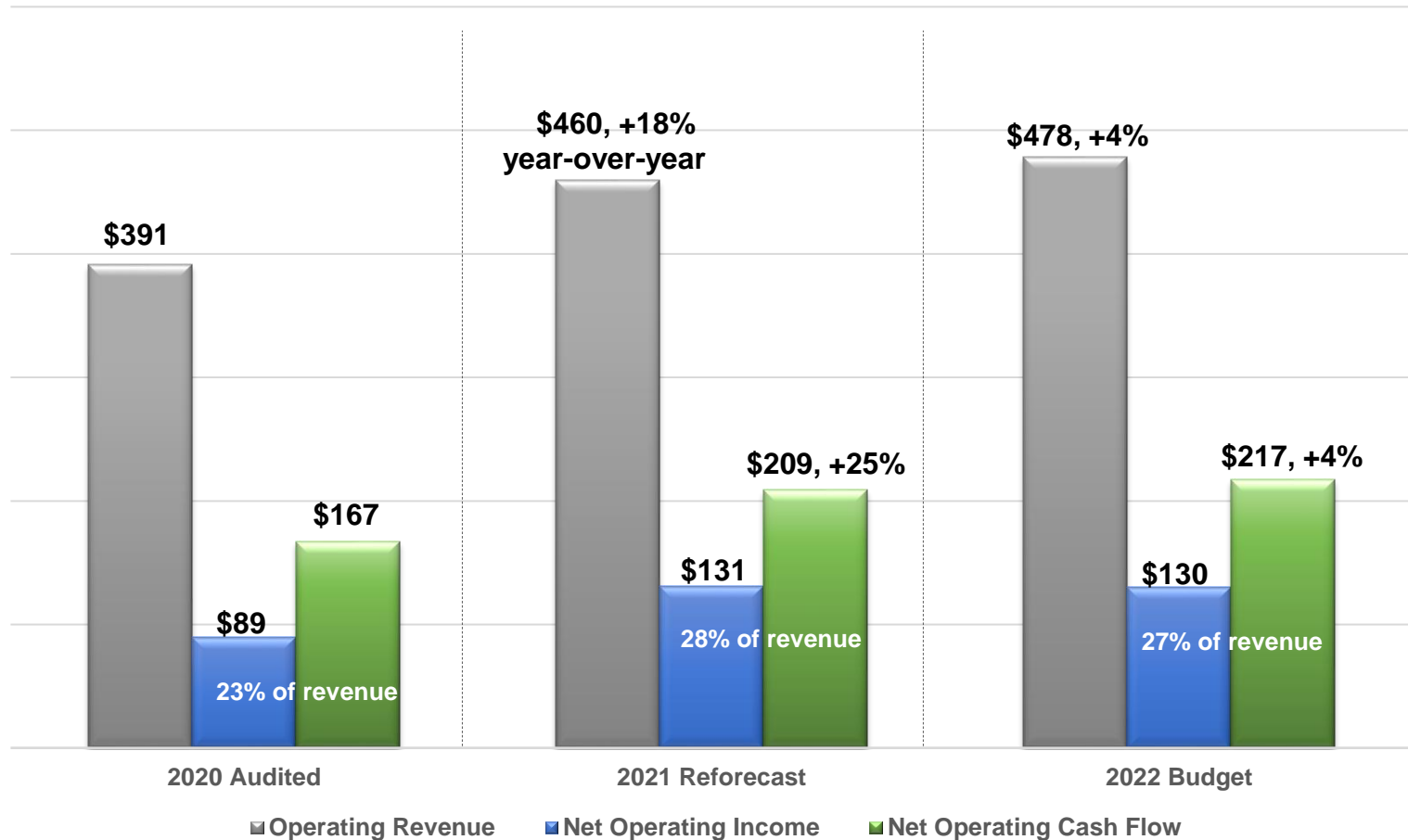
- Container terminal unit growth 9% over 2021 projected
 - Inbound loaded units grow 5%; export loads expand 2%; overall empty boxes grow 35%
 - Import box dwell time reduces, pushing down Storage revenues compared to 2021
- General cargos anticipated to grow double-digits
 - Steel increases 14%; other general cargos “up” 19%
- Proposed CPI adjustment is factored into projected revenues - +5.4% on container tariff items; +3% General cargo tariff (*Port Commission agenda item*)
- Salaries and benefits reflect ‘new’ headcount; ongoing merit program; updated market analysis on salary structures; and continuation of the Incentive program
 - New headcount request for 22 plus 51 existing approved/open requisitions
- \$327 million awards projected for the Operating Capital Plan to be assessed project-by-project based on business case; \$460 million in awards will be made for the Houston Ship Channel Expansion Project (“Project 11”)
- Volume projections support liquidity necessary to fund the Operating Capital Plan in 2022 while providing debt service on bonds issued to cover a portion of PHA’s commitment for Project 11

Projecting solid operating and financial performance

Income Statement summary, \$ in millions



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A stable revenue growth plan into 2022, projecting consistent operating profitability

Projecting solid operating and financial performance

Income Statement full view, \$ in thousands



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	Audited 2020	Budget 2021	2021 Actual Sep YTD	Reforecast 2021	Budget 2022
Operating Revenue	\$391,284	\$398,187	\$348,273	\$459,860	\$478,391
Operating Expense	252,546	280,736	202,251	273,357	289,255
Gross Margin	138,738	117,451	146,023	186,504	189,136
% of revenue	35.5%	29.5%	41.9%	40.6%	39.5%
General & Administrative Expense	49,480	57,670	41,184	55,721	58,681
% of revenue	13%	14%	12%	12%	12%
Net Operating Income	89,259	59,781	104,839	130,783	130,455
% of revenue	23%	15%	30%	28%	27%
Net Operating Cash Flow	166,713	145,838	163,494	208,729	217,242
Interest expense	-	-	-	-	(15,548)
Other Nonoperating income, net	15,037	6,951	1,060	8,206	10,888
Net Income	\$104,296	\$66,731	\$105,899	\$138,989	\$125,795
% of revenue	27%	17%	30%	30%	26%

