

2013 Budget Reforecast Presentation

Port of Houston Authority
July 15, 2013



Foreword

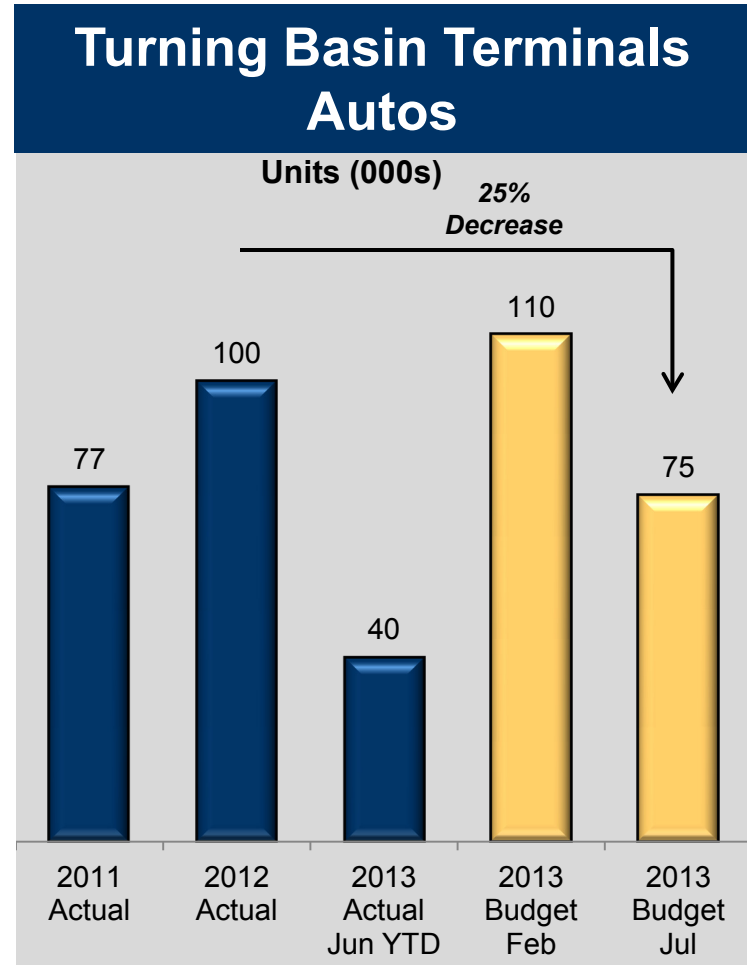
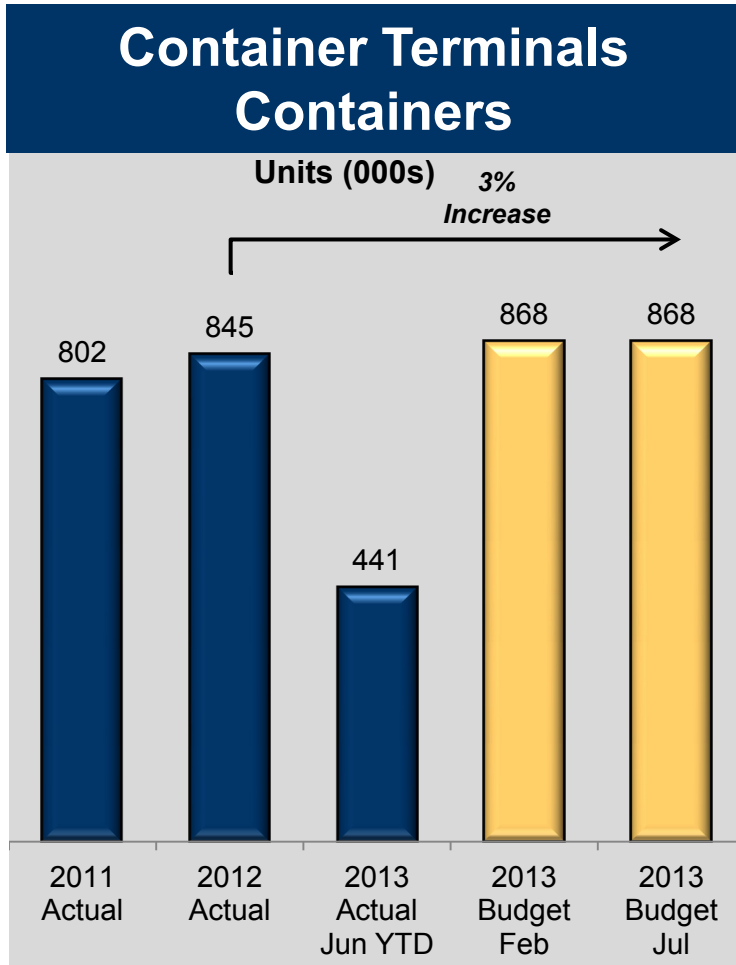
- In November 2012, a proposed operating budget was developed to guide staff in the operation and management of Port Authority facilities and activities for Fiscal Year 2013 (“Scenario 1”)
- As a result of the Authority’s reorganization, the proposed budget was revised and approved by the Port Commission on February 26, 2013 (“Scenario 2”)
- This latest 2013 Budget Reforecast includes actual results through June 30, 2013 (“Scenario 3”)
- Note that the operating budget does not include tax revenues which are used exclusively for debt service on outstanding ad valorem tax bonds
- While the capital plan may be approved as to maximum annual amount of capital expenditures, individual capital projects will continue to be presented separately to the Port Commission for approval

