

I N D E X

PORT COMMISSION
OF THE
PORT OF HOUSTON AUTHORITY
OF THE PORTS OF HARRIS COUNTY, TEXAS

November 11, 2019

Minute No.

Event/Action

General

Chairman Campo convened the Port Commission meeting and provided opening remarks

Minutes

2019-1111-01 Approve the minutes of the September 24, 2019 and October 3, 2019 Port Commission meetings

Appearances

2019-1111-02 Chairman Campo asked if anyone would like to address the Port Commission; there was no response

Commercial

2019-1111-03 **Staff Report** – agenda item – Tom Heidt, Chief Operating Officer

2019-1111-04 Approve the change of control of HFOTCO, LLC, tenant under two Port Authority leases, following the merger by and among SemGroup Corporation, Energy Transfer LP, and Nautilus Merger Sub LLC with SemGroup Corporation continuing as majority owner of HFOTCO, LLC and becoming a wholly-owned subsidiary of Energy Transfer, LP

Infrastructure

2019-1111-05 **Staff Report** – agenda item – Rich Byrnes, Chief Infrastructure Officer and Lori Brownell, Director, Channel Improvement

2019-1111-06 Award two professional services contracts, one in an amount not to exceed \$8,839,920 to TC&B/GBA, a Joint Venture of Turner Collie & Braden Inc. and Gahagan & Bryant Associates, Inc., and one in an amount not to exceed \$13,248,953 to HDR Engineering, Inc., to provide professional services for engineering, design, project coordination, and other general assistance for the Houston Ship Channel Expansion Channel Improvement Project

Minute No.

Event/Action

Operations

2019-1111-07 **Staff Report** – agenda item – Jeff Davis, Chief Financial Officer

2019-1111-08 Approve increases in Port Authority tariff charges including dockage, wharfage, throughput charges, container storage rates, container crane and private crane rental rates, water hookup rates, freight handling rates, and miscellaneous other tariff charges at amounts equal to the 1.8% increase in the Consumer Price Index average for the 12-month period ending July 2019 as published by the U.S. Bureau of Labor Statistics, and an increase in the Harbor Fee equal to 3%, such increased charges to be included and published in Port Authority Tariff Nos. 8, 14, and 15 effective January 1, 2020

Finance

2019-1111-09 **Staff Report** – agenda items – Tim Finley, Chief Financial Officer

2019-1111-10 Consideration and possible action regarding the proposed Fiscal Year 2020 Operating and Capital Budget

2019-1111-11 Staff briefing, discussion, and possible action regarding the proposed Five Year Operating and Capital Plan

Adjourn Meeting

**Port of Houston Authority
Port Commission Public Meeting**

**Houston, Texas
November 11, 2019**

A public meeting of the Port Commission of the Port of Houston Authority of Harris County, Texas was convened on November 11, 2019 at 10:00 a.m., at the Port of Houston Authority Executive Offices, Fourth Floor Boardroom, at 111 East Loop North, Houston, Texas 77029. The following Commissioners, staff, and counsel were present:

Ric Campo, Chairman
Theldon R. Branch, III, Commissioner
Dean E. Corgey, Commissioner
Stephen H. DonCarlos, Commissioner
Clyde E. Fitzgerald, Commissioner
Roy D. Mease, Commissioner
Roger Guenther, Executive Director
Erik Eriksson, Chief Legal Officer
Tom Heidt, Chief Operating Officer
Tim Finley, Chief Financial Officer
J. Kent Friedman, outside counsel

Chairman Campo convened the meeting of the Port Commission. He thanked all the veterans in attendance for their service.

(2019-1111-01) Chairman Campo called for a motion to approve the minutes of the September 24, 2019 and October 3, 2019 Port Commission meetings. Commissioner DonCarlos moved for approval, seconded by Commissioner Branch. The minutes were approved as written.

(2019-1111-02) Chairman Campo asked if anyone would like to address the Port Commission; there was no response.

The Port Commission then considered each Request for Port Commission Action (“RCA”) attached to these minutes as Exhibit “A.”

(2019-1111-03) Chairman Campo recognized Tom Heidt, Chief Operating Officer, to provide a report of selected Commercial agenda items.

Mr. Heidt outlined agenda Item E1, which was a change of control for a lease with Houston Fuel Oil; the lease remains unaffected. Chairman Campo noted that the credit of the company had improved as a result of the change of control.

(2019-1111-04) RCA E1 was presented, moved by Commissioner Branch, seconded by Commissioner Fitzgerald. Chairman Campo, and Commissioners Branch, Corgey, DonCarlos, Fitzgerald, and Mease voted Aye. Nays none. RCA E1 PASSED.

(2019-1111-05) Chairman Campo recognized Rich Byrnes, Chief Infrastructure Officer, to provide a report of selected agenda items.

Mr. Byrnes explained that agenda Item G1 was a very large item. He noted that the widening and deepening project was progressing as fast as possible, and one of the project's steps was to make sure the design was as complete as possible by the time the project was authorized by the upcoming Water Resources Development Act (WRDA).