Note: full Liquidity (Cash) projections for 2022 are provided on page 1-15

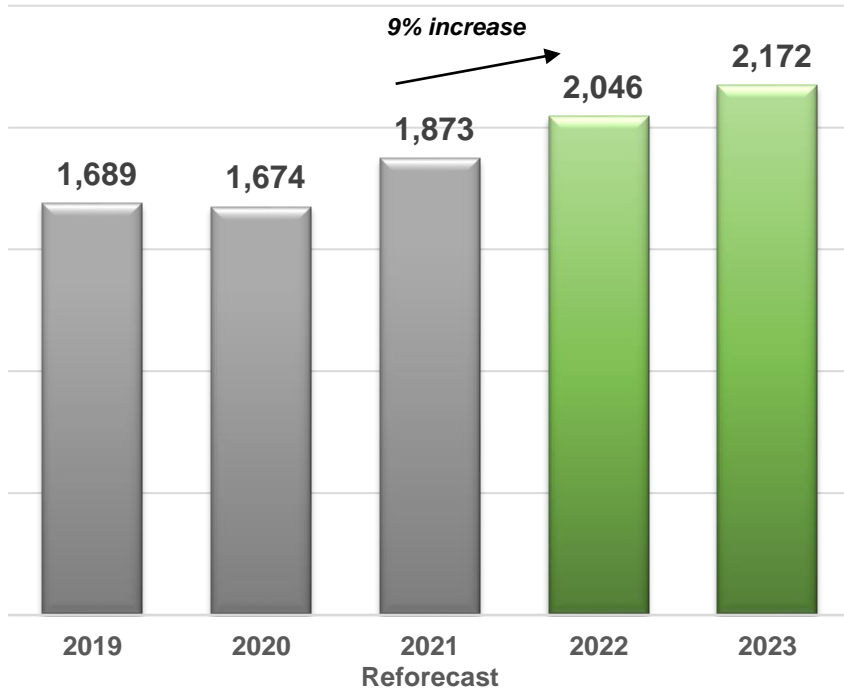
Container growth; Steel showing recovery

Container Terminal units, Steel tonnage (000s)



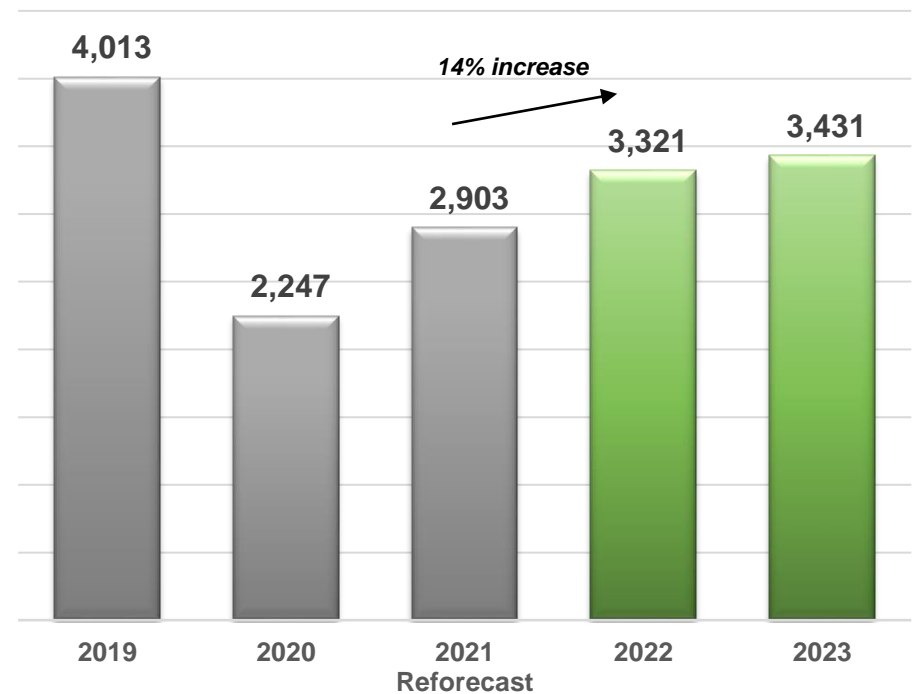
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Total Containers



Export loads up 2% as resin production returns to normal levels; Import loads up 5%. Empty unit exports up 35% as record levels of import boxes exit.

Total Steel



Drilling activity has continued to increase this year with demand expected to continue strong into 2022

(Source: AISI, Baker Hughes North America Rig Count, Drewry Multipurpose Shipping)

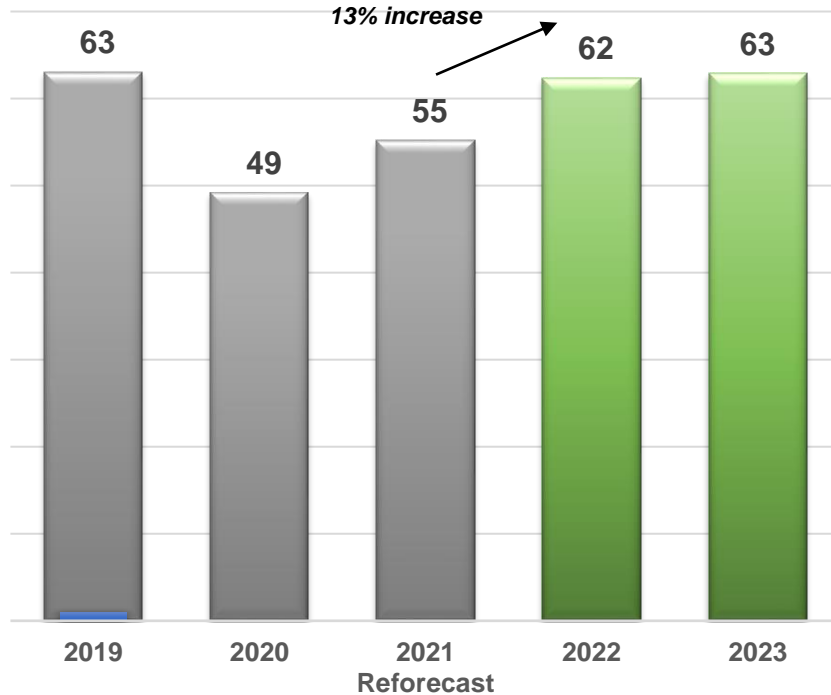
Autos and Other General Cargos

Auto Units, cargo tonnage (000s)



