

# 2010 Budget Presentation

Port of Houston Authority  
December 15, 2009



## R.K. Johns Market Study

- R.K. Johns & Associates, Inc. (RKJ) selected by PHA to perform in-depth market analysis to assess the potential impact of the global economic downturn on PHA
- The RKJ study was developed in partnership with PHA's Planning, Operations and Origination Divisions
- RKJ is a trusted consultant who has previously performed work for PHA
- Given complexities and uncertainties of global economic and market conditions, three scenarios (pessimistic, most likely and optimistic) were provided by commodity sector
- RKJ's market assessment, is applied to an all-time record high cargo handling year

*An industry leader was selected to assist with forecasting impact of global recovery*

# 2009 RKJ Cargo Projection Performance (000's)

	2007 <u>Actual</u>	2008 <u>Actual</u>	2009 <u>Forecast</u>	2009 RKJ <u>Forecast</u>
Containers (units)	1,081	1,103	1,072	1,049
		2.0%	-2.8%	-4.9%
Steel (tons)	4,742	6,303	2,662	2,834
		32.9%	-57.6%	-55.0%

The RKJ forecast developed for 2009 is very close to forecasted PHA data for containers and steel

*RKJ's forecasted impact of global economic downturn on PHA was highly accurate in 2009*

# Rationale for an Independent Market Assessment & Cargo Forecast

- Global economic growth in terms of GDP, investment and resultant trade slowed to a critical level during 2009
- Most of the world's economies have not yet recovered from the recession
- Global demand for exports from PHA, especially plastic resin, remains depressed, but has recently shown signs of improvement
- Regional demand for import goods from abroad has waned due to economic uncertainties and inventory levels of consumer and durable goods continue to fall
- PHA imports and exports of all commodities have slowed during 2009

*Global market conditions have impacted PHA cargo volumes*

# Rationale for an Independent Market Assessment & Cargo Forecast

(continued)

- Total PHA tonnage in 2009 is 19% lower than 2008
- Steel imports in 2009 are 57% below 2008 levels
- Auto imports are similarly depressed, 40% lower this year than last
- Loaded container TEU is down 9% in 2009

*Most major US ports have fared worse than PHA during the economic downturn*



# 2010 RKJ Forecast Assumptions

- U.S. economy resumes moderate GDP growth between 2.5% and 2.8%
- Economic recovery will be slow and methodical
- Inflation remains manageable
- Houston and Texas economies continue to out-perform the U.S. overall fostering import growth
- Key trading partners' economic recoveries will be in full swing by 2012

*These are the fundamental assumptions that were adopted by PHA for budget planning*

# 2010 RKJ Forecast Scenarios

## Pessimistic

- 1.0% decline in Containers
- 17.3% decline in Steel

## Most Likely

- 4.2% increase in Containers
- 7.4% decline in Steel
- 13.3% increase in Autos
- Flat Break Bulk market

## Optimistic

- 6.0% increase in Containers
- 9.7% increase in Steel

*Three scenarios were provided by RKJ; the Most Likely was used for planning purposes*

# 2010 Budget

## Cargo Budget Assumptions (000's)

### PHA Cargo Trends & Forecast Summary

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>	<u>Budget</u>	<u>Projection</u>
<b>Containers (units)</b>	1,081	1,103	1,072	<b>1,093</b>	1,141
		2.0%	-2.8%	4.2%	4.5%
<b>Steel (tons)</b>	4,742	6,303	2,662	<b>2,625</b>	2,800
		32.9%	-57.6%	-7.4%	6.7%
<b>Breakbulk (tons)</b>	2,834	2,564	1,795	<b>1,795</b>	1,909
		-9.5%	-30.0%	0.0%	6.4%
<b>Autos (units)</b>	69	75	49	<b>55</b>	57
		9.0%	-35.4%	13.3%	4.3%