The design process was initiated two months ago when a \$5.5 million contract was awarded by the Port Commission to begin geotechnical work. The next step was the technical analysis on the current agenda. Mr. Byrnes noted that the award would go to two companies.

Chairman Campo asked if Mr. Byrnes could give an update as to the status of the memorandum of understanding (MOU) with the Army Corps of Engineers (Corps), since the Port Authority was advancing costs in order to start the work more quickly. Mr. Byrnes explained that staff had conversed with the Corps to determine what enabling legislation would permit the agreement during a "Tier 1" meeting the previous week where staff met with district staff from Galveston, the colonel in command at Galveston, and the general in command of the division. The applicable statute was clarified at the meeting and now the MOU was undergoing revision before it was signed.

Mr. Byrnes asked Charlie Jenkins, Senior Director, Strategic Programs, when the final MOU would be signed, and Mr. Jenkins reported that the MOU would be signed within the week and that the work awarded by the Port Authority would go back to prior to the date of the agreement and still qualify. Mr. Byrnes added that the MOU was just one agreement in a series of agreements to be entered into.

Commissioner Mease noted the agenda reflected two engineering companies that would be working on one phase of the project and asked what phase the companies would be doing. Mr. Byrnes explained that the work had been allocated based on which company staff thought most appropriate to carry it out: one company would be responsible for the design and technical analysis of Segments 1 and 2, while the other would get Segments 3 and 4. Commissioner Mease suggested that one company would be receiving more money than the other and concluded that Segments 3 and 4 encompassed a larger amount of work, but Mr. Byrnes clarified that the company with the smaller award had already been awarded \$5.5 million previously, which accounted for the disparity. Mr. Byrnes reiterated that the work was divided based on which company was best suited to each task.

Mr. Byrnes introduced Lori Brownell, Director of Channel Improvement, to give more technical detail relating to the proposed contracts.

Ms. Brownell reported that the Corps feasibility study – a four-year study – was nearing completion and a final report from the Chief of Engineers was due in April 2020. As part of that study, the Port Authority had to submit a Letter of Intent, Letter of Financial Capability, and Letter of Real Estate Acquisition Capability. The goal of the Port Authority was to get the deepening and widening project authorized by WRDA in the fall of 2020 and to start construction in 2021, three years in advance of the current Corps schedule.

Ms. Brownell explained the accelerated project and parallel path approach, referencing important dates in order to get the feasibility study completed and authorized by WRDA 2020. To be accomplished, there were a series of agreements needed between the Port Authority and the Corps: the Work in Kind Agreement, Design Review Agreement, Advance Construction Agreement, and Project Partnership Agreements. The agreements would ensure that the Port Authority and the Corps work hand-in-hand in the design efforts so that the project could begin in 2021.

Ms. Brownell emphasized that all work would be carried out in accordance with the regulations and guidelines of the Corps, which would have plenty of opportunities to review it at all critical junctures.

The main acceleration focus of the project was Segments 1-4. Technical design features that were part of the agenda item for the Port Commission's consideration included widening of the barge lanes in Galveston Bay, deepening and widening of the upper reaches, upland placement areas at Beltway 8 and East Clinton, bay placement areas, and engineering plans and specifications through final design.

Ms. Brownell described the aspects of the project that were led by the Port Authority included Segments 1-4, encompassing Bolivar Roads all the way to Beltway 8. The Corps-led aspects of the project included Segments 5 and 6 located west of Beltway 8 to the Turning Basin area. The Corps-led portion of the project was not expected to start until 2024 while the Port Authority was pushing to begin work on its portion in 2021.

Ms. Brownell noted that Segments 1A, 1B, and 1C would be widened to 700 feet with barge lane relocation. Segment 2 – which is the Bayport Ship Channel – would be widened to 455 feet, and Segments 3 and 4 would also be widened along with the construction of the Barbours Cut Flare and the turning basin.

Ms. Brownell noted that there were two contracts to be awarded, one to a joint venture between Gahagan and Bryant and AECOM and the other awarded to HDR. They all would have similar technical roles with project management, stakeholder engagement, geotechnical aspects, and design and engineering. The joint venture would be focusing on Segments 1 and 2 while also doing ship simulations with WSD. HDR would focus on

Segments 3 and 4 including bulkhead design, ship sloping simulations, and public outreach. Both contracts would include a number of subcontractors.

Mr. Guenther remarked that Ms. Brownell, while only working for the Port Authority for nine weeks, had done an excellent job.

Commissioner Corgey asked if the schedule on page three of the handout represented a best-case scenario for the project timeline, and Ms. Brownell answered in the affirmative.

Mr. Guenther clarified that at the Tier 1 meeting with the Corps the previous week it was confirmed that the Chief's Report must be signed by April 29th and everything currently depended on this critical date.

(2019-1111-06) RCA G1 was presented, moved by Commissioner Corgey, seconded by Commissioner Mease. Chairman Campo, and Commissioners Branch, Corgey, DonCarlos, Fitzgerald, and Mease voted Aye. Nays none. RCA G1 PASSED.