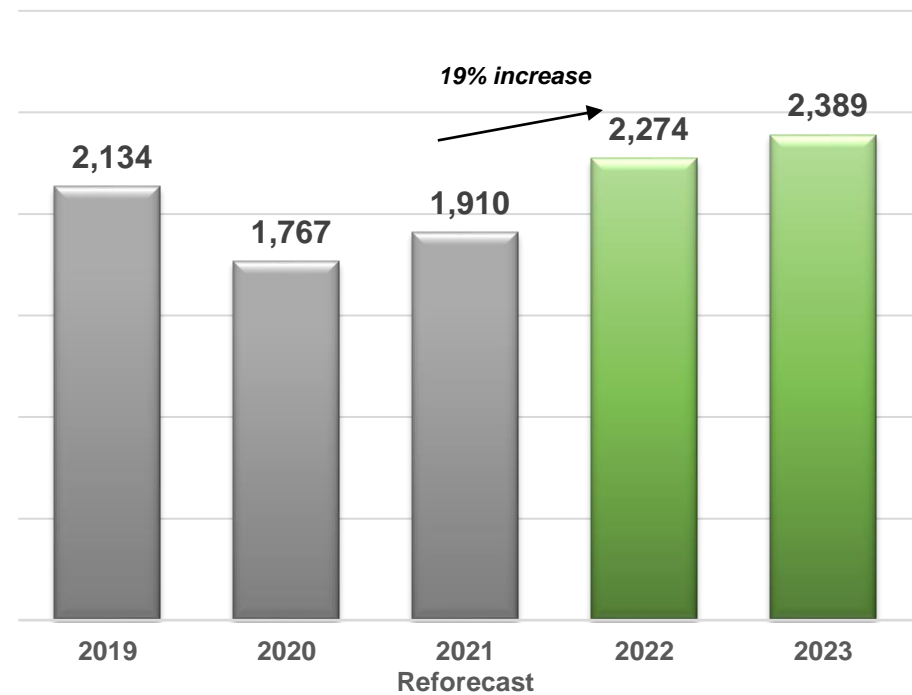
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Total Autos



Bayport Auto Terminal and Turning Basin autos projecting a return to 2019 levels

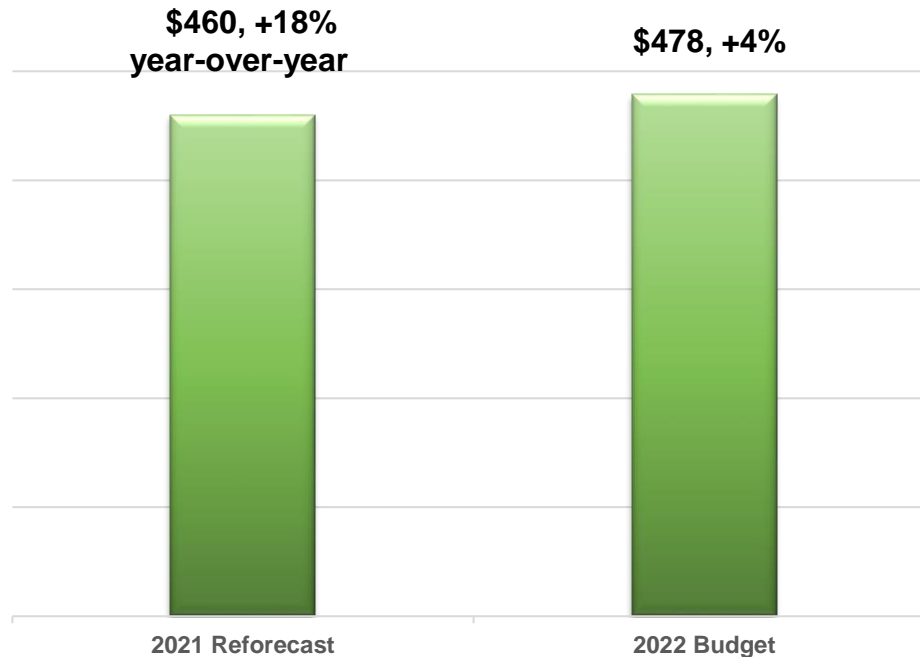
Other General Cargos



Other cargos (cement, project cargo, grains, etc.) showing strong growth into next year

2022 Operating Revenue analysis, key changes from 2021

\$ millions



2021 Reforecast – Operating Revenue \$460

Change

- Increase in Container revenue driven by volume growth, softened by anticipated decline in Storage 16
- Increase in Turning Basin from cargo growth and lease valuations 2

Subtotal	18
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2022 Budget – Operating Revenue	\$478
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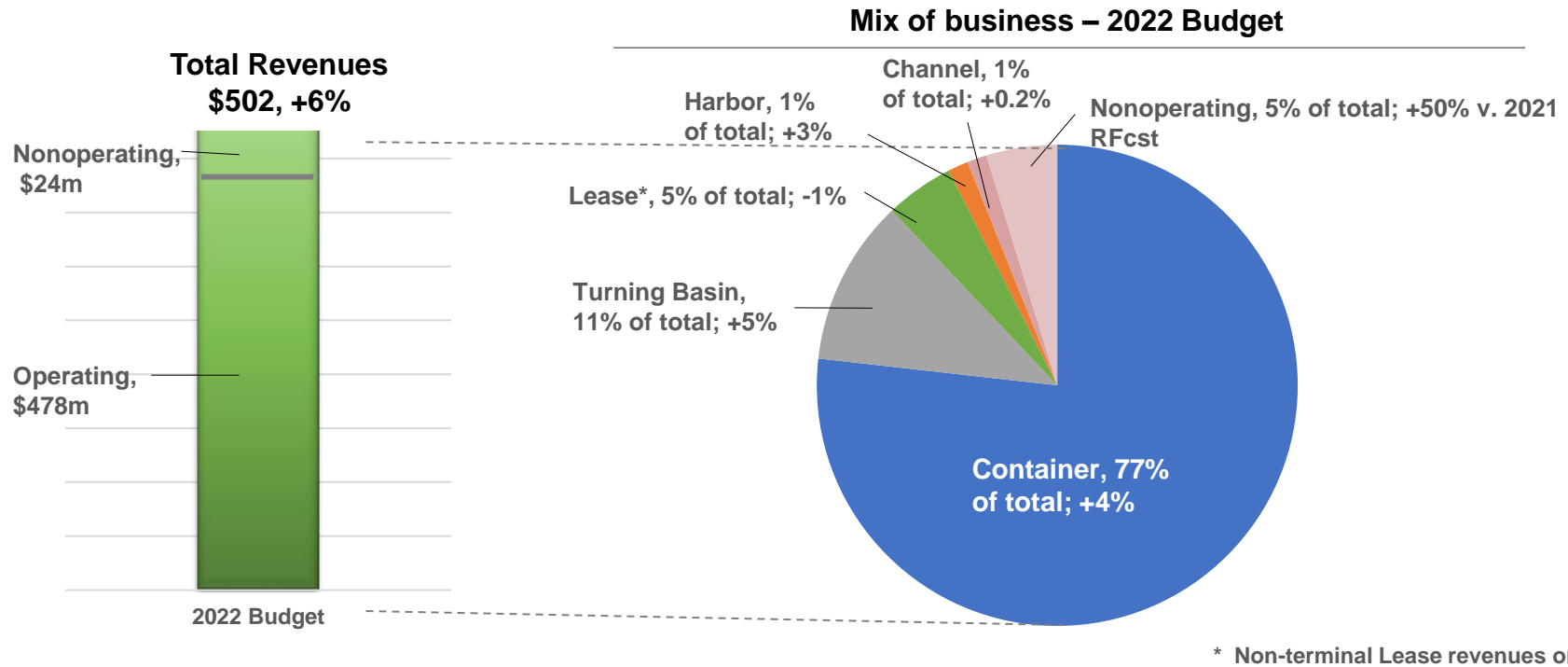
Revenue growth driven by Container Terminals