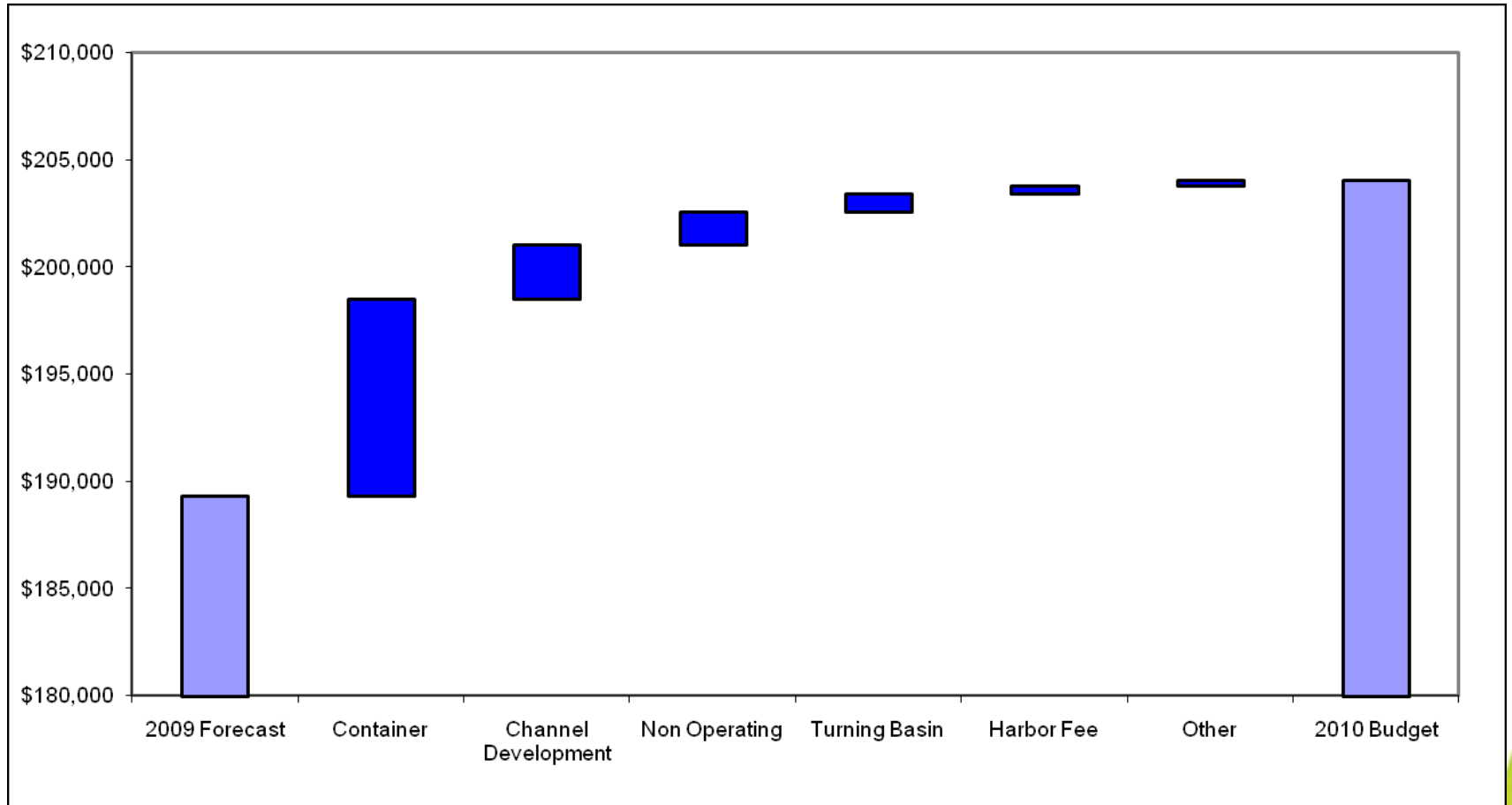
*Budget predicts an overall cargo increase in 2010 while steel and breakbulk remains soft*