(2019-1111-07) Chairman Campo recognized Jeff Davis, Chief Port Operations Officer, to provide a report of selected agenda items.

Mr. Davis noted that the one item on the Port Operations agenda was for general rate increases across the board, equal to the increase in the consumer price index for the twelve months prior to July 2019, for all three tariffs including both container terminals and the general cargo facilities. The item was publicly mentioned last month to give notice to all users and allow the opportunity for any feedback.

Commissioner Mease asked how the proposed increase would compare to rate increases in other areas. Mr. Davis observed that public data related to Commissioner Mease's question was limited and he was unable to give an accurate answer. He did note that the Harbor Fee would be going up 3%, which was a slightly greater increase than the other tariffs.

Chairman Campo commented that the Port Authority was bound by contract and unable to increase the tariff by more than the current recommended amount. Mr. Davis confirmed this and emphasized that the referenced obligation was limited to the container terminals.

Mr. Guenther added that the Port Authority was competitively priced, and there were ports on the east and west coasts priced both higher and lower. Staff felt confident it could attract cargo and have the cash to build new terminals and make the investments needed.

(2019-1111-08) RCA H1 was presented, moved by Commissioner Corgey, seconded by Commissioner Branch. Chairman Campo, and Commissioners Branch, Corgey, DonCarlos, Fitzgerald, and Mease voted Aye. Nays none. RCA H1 PASSED.

(2019-1111-09) Chairman Campo recognized Tim Finley, Chief Finance Officer, to provide a report of selected agenda items.

Mr. Finley greeted all those present and referenced the meeting materials distributed to the Port Commission and shown on the screen. He advised there were no tax revenues included in the operating budget since those revenues were used exclusively for debt service and added that any expenditure over \$50,000 would continue to be brought to the Port Commission for its approval. He pointed out that 2020 budget comparisons were being made to the 2019 budget reforecast, an update to the 2019 budget that was prepared by staff as of July 2019.

Mr. Finley stated that economic growth expectations for 2020 trended consistently from 1.9 – 3.5%. 2020 operating revenue growth was projected to grow 7% to \$425 million, with 80% of those dollars coming from growth in containers, generating \$185 million in cash flow, up 4% from expected 2019 results. The container terminals projected about 5% growth in units, stemming from an increase in loaded export boxes. General cargo was showing good growth for next year, but steel volume would continue to soften. He added that steel volume was very strong in the first half of 2019 but had fallen precipitously over the past few months.

Commissioner Branch asked if the decrease in steel volume was due to the geopolitical climate or to slowing in the oil industry. Mr. Finley responded that it was both, adding that rig counts were mostly flat.

Commissioner DonCarlos remarked that there had been talk of the U.S. and China starting to soften tariffs, and that he assumed a reduction in tariffs would positively impact steel numbers; Mr. Finley agreed.

Mr. Finley highlighted investments in employee programs and tools, community, and other improvement initiatives, resulting in increased spending for 2020. Promotion and Development investments will increase about 6% which was approximately \$6 million. Headcount growth included about 25 new positions for 2020.

There was also the \$232 million capital plan focused primarily on the container terminals, and Mr. Finley noted that liquidity projections showed sufficient resources to fund it before consideration of the accelerated five-year construction funding requirements for the deepening and widening project. A 50/50 scenario has been used for the latter,

showing the Port Authority and private industry evenly splitting the cost. A debt instrument of some sort would need to be issued in order to fund the Port Authority's 50% share, so debt service had been "baked into" the liquidity forecast to show very rough numbers.

Mr. Finley projected that total income for 2019 would be just under \$400 million in operating revenue, up about 7% through October. Because there had been a slight softening of export containers, projected cash generation would be slightly less than the \$178 million initially projected, also due to the investment made in the pension plan to offset dropping the discount factor, which accounted for approximately \$4 million. Notwithstanding the foregoing, 2019 was tracking as expected.

Mr. Finley advised that the projected income for 2020 would be \$425 million, a growth of 7%, generating \$185 million of cash flow accounting for a growth of 4%. If achieved, the \$425 million projected income would be an increase of 45% over the five-year period.

He also gave an in-depth review of the income statement, calling specific attention to the gross margin, which is the beginning of the cash flow. The Port Authority had been fairly consistent in this category, staying around the 39% range through 2019 actuals and into 2020 projections. Looking into the five-year plan, depreciation on capital would begin to catch up.

Mr. Finley highlighted general and administrative expense accounts for 14% of revenue for both the 2019 and 2020 budget. The 2020 budget has grown to \$61 million in this category, which Mr. Finley believed was slightly high, and did not believe would be attained. He added that from an affordability standpoint, the Port Authority could afford it.

Operating income would remain quite strong at a budgeted 25% of revenue in 2020. The final budgeted cash flow, when accounting for all miscellaneous expenses, came out to \$183 million in 2020, continuing to earn \$0.43 cash on every dollar.