Executive Summary

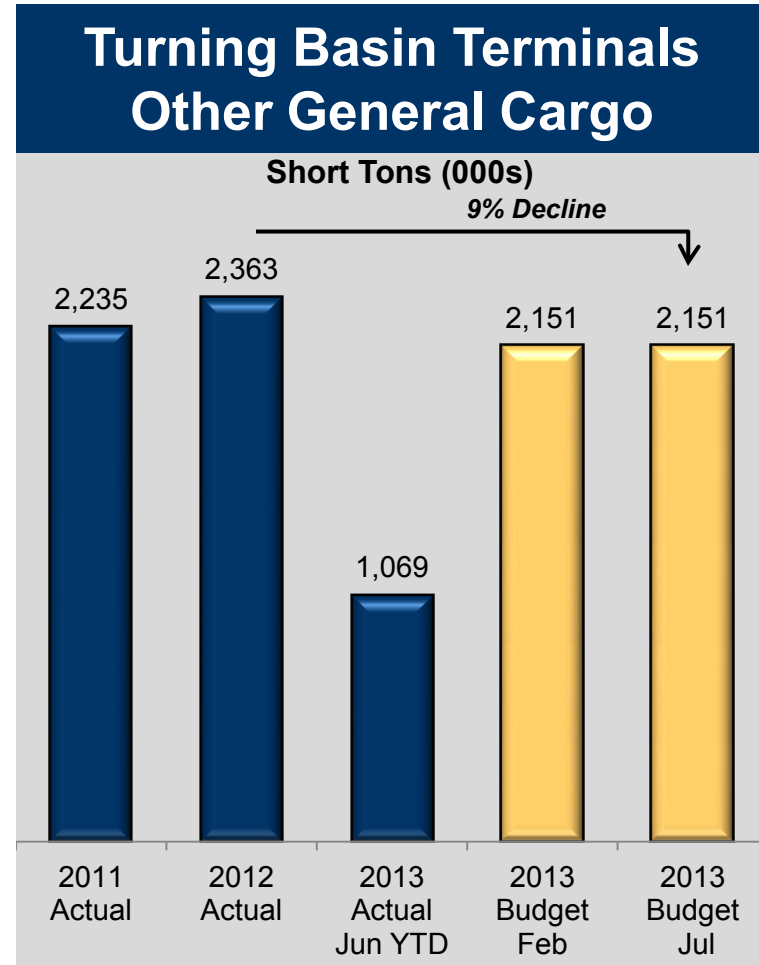
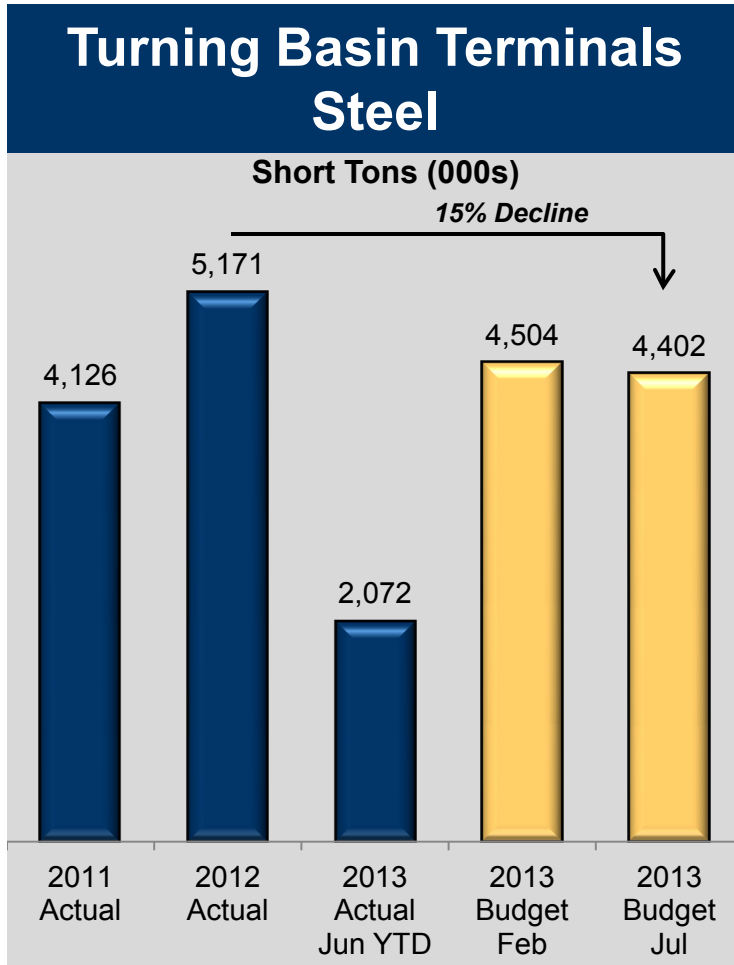
2013 Budget