# 2010 Budget Revenue (000's)

	<b><u>2009 Forecast</u></b>	<b><u>2010 Budget</u></b>	<b><u>2011 Projection</u></b>
Container Terminals	\$116,842	\$126,015	\$131,000
Turning Basin Terminals	31,366	32,233	34,000
Rent & Lease	16,035	16,202	17,000
Non-Operating (Federal funds, Insurance funds, Interest income)	18,308	19,818	6,000
Harbor Fees	4,922	5,266	5,000
Channel Development	1,530	4,085	3,000
All Other	342	433	0
<b>Total Revenue</b>	<b><u>\$189,345</u></b>	<b><u>\$204,052</u></b>	<b><u>\$196,000</u></b>

# 2010 Budget Revenue Major Changes (000's)



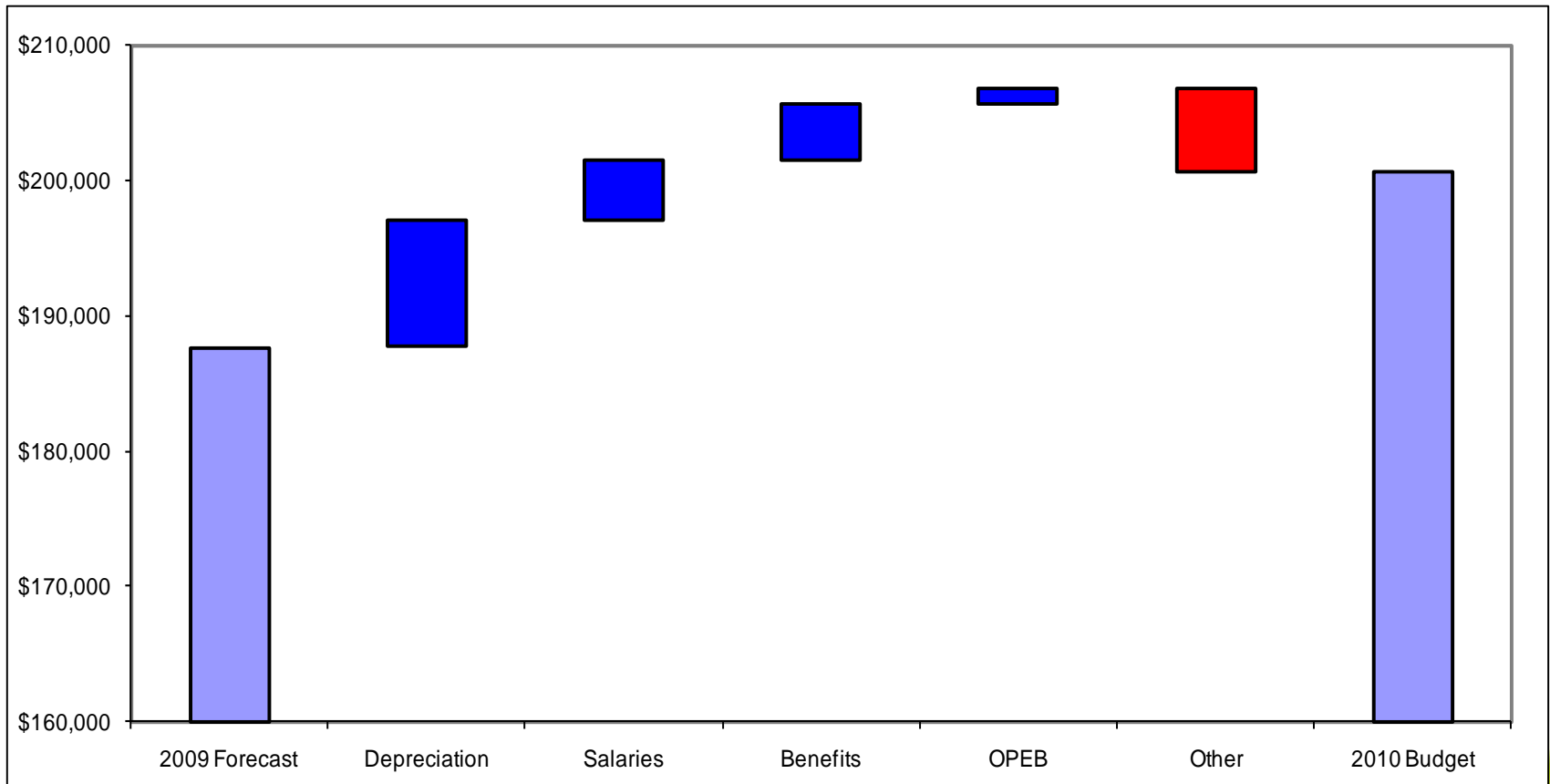
## 2010 Budget Expense Assumptions

- ILA master contract wage increase fully reflected
- PHA staff expense managed through normal attrition
- Depreciation expense growth due to capital investments
- Benefit cost increases fully reflected
- COLA adjustment assumed 3.5%; last COLA adjustment was April 2008
- Other inflation assumptions
  - Electrical (20%)
  - Fuel 7%

# 2010 Budget Expenses (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salary	\$51,039	\$55,457	\$57,000
Salary Allocation	(14,327)	(15,335)	(16,000)
Benefits	26,925	31,178	29,000
OPEB	11,939	13,099	13,000