Commissioner DonCarlos asked if the Port Authority would make its reforecast numbers. Mr. Finley responded that the Port Authority is about \$10 million behind through October, closer to its original budget than to its reforecast, which was unusual. Commissioner Branch asked for an explanation for the decrease, and Mr. Finley reiterated that the reduction came from a decrease in export containers in the past few months. Mr. Davis interjected that exports were still strong, just not as strong as predicted: export containers were up 15%, but staff had reforecasted a higher increase.

Commissioner Fitzgerald commented the softening in projected container exports could have been due to industry plants unable to export resins as quickly as expected, and observed that if this was the case, then it was in fact industry's projections that were off; Mr. Finley agreed.

Mr. Finley explained that total container growth was projected at a 5% increase, with export loads up 8% as resin production increased. Empty import containers needed to fuel exports would be up approximately 9%, steel projected to decrease by 10%, total automotive cargo tonnage projected to increase by 6%, and other general cargo such as cement, grain, project cargo, etc. was also projected to increase 6% in tonnage.

Commissioner DonCarlos asked for an update on autos at Bayport, asking if any new lines had been added and how many cars were coming through per month. Mr. Davis stated that no new lines had been added and that the final number being delivered on the year would be approximately 10,000. Mr. Eriksson observed that Fiat Chrysler Automobiles had just announced a merger which may impact volumes in the future, hopefully for the better.

Mr. Finley moved to an operating revenue analysis for key changes in the upcoming 2020 budget, noting that 80% of the dollar growth comes from containers: container revenue was projected to increase by \$22 million. Channel development, with the submerged land program up and running, would increase by \$2 million in the upcoming year, and Turning Basin revenues up \$3 million from cargo and lease revenues.

Mr. Finley reiterated that the container terminals drove revenue, comprising 77% of the total, or \$337 million. Turning Basin revenue was projected to be \$57 million, growing 5%. Lease revenue was projected to be down 7%, due in large part to the move of submerged land leases into the Channel Development department, creating a misleading representation.

Mr. Finley advised that expenses were forecast at \$293 million in 2019 compared with an expected \$321 million for 2020. Expenses were driven by Port Authority salaries and International Longshoremen's Association (ILA) labor costs tied to increasing container volumes, depreciation and amortization related to capital projects, and wharf maintenance. Also included in expenses were general and administrative costs including Port Authority salaries, benefits, consulting fees, the merit program, the incentive program, and other expenses mostly related to the Executive Office Building renovation. The bulk of the change in the Port Authority expenses was driven by headcount. There were currently 25 open positions available comprised of four that were previously approved and not yet executed and 21 backfills. Additionally, there are 25 positions that the Port Authority was seeking approval for in 2020.

Chairman Campo asked for the timetable related to the Executive Office Building renovation. Mr. Heidt reported that the options had been narrowed down and were being discussed with the architect and he hoped that a decision could be reached in the upcoming months. Commissioner Branch asked if staff explored the possibility of constructing a new building, and Mr. Heidt confirmed that was one of the current options being explored.

Commissioner DonCarlos stressed that any new construction should be built with added capacity to accommodate future growth, observing that the current building was at capacity. Mr. Heidt agreed and clarified that even if the building was to be renovated, it would be carried out to increase capacity to accommodate growth.

Commissioner Fitzgerald asked if it made sense to change the location of the offices to get away from the restricted access caused by the 610 freeway. Mr. Guenther agreed and remarked that location was one of a number of factors under consideration when deciding which option to choose.

Mr. Finley reviewed all expenses, noting that salaries and benefits, including labor, comprised 50% of the total spend, the largest amount; the next largest was depreciation at 24%, or around \$80 million. Discretionary spending, which was made up of a host of items such as fees and services, etc. increased by 16% over the 2019 budget.

Mr. Finley went into more detail on staffing growth, noting that as of September 2019 there were 679 Port Authority staff members with the previously mentioned 25 open positions for a total of 704. As part of the 2020 budget, staff was asking for approval of an additional 25 new positions broken down for the following divisions: 16 in Port Operations, three for Port Security and Emergency Operations, three for Infrastructure, two for Information Technology, and one for Legal.

Mr. Finley reviewed the operating cash flow that would fund the 2020 Capital budget of \$232 million. Items included strategic projects almost entirely related to the Bayport Container Terminal, recapitalization projects, channel projects including channel project placement area preparation at Beltway 8, and other remaining projects including replacement of maintenance equipment.

Commissioner Branch asked if the construction of the new Container Yard 7 was a joint venture. Mr. Guenther clarified that the yard belonged solely to the Port Authority. "Joint ventures" had been entered into in the past in which the Port Authority leased the land and a tenant was responsible for all improvements, but that was not the case for Yard 7.

Regarding liquidity projections, Mr. Finley reminded the Port Commission that it did not reflect cash balances but rather funds available for award. He advised the Port

Commission that \$89 million was expected to be available at the end of 2019 with cash available between \$150 and \$300 million, adding that the cash paid out over the project lifecycle, be it 18 months, 20 months, or more.

Total cash flow for the end of 2019 was rounded to \$175 million with \$282 million in awarded projects, close to the \$287 million approved for 2019. In 2020, net uses were projected at \$232 million, with \$41 million available at year end and \$39 million at the end of 2021.