Scenario 3

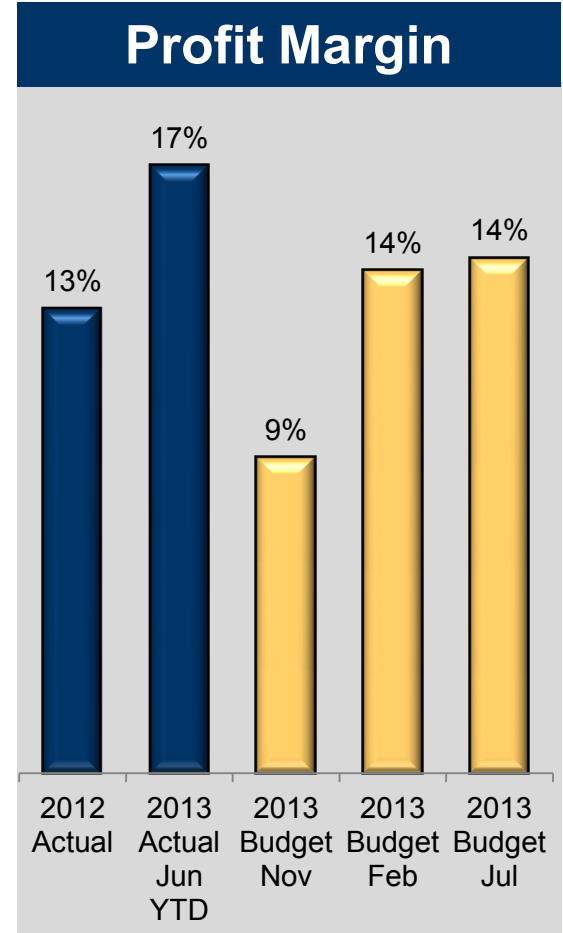
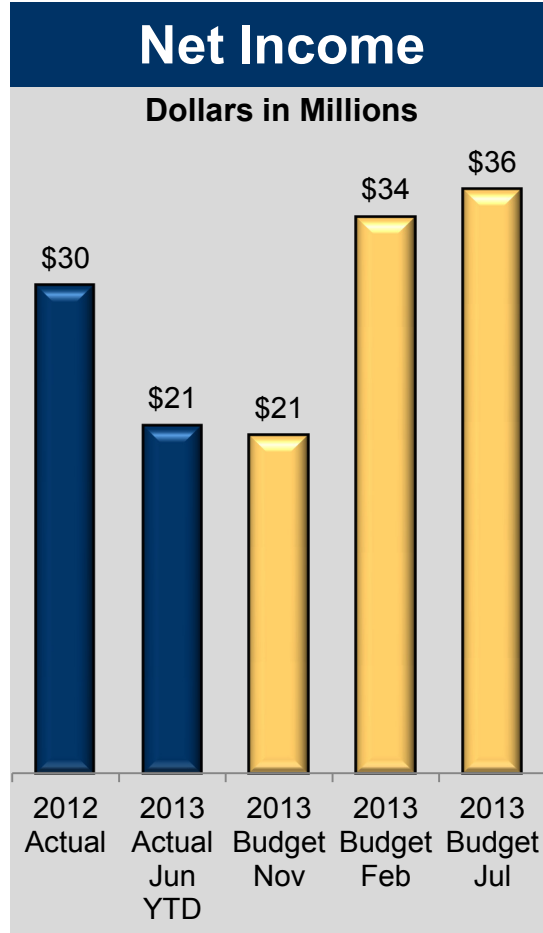
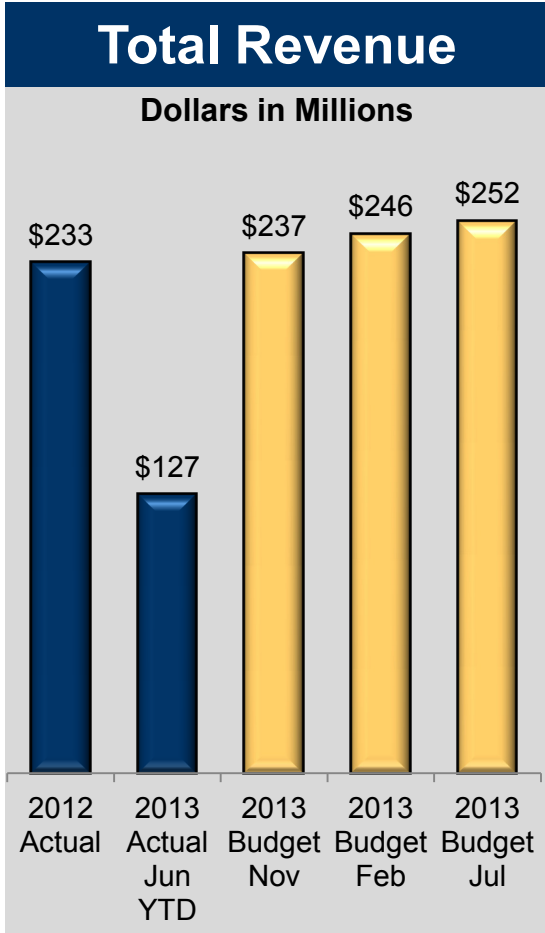
Continued growth in container cargo, while auto units decline...