Utilities	4,661	4,166	4,000
Fees & Services	7,145	6,281	6,000
Consulting Fees	3,595	4,257	4,000
Insurance	3,616	3,287	3,000
Fuel	1,723	2,452	3,000
Equipment & Terminal Maintenance	23,777	23,156	23,000
Depreciation & Amortization	47,258	56,603	63,000
Other (Bayport User Fee, Advertising, and Environmental costs)	12,904	9,445	10,000
Non-Operating (Contributions to others)	7,436	6,665	2,000
<b>Total Expense</b>	<b><u>\$187,691</u></b>	<b><u>\$200,711</u></b>	<b><u>\$201,000</u></b>

# 2010 Budget Expense Major Changes (000's)



## 2010 Budget Income Statement (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Operating Revenue	\$171,037	\$184,234	\$190,000
Less: Operating Expenses	<u>124,282</u>	<u>135,820</u>	<u>141,300</u>
Segment Operating Earnings	46,755	48,414	48,700
Less: General & Administrative Expenses	<u>55,973</u>	<u>58,226</u>	<u>57,700</u>
Net Operating Income	(9,218)	(9,812)	(9,000)
Non-Operating Revenue (Expense)	<u>15,907</u>	<u>10,641</u>	<u>3,830</u>
Income before Contributions	6,689	829	(5,170)
Contributions to/from Governmental Entities	<u>(5,035)</u>	<u>2,512</u>	<u>170</u>
Net Income (Loss)	<u>\$1,654</u>	<u>\$3,341</u>	<u>(\$5,000)</u>