Total Revenues: Operating + Nonoperating (Grants, Interest income, other)

\$ millions



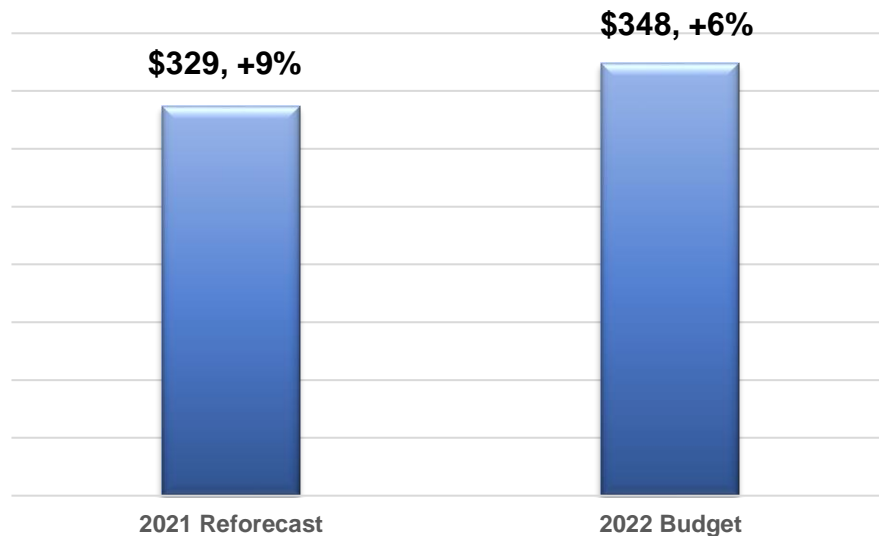
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- Container Terminals revenue growth largely on a 4% increase in Loaded units
- Turning Basin Terminals revenue growth led by expected cargo tonnage increase (Steel 14%, other general cargos) combined with Lease valuations
- Nonoperating up 50% primarily from grant funding associated with Bayport Wharf 6 (PIDP), Port Road (TxDOT Rider 45) and Barbours Cut (INFRA)

2022 Expense analysis, key changes from 2021

\$ millions



2021 Reforecast – Operating and G&A Expense **\$329**

Change

Changes in Operating and infrastructure-related:

• Depreciation & amortization	10
• PHA and ILA salaries and benefits (volume, new/replacement headcount, merit and market adjustments)	8
• Machinery and Equipment (STS Crane relocation in 2021)	(2)

Changes in General and administrative:

• Promotion & development-related (Parks, Business Equity, Trade Development)	2
• Salaries and benefits (new/replacement headcount, merit and market adjustments)	1
• Fees & Services related to Cybersecurity and Disaster Recovery Data Center	1
• Allocation to CIP	(1)

Subtotal	19
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2022 Budget – Operating and G&A Expense	\$348
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Expenses driven by volume growth and other initiatives

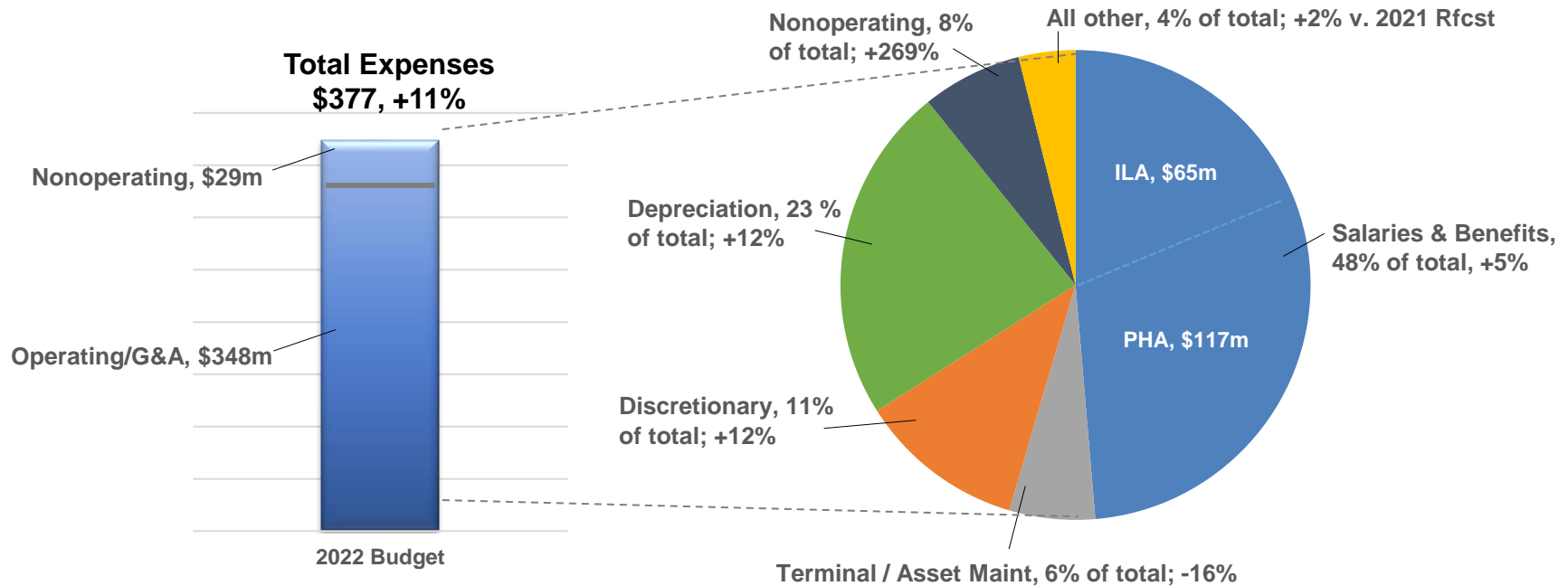
Total Expenses: All Operating + Nonoperating (Contributions, Interest expense, other)