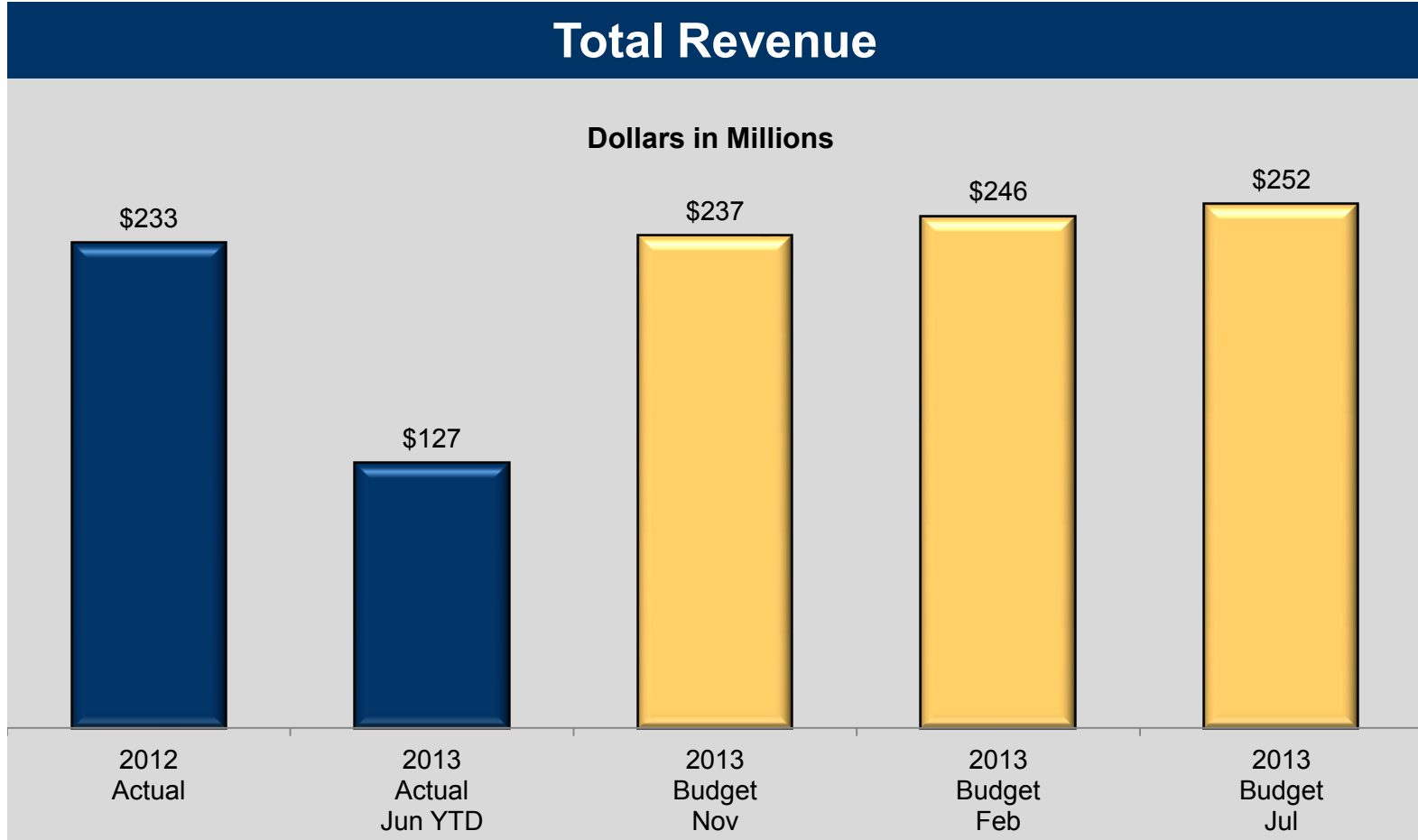
Steel and general cargo volumes also soften in 2013 ...