Mr. Finley explained the costs relating to the deepening and widening, including approximately \$30 million in 2019, which consisted of the geotechnical surveys earlier awarded by the Port Commission and the funds awarded in agenda Item G1. Staff planned to recover 50% of these funds in the future. The Beltway 8 work as part of the deepening and widening was projected at \$9.5 million in 2020. Finally, approximately \$283 million was projected for 2021 costs associated with the accelerated plan. Additional costs related to the deepening and widening were outlined in the Five-Year Plan including debt service accounted for and taken out of cash flow beginning in 2021.

Chairman Campo stressed that these numbers showed the Port Authority had capacity to fund its 50% portion of the project either through debt financing or current cash flow. Mr. Finley remarked that the Port Authority would not issue all \$283 million in debt in 2021 but rather in tranches, as each year of the contracts needed to be funded.

Commissioner DonCarlos referenced his handout and asked for an explanation of a discrepancy of \$40 million in the Funds Available, End of Period section. Mr. Finley clarified that the funds were moved and visually showed Commissioner DonCarlos where the funds had been allocated.

Mr. Finley wrapped up his 2020 Budget Presentation and asked for any questions. Commissioner Branch reiterated that staff was anticipating 50% of the deepening and widening expenditures to be returned, and Mr. Finley concurred that the numbers reflected only the 50% share of the Port Authority; an additional \$283 million was expected to come from private industry.

Commissioner Mease remarked that staff was anticipating carrying its 50% share out of revenues, and Mr. Finley responded in the affirmative. Commissioner Mease noted that doing so would save money on the interest being paid for bonds. Mr. Eriksson clarified that the Port Authority might have to issue debt to fund potentially large contracts and would subsequently payoff said debt, which would mean that the Port Authority might not necessarily be saving on interest expenses.

Chairman Campo observed that the key point would be what the lowest cost of issuance was for any debt, adding that future capital market and interest rate conditions may also play a part in the decision to incur debt.

Commissioner DonCarlos observed that the Chief Government Relations Officer position had not been filled and had been vacant for some time. Mr. Guenther clarified that the search had previously been closed but recently the search was reinstated.

(2019-1111-10) RCA F1 was presented, moved by Commissioner Mease, seconded by Commissioner DonCarlos. Chairman Campo, and Commissioners Branch, Corgey, DonCarlos, Fitzgerald, and Mease voted Aye. Nays none. RCA F1 PASSED.

Commissioner Branch asked if general obligation bonds had been totally ruled out, and Chairman Campo responded that nothing had been ruled out and all options would be considered when the time came to finance the project.

Commissioner Branch noted that the forthcoming elections in 2020 would be a constraint, and Chairman Campo commented that there were many permutations on what could be done. Currently there were two things that must be accomplished: get WRDA passed and figure out how the remaining 50% of the project would be funded. Industry had so far remained consistent in its willingness to help pay for the project, but the question remains how industry would contribute and what would it look like.

Commissioner Mease asked if there were any updates regarding the role of industry in the financing of the project, and Chairman Campo remarked that industry had been consistent in stating it would help fund the project. The current question was how it would be accomplished. Industry had been waiting on a report from the Houston Pilots detailing the rule changes projected for a 700-foot channel based on the Pilots's simulations. Those simulations had been completed and the report was being generated. Mr. Guenther added that there were many meetings being held with different ideas being generated.

Commissioner Mease understood that the entire project had to be engineered by the Port Authority before any work could commence on the individual segments. Chairman Campo stressed that to keep to the accelerated schedule, the entire project needed to be engineered at once. There was risk in this process as all these costs were incurred before approval through WRDA, and if WRDA was not passed in 2020, then plans would have been completed well in advance. Chairman Campo noted however that indications from both political parties was that WRDA should be passed in 2020 as planned.

Mr. Guenther added that regardless of when WRDA passed, the Port Authority would want to have all design plans completed so that it was ready to start once WRDA passed and the project was authorized.

(2019-1111-11) RCA F2 was presented and discussed.

Mr. Finley presented a brief overview, for informational purposes only, of the Five-Year Plan. He pointed out that Operating Revenues reflected a 5% compound annual growth rate across the plan. Interestingly however in 2023 there was a projected 6% growth, due to another round of projected polyethylene capacity put into place with the ability to generate additional resin exports.

Mr. Finley explained that Total Cash Flow included debt service tied to a 50/50 cost share with industry for the deepening and widening project. He noted that 2021 was projected to include approximately \$10 million of debt service, growing to about \$20 million in 2022, and then \$30 million in both 2023 and 2024. This illustrated that the Port Authority could accomplish its own Capital Improvement Plan funding and have the room to fund debt service at a 50% share.

Mr. Finley noted that Non-Operating Revenue and Expense showed interest expenses exiting the Cash Flow through the five-year horizon. Dollars per revenue stayed above \$0.40 but begins to dilute due to funding the debt service in 2022 and 2023.