\$ millions



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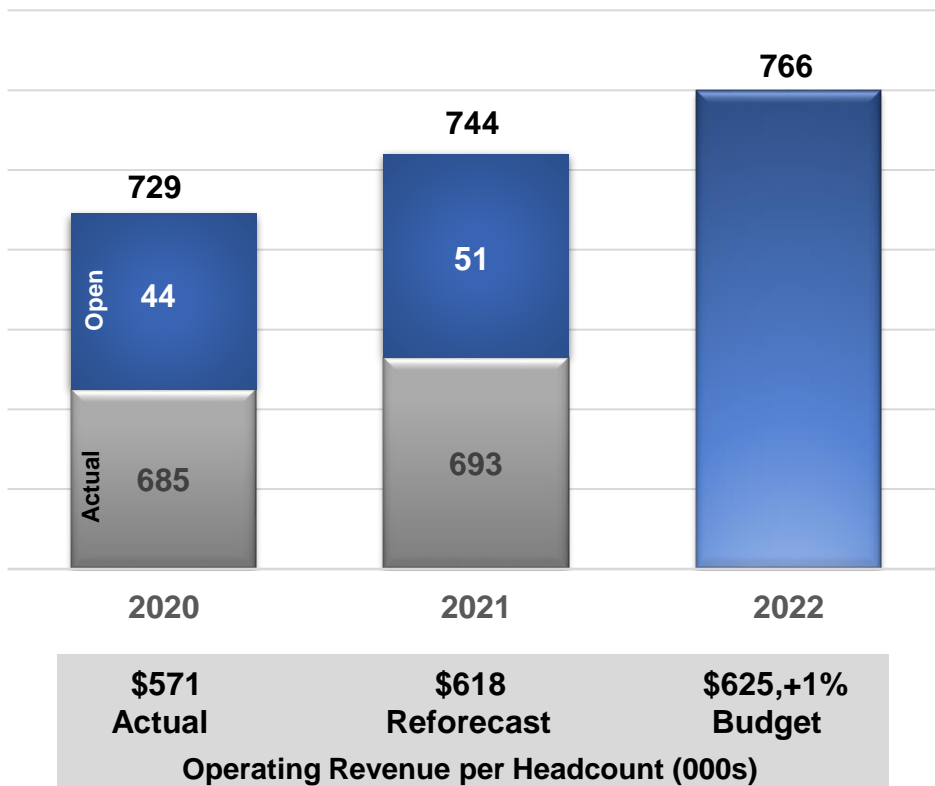
Mix of expense – 2022 Budget



- Depreciation expense reflects capacity additions, recapitalization and maintenance dredge
- Salaries & Benefits, including ILA, growing to support capacity additions and initiatives
- Discretionary includes increases for drainage/dust control for East Industrial Park, P&D expenses for Parks and resumption of Employee training, travel, seminars, etc.
- Terminal/Asset Maintenance decreasing (STS crane relocation and Splash Zone Painting in 2021)
- Nonoperating includes interest expense of \$15.5m and contributions for Port Road

Staffing growth will support Operations and strategic initiatives

Headcount analysis, Number of Employees*



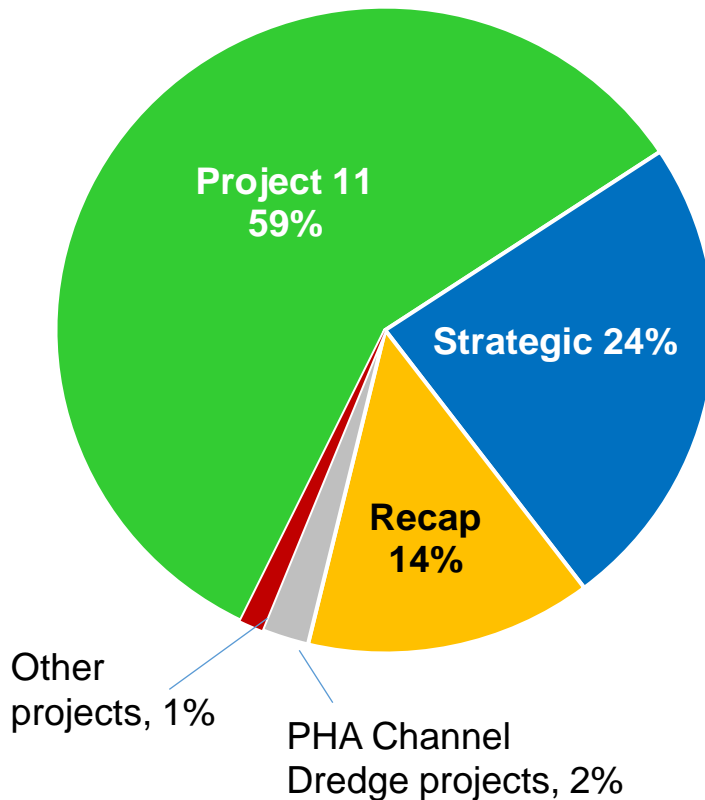
2022 Budgeted Staffing	
Exempt	255
Nonexempt	438
Total Actual Headcount, 9/30/2021	693
Approved, existing open reqs	51
- 8 new from 20 & 21, 43 replacements	
New in 2022 **	22
Total Budgeted Positions	766
2022 Budget – Headcount	766

* Does not include Casual Labor

** 22 new in 2022: 11 Operating (8-Ops, 1-PSEO, 2-Infrastructure); 11 G&A (3-Infrastructure, 3-Technology, 2-People, 1-Legal, 1-Finance, 1-Business Equity)