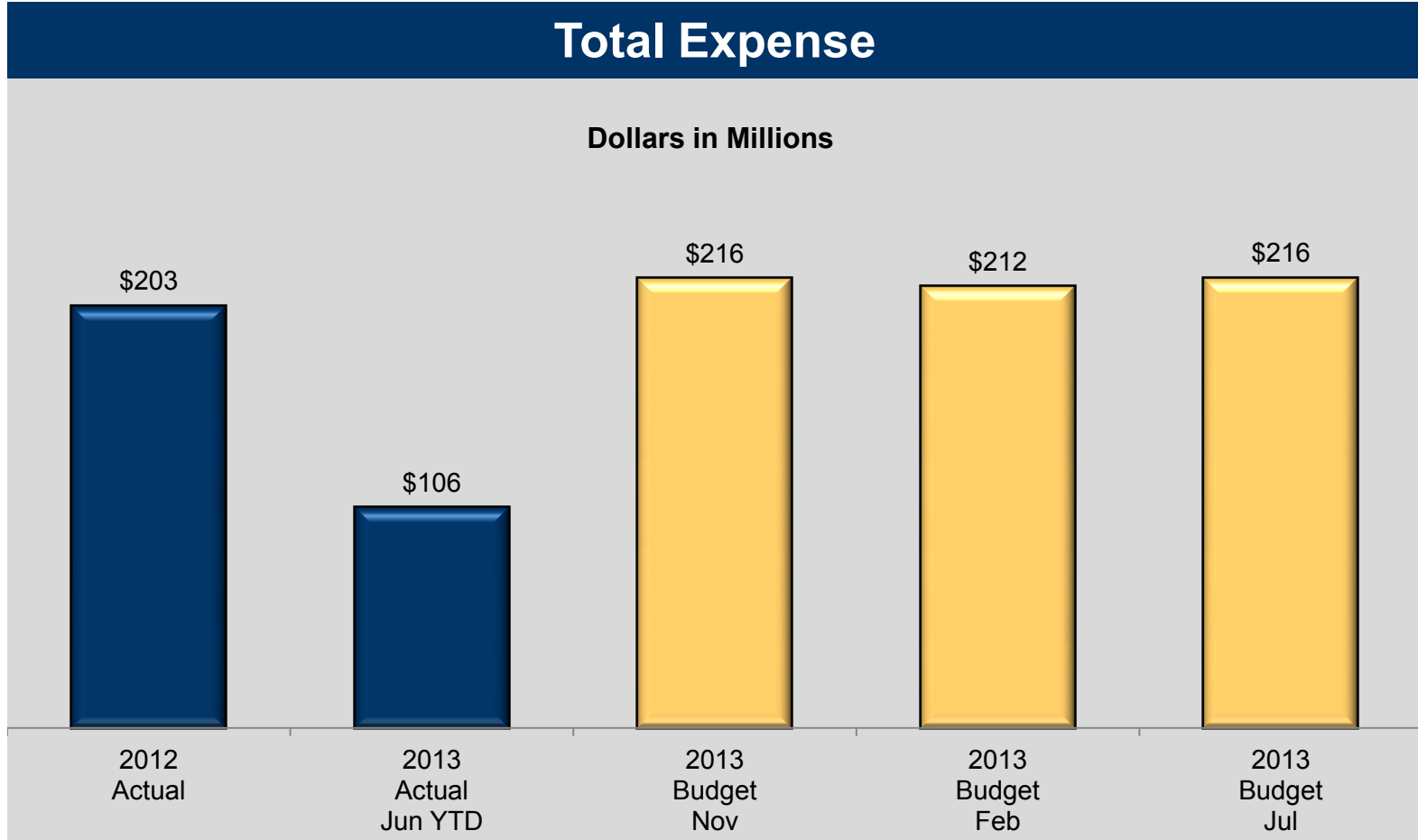
But overall financial performance should remain solid in 2013