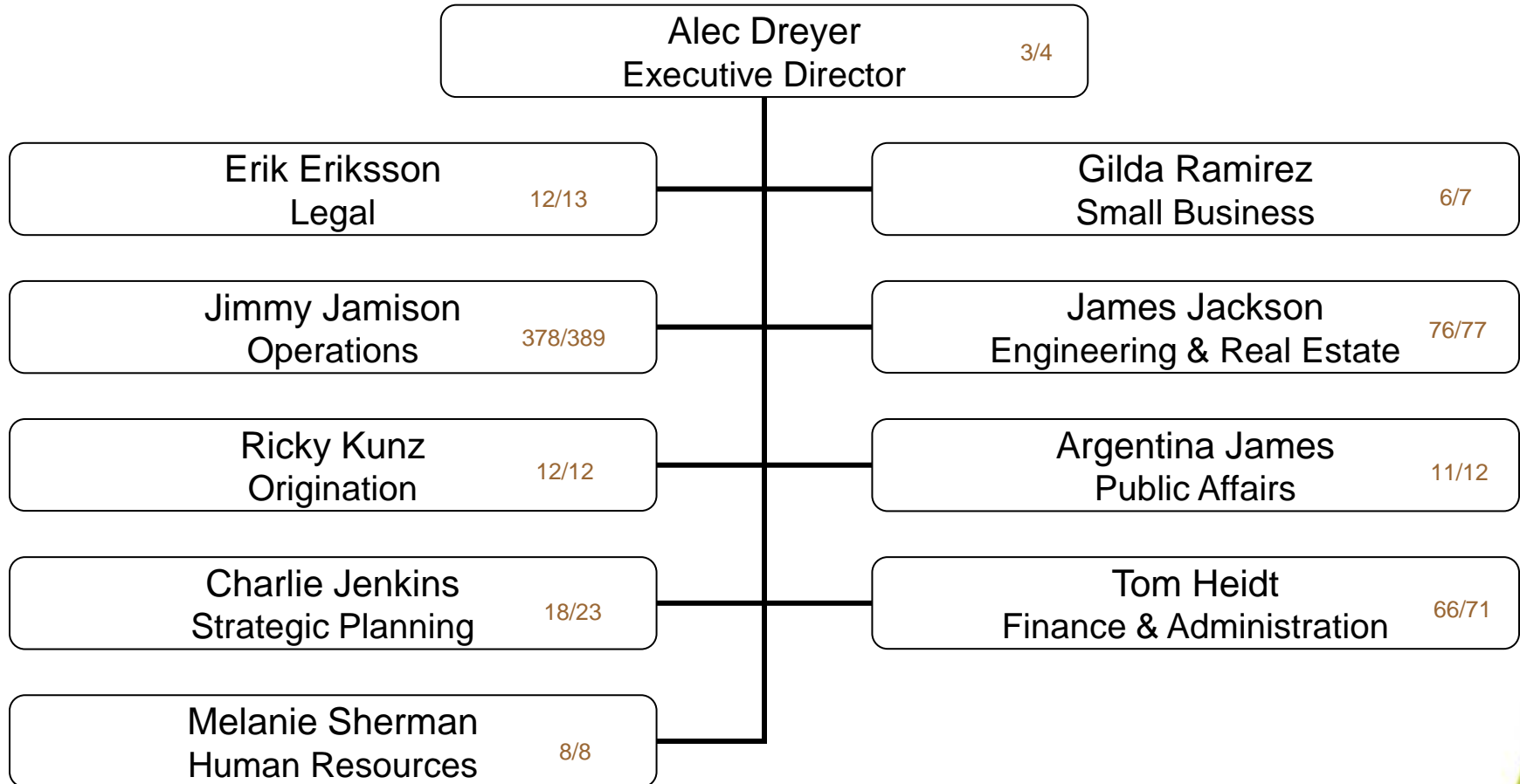
# 2010 Budget

## Operating Cash Flow (000's)

	<u>2007 Actual</u>	<u>2008 Actual</u>	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Operating Revenue	\$190,858	\$197,993	\$171,037	\$184,234	\$190,000
		3.7%	-13.6%	7.7%	3.1%
Expenses (Operating & G&A)	172,567	186,493	180,255	194,046	199,000
		8.1%	-3.3%	7.7%	2.6%
Net Operating Income	18,291	11,500	(9,218)	(9,812)	(9,000)
		-37.1%	-180.2%	-6.4%	8.3%
<i>Return on Sales</i>	9.6%	5.8%	-5.4%	-5.3%	-4.7%
Add Back Depreciation/Amortization	34,161	44,016	47,258	56,603	63,000
		28.8%	7.4%	19.8%	11.3%
Add Back OPEB	9,584	9,920	11,939	13,099	13,000
		3.5%	20.4%	9.7%	-0.7%
Non Operating & Contributions	(4,378)	9,973	10,872	13,153	4,000
		327.8%	9.0%	21.0%	-69.6%
Cash Flow	\$57,658	\$75,409	\$60,851	\$73,043	\$71,000
		30.8%	-19.3%	20.0%	-2.8%

# 2010 Budget Organization Structure

590/616 Actual Headcount/Budget Headcount



# 2010 Budget Executive Division (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$667	\$494	\$524
Benefits	295	247	222
Travel	144	130	130
Consulting Fees	301	250	100
Other	440	318	318
<b>Total Expense</b>	<b><u>\$1,847</u></b>	<b><u>\$1,439</u></b>	<b><u>\$1,294</u></b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Executive	3	4

