

# 2018 Budget Presentation

Port of Houston Authority  
November 14, 2017





## **Foreword**

- This proposed 2018 operating budget and capital plan has been developed to guide staff in the operation and management of Port Authority facilities and activities for Fiscal Year 2018. It is being presented to the Port Commission on November 14, 2017.
- Note that the operating budget does not include tax revenues, 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 and capital projects exceeding \$50,000 will continue to be presented separately to the Port Commission for approval in accordance with statutory requirements.
- References to "2017 Budget Reforecast" refer to an update to the 2017 Budget that was prepared by staff as of July 2017 and submitted to the Port Commission. It has been posted on the Port Authority's website ([www.portofhouston.com](http://www.portofhouston.com)).



## Executive Summary – 2018 Budget

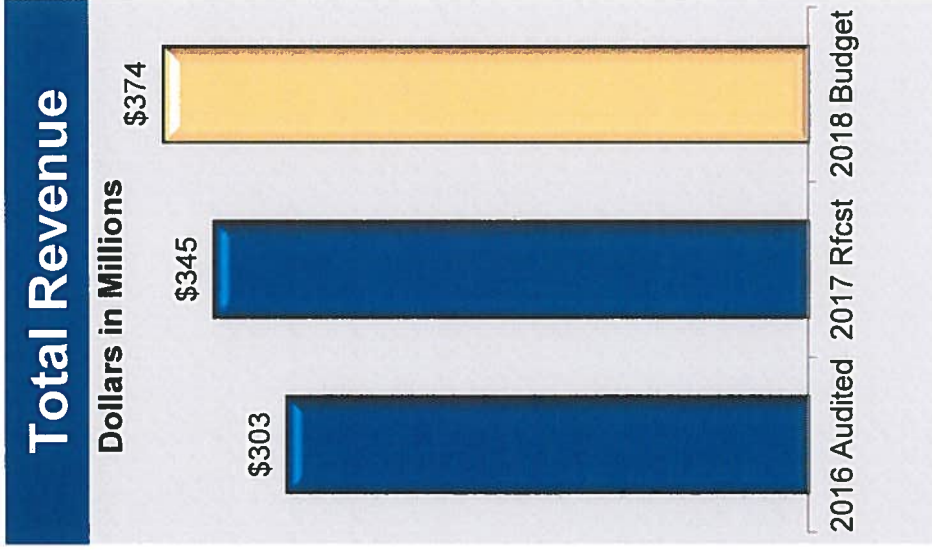
- Total Revenue growing 9% over 2017 mid-year forecast, fueled by Containers
  - Anticipating new resin production to ramp up in 2018
- Expenses up 8%\* driven primarily by operations growth and terminal/asset investments, comprising 80% of the increase
- Net Operating Income up 14%\*, with margin on revenue growth funding our operating and strategic objectives
- Headcount growth of 21 new positions for 2018
  - 18 Operations (volume growth); 3 G&A (1-Infrastructure, 1-HSSE, 1-Technology)
- Cash Flow increases 6%\* in 2018 to \$158 million
- \$275 million Capital Plan focused primarily on Container Terminal development & reinvestment (~70% of Plan)
- Liquidity projections show sufficient resources to fund Capital Plans through 2019

\* excluding settlement charges in 2017

# Revenue expansion on continued growth in Container volumes



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- **Total revenues increase 8.5%**
  - Compared to 2017 Budget Reforecast
- **13% Container Terminals revenue growth on a 9% increase in TEUs**
  - Export loads up 15.5%, Import loads up 3%
  - Empty units up 5.8%
- **Turning Basin showing modest growth of 1%**
  - Steel up 3% and other general cargos 1%