2022 Capital awards comprehend \$327 million for PHA Capital projects and \$460 million for Project 11 commitment

2022 Total Capital Improvement Program



- Project 11 awards of \$460 million are planned for Segments 1B, 2, 1C and a portion of removal/relocation of pipelines
- Strategic projects of \$189 million
 - *New growth opportunities: Bayport Container Yard 1, Wharf 7, East End design*
 - *Next Generation ERP*
- Recapitalization projects = \$111 million
 - *BCT: Rebuild BCT Maintenance facility; CY3 RTGs; CY4 and 5N; CY6 & 7 design*
 - *Turning Basin: Manchester Wharf 2; City Docks 20, 21 and Wharf 8*
- PHA Channel projects = \$18 million
 - *Container terminals, Turning Basin and Woodhouse dredging*
- Remaining projects = \$9 million
 - *Includes maintenance equipment, Smartcontrol lighting, other*

Projected Capacity to award new projects \$ in thousands



	2021	2022	2023
Beginning Funds Available (Uncommitted) *	\$ 115,323	\$ 470,374	\$ 140,402
Sources:			
Proceeds from debt issuance	400,000	-	250,000
Operating cash flow and net grant funds	219,649	228,162	221,784
Credit instrument (Note purchase, other)	100,000	250,000	(150,000)
Available Resources	834,972	948,536	462,187
Commitments:			
PHA Operating CIP Awards:			
Bayport	159,572	140,272	43,100
BCT	21,930	82,199	147,223
Channel Development	21,948	18,317	368
Turning Basin Terminals	11,758	38,396	11,285
Real Estate	3,169	26,781	55,100
Maintenance	7,759	5,453	4,365
Bayport Railroad	3,419	1,500	1,500
Other	6,838	13,816	12,018
PHA Operating CIP Awards	236,395	326,734	274,958
Project 11 Awards			
Segment 1A, Oyster, Beltway 8	126,460	-	-
Segment 1B, 2, 1C, other	-	460,095	-
Segment 3, a portion of 4 - Cost share	-	-	50,312
Project 11 Awards	126,460	460,095	50,312
Debt Service	1,744	21,304	21,924
Total Commitments	364,599	808,133	347,194
Ending Funds Available (Uncommitted)	\$ 470,374	\$ 140,402	\$ 114,993

- 2022 anticipated Awards for Port Commission approval total \$787 million
 - \$327 million PHA Capital projects
 - \$460 million Project 11
- A need for additional financing support may exist as early as 2023, modeled here as an additional \$250 million
- Note the incremental credit planned of \$250 million in 2022 to support award capacity is later reduced by \$150 million
 - No drawdowns on these facilities are planned

*Total cash and investments less total POs and commitments, contingency, self-insurance, other

Summary of Cash planning projections *\$ in thousands*

Resources distinguished for PHA CIP and HSC Project 11



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	2021	2022	2023
Beginning available, PHA Operating *	\$ 273,385	\$ 371,423	\$ 316,841
Sources:			
Proceeds from debt issuance	50,000	-	250,000
Operating cash flow and net grant funds	219,649	228,162	221,784
Available Resources	543,034	599,585	788,625
Uses:			
Debt Service	(1,744)	(21,303)	(21,924)
Operating Capital cash outflow	(169,867)	(261,441)	(321,580)
Project 11 funding outflow	-	-	(125,000)
Net Uses	(171,610)	(282,744)	(468,504)
Ending available, PHA Operating	\$ 371,423	\$ 316,841	\$ 320,121
Beginning available, Project 11	\$ -	\$ 319,910	\$ 117,800
Project 11 funding inflow from PHA	-	-	125,000
Proceeds from debt issuance	350,000	-	-
Project 11 cash outflow	(30,090)	(202,110)	(233,391)
Ending available, Project 11	\$ 319,910	\$ 117,800	\$ 9,409

- Projecting a stable liquidity position for PHA operating funds as the Port invests in new capacity while supporting Project 11
- Note amount and timing of subsequent financing in 2023 will change as container volumes evolve
- The amount of Port funding provided to Project 11 from operating cash flow will vary
- Separation of Port operating from Project 11 funds is necessary for bond covenant and liquidity management

* Total cash and investments less prior year PO balances, contingency, self-insurance, other

Backup Details

2022 Budget

Nonoperating – Summary (000's)

	2020 Audited	2021 Budget	2021 Actual Sep YTD	2021 Reforecast	2022 Budget
Nonoperating Revenues	\$8,165	\$3,708	\$3,488	\$4,327	\$1,494
Contribution from Federal/State Agency	5,188	20,449	2,723	11,633	22,421
Total Nonoperating Revenues	13,353	24,157	6,211	15,960	23,915
Interest expense	-	-	-	-	15,548
Nonoperating Expenses	(1,918)	4,459	1,821	3,676	605
Contribution to Federal/State Agency	235	12,746	3,329	4,079	12,422
Total Nonoperating Expenses	(1,683)	17,205	5,150	7,755	28,575
Nonoperating items and Contributions	\$15,036	\$6,952	\$1,061	\$8,205	(\$4,660)

Comments:

- Nonoperating Revenues include Interest Income-Securities and Interest Income-Delinquent A/R
- Contribution 'from' Federal/State Agencies includes grants for Wharf 6, Port Road and Barbours Cut projects
- Nonoperating expenses include County Appraisal District fees and costs associated with the credit facility
- Contributions 'to' reflect Port Road project expenditures

2022 Operating and Capital Budget

This concludes the presentation of the 2022 Budget proposal for the Port Commission's consideration and possible adoption.

The following 5-year Plan materials are provided to the Port Commission for review, though no action is required.