# 2010 Budget

## Finance & Administration Division (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$3,628	\$4,141	\$4,158
Benefits	2,282	2,639	2,419
Fees & Services	412	648	665
Rentals	40	345	352
Equipment Maintenance	386	591	558
Depreciation & Amortization	375	490	594
Other	1,018	675	565
<b>Total Expense</b>	<b>\$8,141</b>	<b>\$9,529</b>	<b>\$9,311</b>
IT Allocation	(393)	(498)	(507)
<b>Net Expense</b>	<b>\$7,748</b>	<b>\$9,031</b>	<b>\$8,804</b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Administration	2	2
Accounting	35	36
Financial Planning	1	2
IT	20	22
Purchasing	5	6
Risk Management	3	3

# 2010 Budget Legal Division (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$1,010	\$986	\$1,026
Benefits	566	617	564
Legal Fees	11,800	4,000	3,000
Other	214	184	183
<b>Total Expense</b>	<b>\$13,590</b>	<b>\$5,787</b>	<b>\$4,773</b>
Capitalized Legal Fees	(10,700)	(3,000)	(2,000)
G&A Allocation	(459)	(450)	(450)
<b>Net Expense</b>	<b>\$2,431</b>	<b>\$2,337</b>	<b>\$2,323</b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Legal	9	10
Central Records	3	3

# 2010 Budget

## Human Resources Division (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$506	\$576	\$560
Benefits	1,077	908	880
OPEB	11,939	13,099	13,099
Consulting Fees	120	125	125
Other	213	294	282
<b>Total Expense</b>	<b><u>\$13,855</u></b>	<b><u>\$15,002</u></b>	<b><u>\$14,946</u></b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Human Resources	5	5
Training & Development	3	3



# 2010 Budget Container Terminals (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$26,740	\$28,571	\$29,606
Benefits	11,106	12,825	12,533
Utilities	2,521	2,231	2,322
Insurance	2,073	1,759	1,759
Fuel	1,500	2,200	2,360
Equipment & Terminal Maintenance	15,518	15,304	15,610
Depreciation & Amortization	25,992	32,283	37,981
Other	1,625	1,634	1,364
<b>Total Expense</b>	<b><u>\$87,075</u></b>	<b><u>\$96,807</u></b>	<b><u>\$103,535</u></b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Barbours Cut Terminal-Salary	45	47
Barbours Cut Terminal-Hourly	71	74
Bayport Terminal-Salary	20	21
Bayport Terminal-Hourly	34	35

# 2010 Budget

## Turning Basin Terminals (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$3,593	\$3,697	\$3,743
Benefits	2,317	2,860	2,646
Utilities	1,342	1,171	1,198
Equipment & Terminal Maintenance	4,907	4,951	4,463
Depreciation & Amortization	10,472	11,634	11,552
Other	2,214	2,615	2,466
<b>Total Expense</b>	<b><u>\$24,845</u></b>	<b><u>\$26,928</u></b>	<b><u>\$26,068</u></b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Turning Basin Terminal-Salary	20	21
Turning Basin Terminal-Hourly	48	48

# 2010 Budget Operations Other (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$6,700	\$7,020	\$7,088
Benefits	4,313	5,076	4,720
Fees & Services	5,013	4,287	4,389
Equipment & Terminal Maintenance	1,232	475	478
Depreciation & Amortization	2,423	3,214	3,823
Other	1,091	1,359	1,291
<b>Total Expense</b>	<b>\$20,772</b>	<b>\$21,431</b>	<b>\$21,789</b>
Security Overhead Allocations	(7,062)	(7,883)	(7,735)
<b>Net Expense</b>	<b>\$13,710</b>	<b>\$13,548</b>	<b>\$14,054</b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Administration	2	3
Security	76	78
Marine	62	62