Mr. Finley reiterated that the first monetary commitment of \$283 million related to the deepening and widening project was slated for 2021 with nothing planned for 2022. The final \$140 million for the project was to be dispersed in 2023. He stressed that the numbers represented awards of future projects, not cash balances. He added that the Port Authority also had a \$100 million line of credit in place to serve as a backstop should it be needed in the coming years.

Chairman Campo recognized that the numbers also showed \$600 million of additional capital expenses being spent at the same time, including the deepening and widening project. If money became an issue in the future, the Port Authority could elect not to spend the \$600 million designated for other projects, and so the numbers show good flexibility from a cash flow perspective, even with the channel improvements.

Mr. Guenther remarked that five years ago it was anticipated that the Port Authority would handle 2.5 million TEUs in 2019, and yet the actual number will be close to 3 million. The forecasts were dynamic from year to year. Hypothetically a new company moving to the Houston area could bring upwards of 80,000 TEUs by building a warehouse, which would increase growth by 2.5 – 3% over the current projected volume.

Mr. Finley concluded his report and recognized the staff members who worked on the budget and created the presentation: Alex Skinner-Klee, Director, Financial Planning, Katrina Stewart, Financial Planning Analyst, and David Dupre, Business Analyst.

Chairman Campo commented that when he was considering joining the Port Authority, one of the first things he did was look at its finances. He complimented staff on doing a great job of positioning the Port Authority to create value for the region: to have enough capital to fund Project 11 and have other investments worth up to \$600 million ensured that more jobs could be created with more cargo.

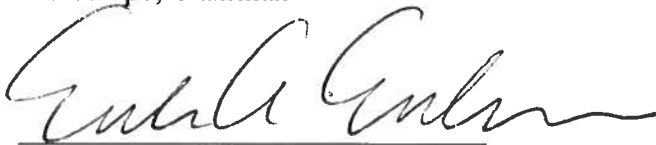
Chairman Campo announced that the next Port Commission Meeting would be held on Wednesday, December 11, 2019.

At 11:10 a.m., Chairman Campo adjourned the Port Commission meeting.

The above is a correct copy of the Minutes of the November 11, 2019 meeting of the Port Commission of the Port of Houston Authority.

A handwritten signature in black ink, consisting of a stylized 'R' followed by a loop and a long horizontal line extending to the right.

Ric Campo, Chairman

A handwritten signature in black ink, appearing to read 'Erik A. Eriksson' in a cursive script.

Erik A. Eriksson, Secretary

E. COMMERCIAL

Subject **1. Approve the change of control of HFOTCO, LLC, tenant under two Port Authority leases, following the merger by and among SemGroup Corporation, Energy Transfer LP, and Nautilus Merger Sub LLC with SemGroup Corporation continuing as majority owner of HFOTCO, LLC and becoming a wholly-owned subsidiary of Energy Transfer, LP.**

Meeting Nov 11, 2019 - PORT COMMISSION OF THE PORT OF HOUSTON AUTHORITY

Access Public

Type Action

Recommended Action The Port Commission, at its November 11, 2019 approve the change of control of HFOTCO, LLC, tenant under two Port Authority leases, following the merger by and among SemGroup Corporation, Energy Transfer LP, and Nautilus Merger Sub LLC with SemGroup Corporation continuing as majority owner of HFOTCO, LLC and becoming a wholly-owned subsidiary of Energy Transfer, LP, and further authorize the Executive Director to do any and all things in his opinion reasonable or necessary to give effect to the foregoing.

Goals STRATEGIC GOAL #3 - INFRASTRUCTURE (Provide and facilitate infrastructure to meet demand)

Category:
Leases

Department:
Real Estate

Staff Contact:
R.D. Tanner

Background:

The Port Authority has two leases with HFOTCO, LLC (HFOTCO). The lease at Care Terminal, authorized by the Port Commission by Minute No. 2013-0924-40, is a thirty-year lease agreement that included tenant's obligation to construct a single T-Head ship dock and related improvements. The lease at Jacintoport Terminal authorized by the Port Commission under Minute No. 2011-0125-13, facilitates pipeline connectivity over the eastern edge of Jacintoport Terminal to HFOTCO's tank farm north of Jacintoport Boulevard.

In 2017 SemGroup Corporation (SemGroup) acquired control of HFOTCO from Alinda Capital Partners (Alinda), with that change of control approved by Minute No. 2017-0627-10.

Staff Evaluation/Justification:

Staff has reviewed the terms of the change of control and merger transaction, including the public filings, and recommends the Port Commission approve this request.