Draft
11/15/2021

2022 Operating & Capital Budget 5-Year Plan

Port of Houston Authority
November 18, 2021

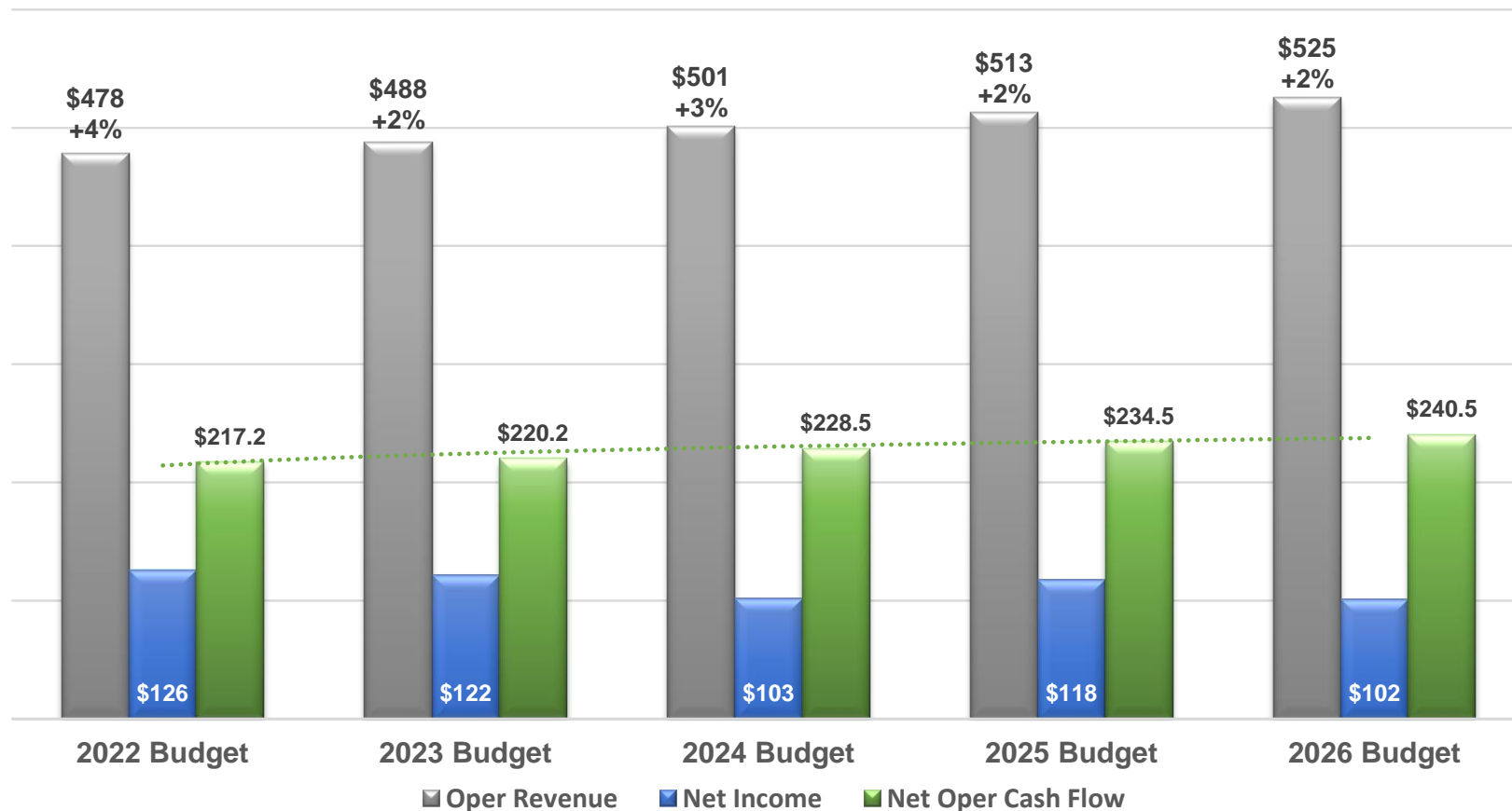


5-year Income Statement summary - Operating

\$ in millions



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- Operating revenues reflect a steady 2.4% compound annual growth rate across this planning horizon while Net Operating Cash generation grows by 2.6%
- Net income trend influenced by depreciation on capacity additions and interest expense on revenue bond issuances

2022 – 2026 Budget Income Statement (000's)



	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026
Operating Revenue	\$478,391	\$488,118	\$501,024	\$512,929	\$525,414
Less: Operating Expense	289,255	314,929	321,550	322,498	343,222
Gross Margin	189,136	173,189	179,474	190,431	182,192
% of revenue	40%	35%	36%	37%	35%
General & Administrative Expenses	58,681	60,040	62,773	66,404	68,508
% of revenue	12%	12%	13%	13%	13%
Net Operating Income	130,455	113,148	116,701	124,027	113,684
% of revenue	27%	23%	23%	24%	22%
Net Operating Cash Flow	217,242	220,169	228,466	234,483	240,504
Interest expense	(15,548)	(16,487)	(26,729)	(26,277)	(25,802)
Other Nonoperating income, net	10,888	25,057	12,651	20,732	14,156
Net Income	\$125,795	\$121,719	\$102,623	\$118,481	\$102,038
% of revenue	26%	25%	20%	23%	19%