# 2010 Budget

## Origination Division (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$935	\$884	\$886
Benefits	575	583	547
Travel	254	301	301
Consulting Fees	309	545	495
Insurance	234	211	211
Depreciation	2,488	2,941	3,218
Other	974	1,105	674
<b>Total Expense</b>	<b><u>\$5,769</u></b>	<b><u>\$6,570</u></b>	<b><u>\$6,332</u></b>
 POHAIC	 \$219	 \$233	 \$239

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Administration	1	1
Foreign Trade Zone	2	2
Houston Trade	4	4
Market Development	5	5

# 2010 Budget

## Engineering & Real Estate Division (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$4,913	\$5,812	\$5,868
Benefits	3,076	3,713	3,401
Utilities	433	366	366
Insurance	246	224	224
Equipment & Terminal Maintenance	377	365	365
Depreciation	2,767	3,042	2,734
Other	2,691	2,754	2,751
<b>Total Expense</b>	<b>\$14,503</b>	<b>\$16,276</b>	<b>\$15,709</b>
Engineering Allocation	(4,082)	(7,227)	(7,227)
<b>Net Expense</b>	<b>\$10,421</b>	<b>\$9,049</b>	<b>\$8,482</b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Administration	2	2
Engineering	49	49
Real Estate	10	11
Project Management	15	15

# 2010 Budget

## Public Affairs Division (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$837	\$899	\$907
Benefits	435	507	461
Advertising	1,203	1,201	1,705
Art & Production	894	931	958
Consulting Fees	820	705	829
Other	1,794	1,175	1,334
<b>Total Expense</b>	<b><u>\$5,983</u></b>	<b><u>\$5,418</u></b>	<b><u>\$6,194</u></b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Administration	1	2
Communications	4	4
Community Relations	3	3
Government Relations	3	3



# 2010 Budget

## Small Business Division (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$360	\$495	\$498
Benefits	209	233	211
Educational Sponsorships	6	50	50
Consulting Fees	35	35	10
Other	106	160	160
<b>Total Expense</b>	<b>\$716</b>	<b>\$973</b>	<b>\$929</b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Administration	2	2
Small Business	4	5

# 2010 Budget

## Strategic Planning Division (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Salaries	\$1,150	\$1,882	\$1,905
Benefits	674	970	905
Consulting Fees	1,750	2,250	1,815
Environmental Related Costs	650	650	650
Equipment & Terminal Maintenance	1,326	1,199	1,305
Other	837	642	689
<b>Total Expense</b>	<b>\$6,387</b>	<b>\$7,593</b>	<b>\$7,269</b>
Environmental Allocation	(531)	(650)	(650)
<b>Net Expense</b>	<b>\$5,856</b>	<b>\$6,943</b>	<b>\$6,619</b>

<u>Headcount</u>	<u>Actual</u>	<u>Budget</u>
Administration	2	2
Environmental Affairs	11	11
Channel Development	5	5
Strategic Planning	0	2
Economic & Market Analysis	0	3

# 2010 Budget Capital Investments (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Bayport	\$141,955	\$94,596	\$43,800
Barbours Cut	17,106	47,938	61,000
Houston Ship Channel	11,128	24,557	5,600
Security	5,713	10,424	9,500
Turning Basin	4,917	5,297	3,200
Engineering	527	3,370	100
Jacintoport	0	2,666	8,500
IT	151	2,646	100
Other	11,284	7,696	10,000
Grant Reimbursement	(1,755)	(8,220)	(1,800)
<b>Total</b>	<b><u>\$191,026</u></b>	<b><u>\$190,970</u></b>	<b><u>\$140,000</u></b>

# 2010 Budget Bayport (000's)

<b>Major Projects:</b>	<b>2010</b>
Marine Terminal Entry Gate	\$40,317
Advanced Dredging Wharf 2 & 6	13,100
Program Management - 2010	6,650
North Shore Sound Mitigation	6,105
Marine Terminal Exit Gate	2,300
Wharf - Berth 3	2,002
Rail Environmental Impact Statement	2,000
Intermodal Railyard at Bayport – Environmental Study	1,767
PTRA Track, Mainline Strang to Red Bluff – Environmental Study	1,740
Gate Infrastructure Improvements	1,700
Yard Infrastructure Improvements	1,700
Wharf Infrastructure Improvements	1,600
Security System for Buildings	1,525
Stevedore Support Bldg #2	1,500
Maintenance Dredging - 2010	1,170
Other	9,420
<b>Total</b>	<b>\$94,596</b>