# Outlook is for a strong 2018 with solid financial results

Dollars in Millions

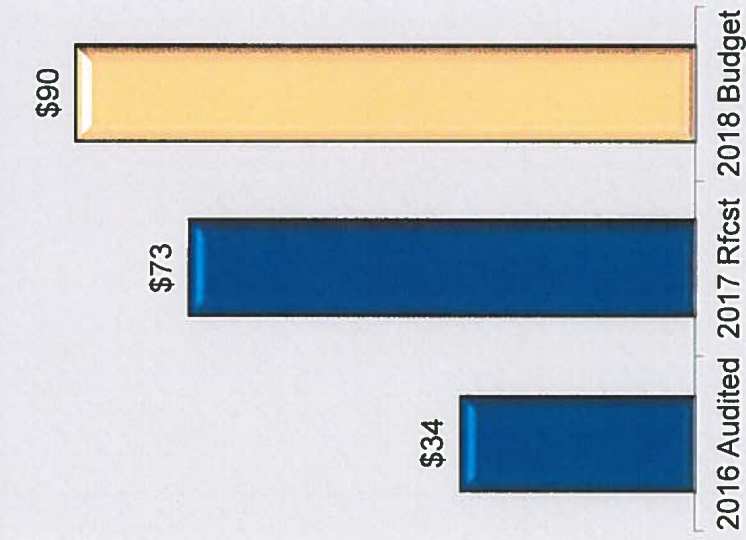


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## Total Revenue



## Net Income



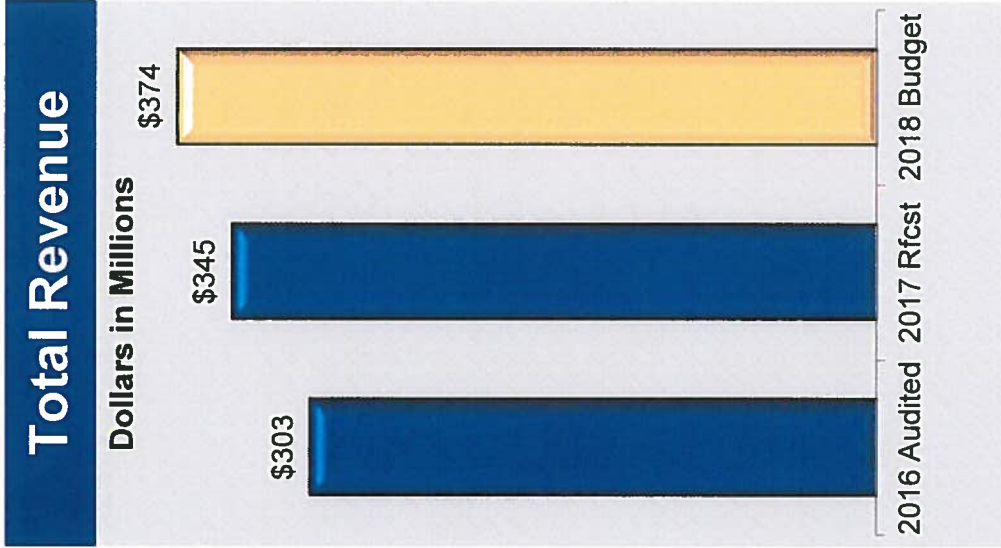
## Cash Flow



# 2018 Revenue expected to increase on continued Container business execution



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## Revenue Analysis

Dollars in Millions

2017 Reforecast – Total Revenue	\$345
	<u>Change</u>
• Increase in Container revenue driven by volume growth (primarily Export Loads)	33
• Increase in Channel Development revenue streams due to DMA Fees and Leases of Submerged lands	2
• Decrease in Nonoperating revenues, primarily driven by reduced Interest Income and decline in Grant funds	(6)
<b>Subtotal</b>	<b>29</b>
<b>2018 Budget – Total Revenue</b>	<b>\$374</b>