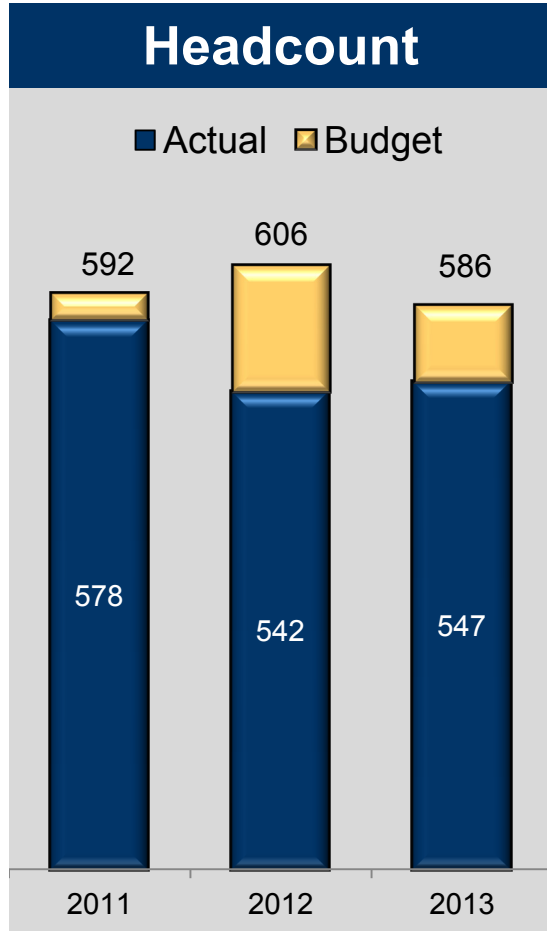
2013 Revenues expected to increase 8%



2013 Expenses expected to increase 6%



Continued focus on rightsizing the organization



Headcount Analysis

Number of PHA Employees

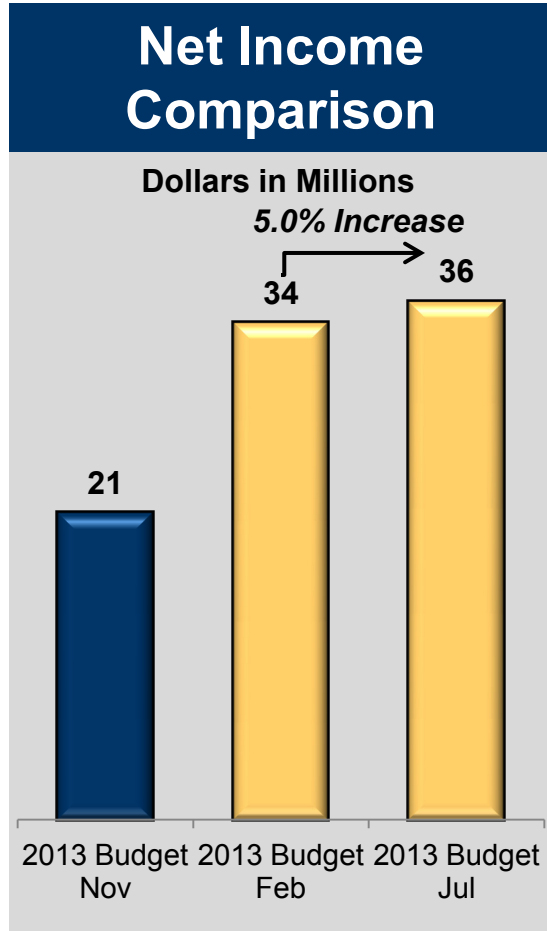
| | |
|--|------------|
| 2013 Headcount Approved February 2013 | 586 |
| Actual Headcount as of June 30, 2013 | 547 |
| <u>Variance</u> | |
| Positions Actively in Search | 25 |
| Positions Open to be Filled | 14 |
| Total Variance | 39 |
| 2013 Budgeted Headcount | 586 |

2013 Budget

Income Statement (000's)

| | 2012 Actual | 2013 Actual Jun YTD | 2013 Budget Scenario 1 | 2013 Budget Scenario 2 | 2013 Budget Scenario 3 | Variance Scen.2 to Scen.3 | % | Variance Scen.1 to Scen.3 | % |
|---|-----------------|---------------------------|------------------------------|------------------------------|------------------------------|---------------------------------|--------------|---------------------------------|--------------|
| Operating Revenues | \$223,214 | \$ 114,320 | \$224,914 | \$225,298 | \$230,143 | \$4,845 | 2.2% | \$ 5,229 | 2.3% |
| Operating Expenses | 156,977 | 78,689 | 162,444 | 159,845 | 164,086 | 4,241 | 2.7% | 1,642 | 1.0% |
| Operating Income | 66,237 | 35,631 | 62,470 | 65,453 | 66,057 | 604 | 0.9% | 3,587 | 5.7% |
| G&A Revenues | 281 | 107 | 325 | 325 | 302 | (23) | (7.1%) | (23) | (7.1%) |
| G&A Expenses | 46,363 | 22,131 | 51,634 | 49,886 | 46,401 | (3,485) | (7.0%) | (5,233) | (10.0%) |
| Net Operating Income | \$20,155 | \$13,607 | \$11,161 | \$15,892 | \$19,958 | \$4,066 | 25.3% | \$ 8,797 | 78.8% |
| Non-Operating Income | 962 | 1,770 | (996) | 4,289 | 2,187 | (2,102) | (49.0%) | 3,183 | 319.6% |
| Contributions to/from Federal/State Agency | 8,551 | 5,766 | 10,289 | 13,646 | 13,361 | (285) | (2.1%) | 3,072 | 29.9% |
| Net Income | \$29,668 | \$21,143 | \$20,454 | \$33,827 | \$35,506 | \$1,679 | 5.0% | \$15,052 | 73.6% |
| Cash Flow | \$85,946 | \$49,408 | \$79,068 | \$92,133 | \$96,022 | \$3,889 | 4.2% | \$16,954 | 21.4% |

Positive impact on cash flow from reorganization and additional grant revenues



- Scenario 3 Net Income increased by \$2 million from the Original 2013 Budget approved February 26, 2013
- Scenario 3 Headcount still expected to be within the Original Approved 2013 Budgeted Headcount (586)
- Scenario 3 includes 3% COLA effective July 1, 2013
- PHA will continue to identify cost savings from the reorganization throughout 2013

***Strong operational performance and expense management
contributes to bottom line growth***

2013 Budget Overview

Dollars in Millions

| | Scenario 1 Nov 2012 | Scenario 2 Feb 2013 | Scenario 3 Jul 2013 |
|----------------------|------------------------|------------------------|------------------------|
| Total Revenue | \$237 | \$246 | \$252 |
| Total Expense | 216 | 212 | 216 |
| Net Income | \$21 | \$34 | \$36 |
| Net Profit Margin | 9% | 14% | 14% |
| Cash Flow | \$79 | \$92 | \$96 |

Updated 2013 capital spending plan

In Millions

| | | |
|--|------|---------------|
| Capital Budget approved February 2013 | | \$ 220 |
| Projects awarded for less | (28) | |
| Projects moved to future years | (21) | |
| Projects dropped | (1) | |
| Pre-award budget change | 2 | |
| New projects | 2 | |
| Amendments/Change Orders | 1 | |
| | | (45) |
| Capital Budget as of June 30, 2013 | | \$ 175 |