G. INFRASTRUCTURE

Subject	1. Award two professional services contracts, one in an amount not to exceed \$8,839,920 to TC&B/GBA, a Joint Venture of Turner Collie & Braden Inc. and Gahagan & Bryant Associates, Inc., and one in an amount not to exceed \$13,248,953 to HDR Engineering, Inc., to provide professional services for engineering, design, project coordination, and other general assistance for the Houston Ship Channel Expansion Channel Improvement Project.
Meeting	Nov 11, 2019 - PORT COMMISSION OF THE PORT OF HOUSTON AUTHORITY
Access	Public
Type	Action
Recommended Action	The Port Commission, at its November 11, 2019 meeting, award two professional services contracts, one in an amount not to exceed \$8,839,920 to TC&B/GBA, a Joint Venture of Turner Collie & Braden Inc. and Gahagan & Bryant Associates, Inc., and one in an amount not to exceed \$13,248,953 to HDR Engineering, Inc., to provide professional services for engineering, design, project coordination, and other general assistance for the Houston Ship Channel Expansion Channel Improvement Project, and further authorize the Executive Director to do any and all things in his opinion reasonable or necessary to give effect to the foregoing.
Goals	STRATEGIC GOAL #3 - INFRASTRUCTURE (Provide and facilitate infrastructure to meet demand) STRATEGIC GOAL #4 - STEWARDSHIP (Sustain the business for the long-term)

Category:

Awards, Amendments & Change Orders

Department:

Channel Improvement

Staff Contact:

Lori Brownell

Background:

The Houston Ship Channel (HSC) is the busiest deep-draft international trade waterway in the nation, and improvements to the HSC are needed for improved safety and the future growth of regional and national commerce. Widening the entire Bay Reach of the HSC (from Bolivar Roads to Morgan's Point) will continue to allow the two-way traffic essential for safety, energy security, and this economic growth. This channel widening, along with deepening in some segments and other channel improvements, is the eleventh and next major HSC improvement project and is referred to as the Houston Ship Channel Expansion Channel Improvement Project (HSC-ECIP).

The sooner the HSC is widened and improved, the sooner that these important objectives of safety and growth will be met. The "business-as-usual" process, working on the customary federal schedule, is expected to result in completion by 2030. Since there is significant demand from industry to accelerate this schedule to take advantage of current economic conditions and facilitate future growth, the Port Authority has proposed an expedited schedule, whereby dredging could begin by 2021 and the project completed in 2024.

The existing Houston-Galveston Navigation Channels, Texas (HGNC) project is the tenth major project of the Houston Ship Channel Project. An advertised request for qualifications (RFQ) was issued earlier this year for professional services for engineering, design, construction management, project coordination, and other general assistance to provide the described professional services to support the Port Authority

in its partnership with the U.S. Army Corps of Engineers (USACE) on the remaining HGNC project components.

The Port Commission approved staff's ranking of the most qualified providers (on the basis of demonstrated competence and qualifications) to perform these services - first, TC&B/GBA, a Joint Venture of Turner Collie & Braden Inc. and Gahagan & Bryant Associates, Inc. (Joint Venture); second, HDR Engineering, Inc. (HDR); and third, Lloyd Engineering, Inc., and awarded contracts to the Joint Venture and HDR at its April 23, 2019 meeting.

Based on this evaluation, the Port Commission awarded a contract to the Joint Venture to start preliminary critical-path professional services for engineering, design, project coordination, and other general assistance for the HSC-ECIP in an amount not to exceed \$5,500,000 at its September 24, 2019 meeting. The main purpose of the critical path award was to start the fieldwork data collection necessary to begin design activities.

Staff Evaluation/Justification:

The next step in the accelerated development process for the HSC-ECIP begins with Pre-construction Engineering and Design (PED) services. To accommodate the size, timeframe, and resources needed for the project, Port Authority staff and leadership recommend obtaining professional services for PED and related services for the HSC-ECIP. These agreements are a critical component to accelerate this nationally significant project.

In the judgment of Port Authority staff, the three firms evaluated in the RFQ described in the section above, in the same ranking order, are also the most highly qualified to provide the PED and related services required for the HSC-ECIP, based on the qualifications provided in the RFQ responses, and on the Port Authority's years of experience in working with the firms on HSC projects.

Staff recommends the Port Commission authorize that contracts be awarded to the Joint Venture and HDR.

H. OPERATIONS

Subject **1. Approve increases in Port Authority tariff charges including dockage, wharfage, throughput charges, container storage rates, container crane and private crane rental rates, water hookup rates, freight handling rates, and miscellaneous other tariff charges at amounts equal to the 1.8% increase in the Consumer Price Index average for the 12-month period ending July 2019 as published by the U.S. Bureau of Labor Statistics, and an increase in the Harbor Fee equal to 3%, such increased charges to be included and published in Port Authority Tariff Nos. 8, 14, and 15 effective January 1, 2020.**

Meeting Nov 11, 2019 - PORT COMMISSION OF THE PORT OF HOUSTON AUTHORITY

Access Public

Type Action

Recommended Action The Port Commission, at its November 11, 2019 meeting, approve increases in Port Authority tariff charges including dockage, wharfage, throughput charges, container storage rates, container crane and private crane rental rates, water hookup rates, freight handling rates, and miscellaneous other tariff charges at amounts equal to the 1.8% increase in the Consumer Price Index average for the 12-month period ending July 2019 as published by the U.S. Bureau of Labor Statistics, and an increase in the Harbor Fee equal to 3%, such increased charges to be included and published in Port Authority Tariff Nos. 8, 14, and 15 effective January 1, 2020, and further authorize the Executive Director to do any and all things in his opinion reasonable or necessary to give effect to the foregoing.