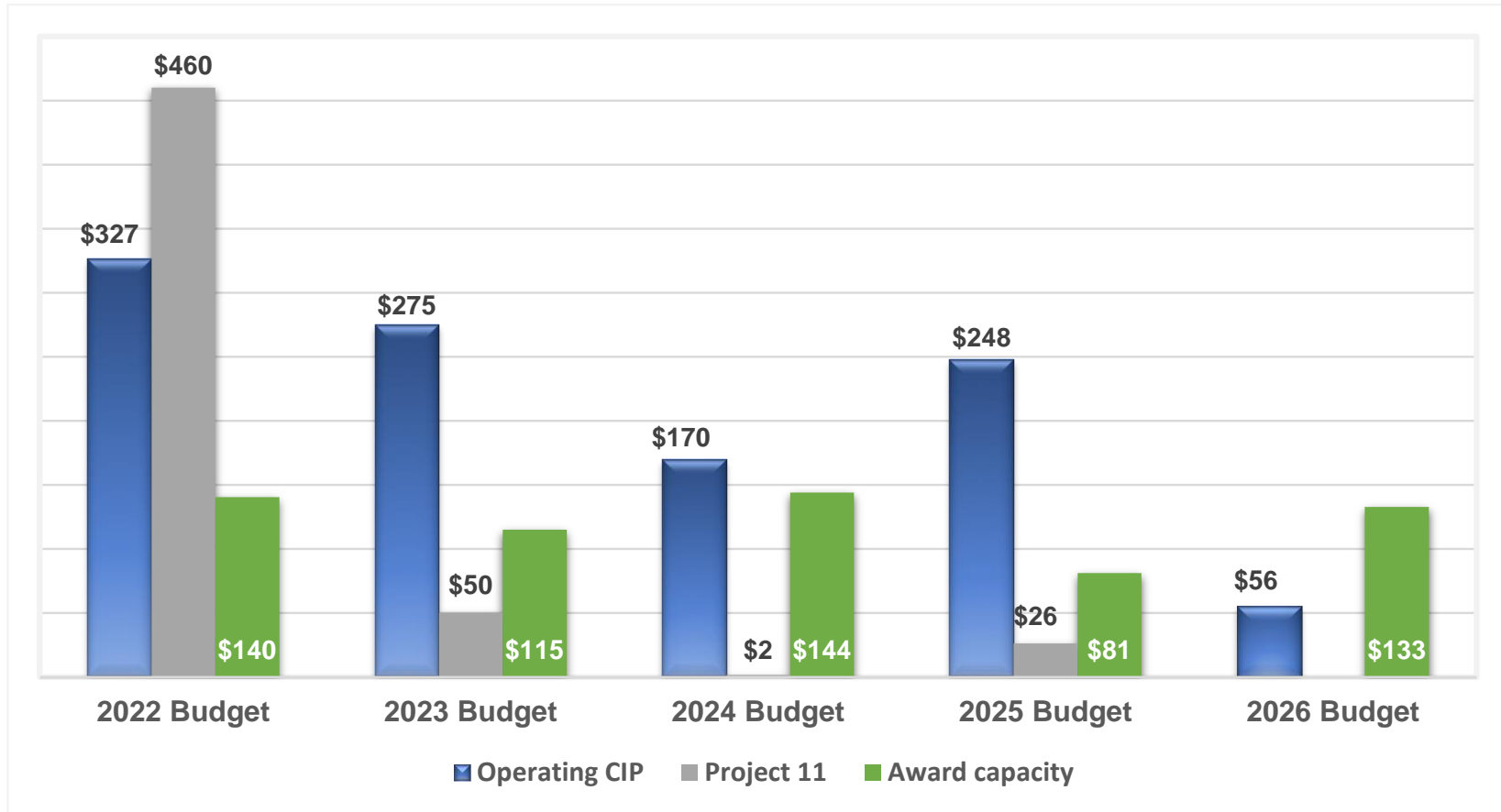
Note: full Liquidity (Cash) projections for this 5-year plan are provided on page 1-23

5-year Capital Budget summary – Awards-based

\$ in millions



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- Operating CIP includes acceleration of container capacity; BCT Maintenance building; Executive Office Building, Next-generation ERP and other essential infrastructure investments
- Award capacity represents uncommitted funds available for award by Port Commission of future projects; 5-year plan includes an additional credit facility of \$250 million in 2022

2022 – 2026 Budget

Award capacity rollforward (000's)



	2021	2022	2023	2024	2025	2026
Beginning Funds Available (Uncommitted) *	\$ 115,323	\$ 470,374	\$ 140,402	\$ 114,993	\$ 144,040	\$ 81,241
Sources:						
Proceeds from debt issuance	400,000	-	250,000	-	-	-
Operating cash flow and net grant funds	219,649	228,162	221,784	237,205	247,056	243,259
Credit instrument (Note purchase, other)	100,000	250,000	(150,000)	-	-	(100,000)
Available Resources	834,972	948,536	462,187	352,198	391,095	224,500
Commitments:						
PHA Operating CIP Awards:						
Bayport	159,572	140,272	43,100	58,442	3,300	365
BCT	21,930	82,199	147,223	27,343	154,815	730
Channel Development	21,948	18,317	368	32,610	10,368	19,180
Turning Basin Terminals	11,758	38,396	11,285	15,100	57,885	18,825
Real Estate	3,169	26,781	55,100	5,796	7,500	7,500
Maintenance	7,759	5,453	4,365	20,939	4,845	1,576
Bayport Railroad	3,419	1,500	1,500	-	-	-
Other	6,838	13,816	12,018	9,843	8,988	7,645
PHA Operating CIP Awards	236,395	326,734	274,958	170,072	247,700	55,821
Project 11 Awards						
Segment 1A, Oyster, Beltway 8	126,460	-	-	-	-	-
Segment 1B, 2, 1C, other	-	460,095	-	-	-	-
Segment 3, a portion of 4 - Cost share	-	-	50,312	-	-	-
Segment 5 - Cost share	-	-	-	1,747	-	-
Segment 6, pipelines - Cost share	-	-	-	-	26,369	-
Project 11 Awards	126,460	460,095	50,312	1,747	26,369	-
Debt Service	1,744	21,304	21,924	36,339	35,785	35,717
Total Commitments	364,599	808,133	347,194	208,158	309,854	91,537
Ending Funds Available (Uncommitted)	\$ 470,374	\$ 140,402	\$ 114,993	\$ 144,040	\$ 81,241	\$ 132,963

* Total cash and investments less POs and commitments, contingency, self-insurance, other

2022 – 2026 Budget

Liquidity (Cash) rollforward (000's)



	2021	2022	2023	2024	2025	2026
Beginning available, PHA Operating *	\$ 273,385	\$ 371,423	\$ 316,841	\$ 320,121	\$ 131,054	\$ 105,596
Sources:						
Proceeds from debt issuance	50,000	-	250,000	-	-	-
Operating cash flow and net grant funds	219,649	228,162	221,784	237,205	247,056	243,259
Available Resources	543,034	599,585	788,625	557,326	378,110	348,855
Uses:						
Debt Service	(1,744)	(21,303)	(21,924)	(36,339)	(35,785)	(35,717)
Operating Capital cash outflow	(169,867)	(261,441)	(321,580)	(239,933)	(201,728)	(176,725)
Project 11 funding outflow	-	-	(125,000)	(150,000)	(35,000)	(4,984)
Net Uses	(171,610)	(282,744)	(468,504)	(426,272)	(272,514)	(217,425)
Ending available, PHA Operating	\$ 371,423	\$ 316,841	\$ 320,121	\$ 131,054	\$ 105,596	\$ 131,429
Beginning available, Project 11	\$ -	\$ 319,910	\$ 117,800	\$ 9,409	\$ 8,697	\$ 3,082
Project 11 funding inflow from PHA	-	-	125,000	150,000	35,000	4,984
Proceeds from debt issuance	350,000	-	-	-	-	-
Project 11 cash outflow	(30,090)	(202,110)	(233,391)	(150,712)	(40,615)	(8,066)
Ending available, Project 11	\$ 319,910	\$ 117,800	\$ 9,409	\$ 8,697	\$ 3,082	\$ -

* Total cash and investments less prior year POs, contingency, self-insurance, other



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THANK YOU

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Questions?

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