2013 Budget

Total PHA Expenses (000's)

| | 2012 Actual | 2013 Actual Jun YTD | 2013 Budget Scen.1 | 2013 Budget Scen. 2 | 2013 Budget Scen. 3 | Variance (Sc. 2 to Scen.3) | % |
|----------------------------------|------------------|---------------------------|--------------------------|---------------------------|---------------------------|----------------------------------|-------------|
| Salaries | \$55,055 | \$28,059 | \$58,689 | \$55,972 | \$57,750 | \$1,778 | 3.2% |
| Benefits | 22,276 | 11,818 | 23,482 | 22,088 | 22,202 | 114 | 0.5% |
| Retirement Benefits | 17,881 | 8,951 | 18,909 | 18,950 | 15,965 | (2,985) | (15.8%) |
| Depreciation & Amortization | 56,278 | 28,265 | 58,614 | 58,306 | 56,469 | (1,837) | (3.2%) |
| Equipment & Terminal Maintenance | 15,114 | 5,712 | 17,401 | 14,413 | 16,535 | 2,122 | 14.7% |
| Fees & Services | 11,131 | 5,958 | 13,045 | 13,417 | 12,582 | (835) | (6.2%) |
| Non-Operating Expenses | 259 | 5,132 | 2,200 | 2,400 | 5,876 | 3,476 | 144.8% |
| Consulting Fees | 2,554 | 1,140 | 3,060 | 3,468 | 5,170 | 1,702 | 49.1% |
| Insurance | 4,880 | 2,424 | 4,939 | 4,939 | 4,910 | (29) | (0.6%) |
| Utilities | 4,329 | 1,988 | 4,326 | 4,406 | 4,185 | (221) | (5.0%) |
| Fuel | 3,485 | 1,690 | 3,399 | 3,399 | 3,259 | (140) | (4.1%) |
| Discretionary Expenses | 12,204 | 5,287 | 10,398 | 12,556 | 12,818 | 262 | 2.1% |
| Gross Expense | \$205,446 | \$106,424 | \$218,462 | \$214,314 | \$217,721 | \$3,407 | 1.6% |
| Allocated Expenses to CIP | (1,846) | (471) | (2,183) | (2,183) | (1,357) | 826 | 37.8% |
| Net Expense | \$203,600 | \$105,953 | \$216,279 | \$212,131 | \$216,364 | \$4,233 | 2.0% |

2013 Budget Executive (000's)

| | 2012 Actual | 2013 Actual Jun YTD | 2013 Budget Scen. 1 | 2013 Budget Scen. 2 | 2013 Budget Scen. 3 | Variance (Scen. 2 to Scen.3) | % |
|------------------------|----------------|------------------------|------------------------|------------------------|------------------------|------------------------------------|----------------|
| Salaries | \$422 | \$237 | \$396 | \$475 | \$482 | \$7 | 1.5% |
| Benefits | 121 | 93 | 120 | 133 | 144 | 11 | 8.3% |
| Retirement Benefits | 217 | 108 | 183 | 246 | 193 | (53) | (21.5%) |
| Travel | 22 | 10 | 80 | 80 | 87 | 7 | 8.8% |
| Consulting Fees | 131 | - | 150 | 150 | 50 | (100) | (66.7%) |
| Dues & Memberships | 61 | 32 | 65 | 65 | 39 | (26) | (40.0%) |
| Fees & Services | 173 | 3 | 59 | 90 | 39 | (51) | (56.7%) |
| Discretionary Expenses | 47 | 37 | 65 | 119 | 65 | (54) | (45.4%) |
| Net Expense | \$1,194 | \$520 | \$1,118 | \$1,358 | \$1,099 | (\$259) | (19.1%) |

2013 Budget Operations (000's)

| | <u>2012 Actual</u> | <u>2013 Actual Jun YTD</u> | <u>2013 Budget Scen. 1</u> | <u>2013 Budget Scen. 2</u> | <u>2013 Budget Scen. 3</u> | <u>Variance (Scen. 2 to Scen.3)</u> | <u>%</u> |
|----------------------------------|------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|---|-------------|
| Salaries | \$37,830 | \$19,657 | \$39,439 | \$37,833 | \$39,822 | \$1,989 | 5.3% |
| Benefits | 14,922 | 7,981 | 15,336 | 14,643 | 15,031 | 388 | 2.6% |
| Retirement Benefits | 8,433 | 3,862 | 8,696 | 8,774 | 6,769 | (2,005) | (22.9%) |
| Depreciation & Amortization | 48,490 | 23,940 | 48,591 | 48,315 | 47,624 | (691) | (1.4%) |
| Equipment & Terminal Maintenance | 13,267 | 5,377 | 13,347 | 10,555 | 12,059 | 1,504 | 14.2% |
| Utilities | 4,026 | 1,866 | 4,027 | 4,112 | 3,916 | (196) | (4.8%) |
| Insurance | 3,779 | 1,912 | 3,899 | 3,899 | 3,881 | (18) | (0.5%) |
| Fuel | 3,300 | 1,690 | 3,173 | 3,397 | 3,259 | (138) | (4.1%) |
| Fees & Services | 1,762 | 678 | 1,387 | 1,527 | 1,323 | (204) | (13.4%) |
| Environmental Related Costs | 627 | 47 | 586 | 646 | 268 | (378) | (58.5%) |
| Contingency | 1 | - | 500 | - | - | - | 0.0% |
| Discretionary Expenses | 4,996 | 2,104 | 6,554 | 6,773 | 7,051 | 278 | 4.1% |
| Gross Expense | \$141,433 | \$69,114 | \$145,535 | \$140,474 | \$141,003 | \$529 | 0.4% |
| Allocations | 2,381 | 3,022 | 2,329 | 5,270 | 6,558 | 1,288 | 24.4% |
| Net Expense | \$143,814 | \$72,136 | \$147,864 | \$145,744 | \$147,561 | \$1,817 | 1.2% |