# 2010 Budget Barbours Cut (000's)

<b>Major Projects:</b>	<b>2010</b>
2 Wharf Cranes	\$22,500
Redevelopment of Maintenance Complex	12,412
Gate Infrastructure Improvements	1,700
Yard Infrastructure Improvements	1,700
Wharf Infrastructure Improvements	1,600
Concrete Replacement - 2010	1,500
Replace 15 Yard Tractors	1,245
Other	5,281
<b>Total</b>	<b>\$47,938</b>

# 2010 Budget

## Houston Ship Channel (000's)

<b>Major Projects:</b>	<b>2010</b>
Beneficial Use Sites Construction-Cells 7,8,9	\$12,000
HSC Cost Share to the Army Corps	10,000
DAMP Management/Implementation 2010	1,607
Other	950
<b>Total</b>	<b>\$24,557</b>



# 2010 Budget Security (000's)

<b>Major Projects:</b>	<b>2010</b>
Fiber Optic Cable Installation Turning Basin	\$4,442
Replace Security System Components	1,322
Fiber Network Design	983
Communications/Interoperability (Stimulus)	872
Cruise Terminal Security	700
Blue Force Tracking	598
Other	1,507
<b>Total</b>	<b>\$10,424</b>

# 2010 Budget Turning Basin (000's)

<b>Major Projects:</b>	<b>2010</b>
Demo Sheds & Modification Wharf Nos. 24&25	\$2,391
Replace Transit Shed Roof 30/31	770
Fender & Concrete Rehab 47/48	750
Concrete Replacement 2010	500
Concrete Replacement Wharf 9	413
Other	473
<b>Total</b>	<b>\$5,297</b>

# 2010 Budget Engineering (000's)

<b>Major Projects:</b>	<b>2010</b>
Upgrade Cathodic Protection at Various PHA Terminals	\$1,843
Capital Investment System Upgrade	500
Construction Inspection Services Portwide	400
Other	627
<b>Total</b>	<b>\$3,370</b>

# 2010 Budget Jacintoport (000's)

<b>Major Projects:</b>	<b>2010</b>
Replace Shed Roof Damage - Jacintoport	\$2,500
Concrete Replacement & Drainage Improvement	166
<b>Total</b>	<b>\$2,666</b>

# 2010 Budget

## IT (000's)

<b>Major Projects:</b>	<b>2010</b>
Windows Server Replacement & Expansion	\$800
Security Network Spares Inventory	600
Enhance Navis Express Systems	400
Security Network Improvements	250
Other	596
<b>Total</b>	<b>\$2,646</b>

# 2010 Budget Liquidity Forecast (000's)

	<u>2009 Forecast</u>	<u>2010 Budget</u>	<u>2011 Projection</u>
Cash & Cash Equivalents, Beginning of Year	\$106,889	\$38,559	\$108,787
Sources:			
Operating Cash Flow (page 15)	60,851	73,043	71,000
New Bonds or Commercial Paper	61,845	188,155	0
Available Resources	229,585	299,757	179,787
Uses:			
Capital Investment (page 29)	(191,026)	(190,970)	(140,000)
Cash & Cash Equivalents, End of Year	\$38,559	\$108,787	\$39,787

## 2010 Budget Summation

- The 2010 Budget reflects partial recovery from recessionary lows in 2009
- Full recessionary recovery is not expected until late 2011
- Profitability is a continuing focus for 2010 and 2011 while operating cash flow remains strong
- Overall expenses including headcount will continue to be rationalized against actual operating performance as the recovery ensues
- Preservation of cash resources will be key in 2010 and 2011 to lengthen the liquidity runway prior to an additional bond election

*Financial and organizational refinements will continue in order to improve our overall performance*