Goals STRATEGIC GOAL #3 - INFRASTRUCTURE (Provide and facilitate infrastructure to meet demand)

Category:

General

Department:

Operations

Staff Contact:

Jeff Davis

Background:

Port Authority terminals must remain competitive to meet the increasing demands of the maritime trades. Staff anticipates that the cost of operations, including third-party expenses, will in general continue to increase in 2020, as reported by the change in the Consumer Price Index (CPI) for All Urban Consumers (CPI-U), United States city average, measured over a 12-month period.

Staff Evaluation/Justification:

In view of escalating costs and expense increases and recognizing the need to keep Port Authority terminals competitive and operating at compensatory levels to meet the ever-increasing demands of the maritime trades, staff has determined that it is advisable to implement increases in certain tariff charges, including dockage, wharfage, throughput charges, container storage rates, container crane and private crane rental rates, water hookup rates, freight handling rates, and miscellaneous other rates. These 1.8% increases, equal to the CPI increase, should enable the Port Authority to maintain its facilities and services as a competitive port and continue to meet the needs of its customers.

Staff is also requesting a 3% increase in the Harbor Fee per vessel charge, to continue to permit a fee that is both reasonable and more precisely compensates the Port Authority for the cost of fire response and related services.

Staff recommends the Port Commission approve the above tariff charge increases.

F. FINANCE

Subject	1. Consideration and possible action regarding the proposed Fiscal Year 2020 Operating and Capital Budget.
Meeting	Nov 11, 2019 - PORT COMMISSION OF THE PORT OF HOUSTON AUTHORITY
Access	Public
Type	Action
Recommended Action	The Port Commission, at its November 11, 2019 meeting, consider and take possible action regarding the proposed Operating and Capital Budget for Fiscal Year 2020, and further authorize the Executive Director to do any and all things in his opinion reasonable or necessary to give effect to the foregoing.
Goals	STRATEGIC GOAL #4 - STEWARDSHIP (Sustain the business for the long-term)

Category:
General

Department:
Finance

Staff Contact:
Alex Skinner-Klee/Tim Finley

Background:
The Special District Local Laws Code includes the following requirements:

Sec. 5007.223. BUDGET. The port commission shall annually adopt a budget for the authority in an open meeting.

Sec. 5007.224. ONE-YEAR CAPITAL PLAN.

(a) Appropriate staff shall develop a one-year capital plan, including associated financing that is integrated with the budget of the authority.

(b) The port commission shall adopt the one-year capital plan in an open meeting.

(c) The port commission shall establish and document a detailed process for the analysis and approval of a project proposed for inclusion in the one-year capital plan. A project may be included in the one-year capital plan only if it is approved in accordance with that process.

A proposed Operating Budget has been developed by staff to guide it in the operation and management of Port Authority facilities and activities for Fiscal Year 2020. In addition, staff has followed its standard process for review and analysis of capital projects, and prepared a proposed 2020 Capital Budget to address the most urgent infrastructure needs in line with the Port Authority's strategic direction, and as required by law.

Staff Evaluation/Justification:

In accordance with its Strategic Planning Policy, the Port Authority has made available to the public by posting on its website the proposed Fiscal Year 2020 Operating and Capital Budget at least seventy-two hours prior to this meeting.

Staff recommends that the proposed Operating and Capital Budget be adopted for Fiscal Year 2020.

F. FINANCE

Subject	2. Staff briefing, discussion, and possible action regarding the proposed Five Year Operating and Capital Plan.
Meeting	Nov 11, 2019 - PORT COMMISSION OF THE PORT OF HOUSTON AUTHORITY
Access	Public
Type	Action
Recommended Action	The Port Commission, at its November 11, 2019 meeting, hold a staff briefing, discussion, and possible action regarding the proposed Five Year Operating and Capital Plan, and further authorize the Executive Director to do any and all things in his opinion reasonable or necessary to give effect to the foregoing.
Goals	STRATEGIC GOAL #4 - STEWARDSHIP (Sustain the business for the long-term)

Category:
General

Department:
Finance

Staff Contact:
Alex Skinner-Klee/Tim Finley

Background:
The Special District Local Laws Code includes the following requirements:

Sec. 5007.222. MID-RANGE PLANNING.

(a) Appropriate staff shall develop a mid-range plan consistent with the long-range plan. The mid-range plan must include:

- (1) a five-year financial forecast addressing the financial needs and financing options of the authority for the five-year period, with information about the relative cost of the options;
- (2) a five-year capital plan, including a preliminary analysis and prioritization of projects; and
- (3) other detailed action plans as the port commission or staff finds necessary to achieve the goals of the mid-range plan or long-range plan.

(b) The staff shall present the mid-range plan in an open meeting of the port commission. The port commission is not required to adopt a mid-range plan.

A proposed Five-year Operating and Capital Plan has been developed by staff for the year 2020-2024 as required by law.

Staff Evaluation/Justification:

In accordance with its Strategic Planning Policy, the Port Authority has made available to the public by posting on its website the proposed Five-Year Operating and Capital Plan at least seventy-two hours prior to this meeting.