2013 Budget

Finance & Administration (000's)

| | 2012 Actual | 2013 Actual Jun YTD | 2013 Budget Scen. 1 | 2013 Budget Scen. 2 | 2013 Budget Scen. 3 | Variance (Scen. 2 to Scen.3) | % |
|----------------------------------|-----------------|------------------------|------------------------|------------------------|------------------------|------------------------------------|---------------|
| Salaries | \$12,311 | \$5,920 | \$13,868 | \$12,919 | \$12,648 | (\$271) | (2.1%) |
| Benefits | 5,567 | 2,790 | 6,149 | 5,531 | 5,276 | (255) | (4.6%) |
| Retirement Benefits | 7,231 | 4,003 | 7,917 | 7,702 | 7,187 | (515) | (6.7%) |
| Fees & Services | 7,131 | 3,587 | 7,785 | 7,972 | 7,952 | (20) | (0.3%) |
| Depreciation & Amortization | 3,913 | 2,398 | 6,125 | 6,092 | 4,985 | (1,107) | (18.2%) |
| Insurance | 777 | 369 | 741 | 741 | 734 | (7) | (0.9%) |
| Equipment & Terminal Maintenance | 842 | 108 | 866 | 850 | 588 | (262) | (30.8%) |
| Telephone | 280 | 137 | 251 | 247 | 261 | 14 | 5.7% |
| Computer Hardware Rental | 94 | 46 | 120 | 110 | 136 | 26 | 23.6% |
| Discretionary Expenses | 2,521 | 1,458 | 3,238 | 3,013 | 3,579 | 566 | 18.8% |
| Gross Expense | \$40,667 | \$20,816 | \$47,060 | \$45,177 | \$43,346 | (\$1,831) | (4.1%) |
| Allocations | (6,406) | (3,556) | (6,681) | (7,532) | (8,110) | (578) | (7.7%) |
| Net Expense | \$34,261 | \$17,260 | \$40,379 | \$37,645 | \$35,236 | (\$2,409) | (6.4%) |

2013 Budget

Corporate Affairs (000's)

| | 2012 Actual | 2013 Actual Jun YTD | 2013 Budget Scen. 1 | 2013 Budget Scen. 2 | 2013 Budget Scen. 3 | Variance (Scen. 2 to Scen.3) | % |
|---------------------------------|-----------------|------------------------|------------------------|------------------------|------------------------|------------------------------------|-------------|
| Salaries | \$3,350 | \$1,642 | \$3,723 | \$3,499 | \$3,532 | \$33 | 0.9% |
| Benefits | 1,275 | 714 | 1,419 | 1,328 | 1,321 | (7) | (0.5%) |
| Retirement Benefits | 1,549 | 725 | 1,593 | 1,650 | 1,335 | (315) | (19.1%) |
| Depreciation & Amortization | 3,852 | 1,926 | 3,898 | 3,899 | 3,860 | (39) | (1.0%) |
| Consulting Fees | 1,530 | 588 | 2,006 | 1,848 | 3,521 | 1,673 | 90.5% |
| Economic Development Support | 729 | 367 | 803 | 824 | 802 | (22) | (2.7%) |
| PHA Receptions & Special Events | 165 | 96 | 421 | 778 | 778 | - | 0.0% |
| Art & Printing Production | 493 | 144 | 614 | 614 | 568 | (46) | (7.5%) |
| Advertising Media | 254 | 115 | 345 | 351 | 362 | 11 | 3.1% |
| PHA Sponsored Events | 620 | 196 | 252 | 297 | 296 | (1) | (0.3%) |
| Discretionary Expenses | 6,157 | 2,033 | 5,256 | 5,388 | 5,238 | (150) | (2.8%) |
| Gross Expense | \$19,974 | \$8,546 | \$20,330 | \$20,476 | \$21,613 | \$1,137 | 5.6% |
| Allocations | 81 | 42 | 79 | 79 | 173 | 94 | 119.0% |
| Net Expense | \$20,055 | \$8,588 | \$20,409 | \$20,555 | \$21,786 | \$1,231 | 6.0% |

2013 Budget

Legal (000's)

| | 2012 Actual | 2013 Actual Jun YTD | 2013 Budget Scen. 1 | 2013 Budget Scen. 2 | 2013 Budget Scen. 3 | Variance (Scen. 2 to Scen.3) | % |
|-----------------------------|------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|---|-------------|
| Salaries | \$1,141 | \$603 | \$1,262 | \$1,245 | \$1,266 | \$21 | 1.7% |
| Benefits | 390 | 241 | 457 | 453 | 430 | (23) | (5.1%) |
| Retirement Benefits | 451 | 253 | 520 | 579 | 482 | (97) | (16.8%) |
| Fees & Services | 1,881 | 1,130 | 1,951 | 1,948 | 2,368 | 420 | 21.6% |
| Insurance | 17 | 8 | 16 | 16 | 16 | - | 0.0% |
| Depreciation & Amortization | 23 | - | - | - | - | - | 0.0% |
| Discretionary Expenses | 114 | 82 | 101 | 189 | 241 | 52 | 27.5% |
| Net Expense | \$4,017 | \$2,317 | \$4,307 | \$4,430 | \$4,803 | \$373 | 8.4% |