# 2018 expenses expected to increase primarily on operations growth and terminal / asset investments

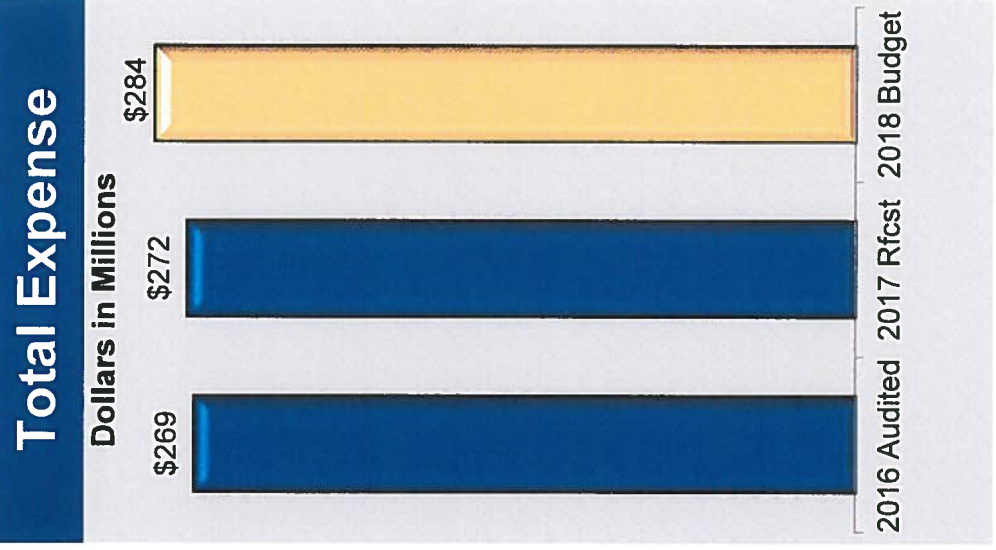


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## Expense Analysis

Dollars in Millions

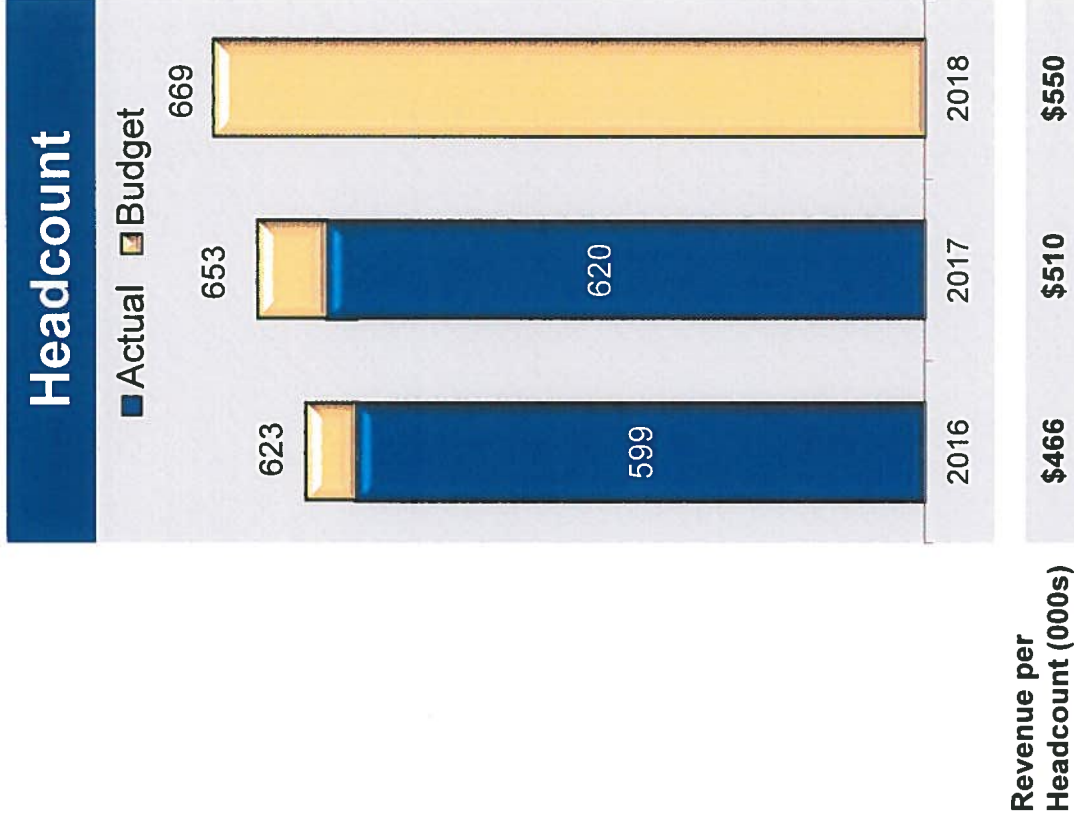
2017 Reforecast – Total Expense, key drivers **\$272**



	<u>Change</u>
<u>Changes in Operating and infrastructure-related:</u>	
• PHA terminal and ILA labor costs (volume-related)	8
• Terminal and asset maintenance	7
• Depreciation & amortization	2
• Asset management assessment of marine structures	2
• Judgments & Settlements	(9)
• Contribution to federal agencies	(3)
<u>Increase in General and administrative:</u>	
• Fees & services (Cyber security, Capacity studies, etc.)	3
• Building-related and other	2
<b>Subtotal</b>	<b>12</b>
<b>2018 Budget – Total Expense</b>	<b>\$284</b>



# Staffing growth will support Operations and strategic initiatives



## Headcount Analysis

Number of Employees\*

2017 Actual Headcount  
(as of September 30, 2017)

<b>Actual Headcount</b>	
Exempt	210
Nonexempt	410
<b>Total Actual Headcount</b>	<b>620</b>
<b>Open Positions</b>	
Approved	49
<b>Total Approved Positions</b>	<b>669</b>
<b>2018 Budget – Headcount</b>	<b>669</b>

\* Does not include Casual Labor



# Funding our Strategic Plan objectives in 2018



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	2017	2018
Total Recurring	\$4.5m	\$4.9m
Total Project	\$3.9m	\$5.3m
Combined Total	\$8.4m	\$10.2m

- Increased spending associated with 2018 outcomes, primarily marine structure assessment; Terminal development studies; and Cyber security investment
- Recurring and Project expenses are aligned with delivery of the Strategic Objectives

**Recurring** - annual service agreements, community sponsorships, training & development tools, etc.

**Project** - incremental initiatives and deliverables

## Illustrative 2018 Projects by Goal:

### People & organization

- Cascade Leadership development program
- Port Houston Academy
- Process improvement initiative

### Growth

- Container & general cargo capacity studies
- Trade lane trends analysis
- DMPA long range demand planning

### Infrastructure

- Marine structures condition assessments
- Enterprise Asset Management software
- Various freight mobility studies

### Stewardship

- Cyber security program
- Environmental leadership sustainability study
- Stakeholder engagement and communications



## 2018 Budget Income Statement (000's)

	<u>2016 Audited</u>	<u>2017 Budget</u>	<u>2017 Actual Sep YTD</u>	<u>2017 Reforecast</u>	<u>2018 Budget</u>
Operating Revenue*	\$290,205	\$311,898	\$245,769	\$333,028	\$368,151
Less: Operating Expense	<u>218,042</u>	<u>204,827</u>	<u>161,866</u>	<u>214,984</u>	<u>224,226</u>
Operating Income	72,164	107,072	83,903	118,044	143,925
Less: General & Administrative Expenses	47,687	56,160	35,869	50,340	55,931
% of revenue	<u>16%</u>	<u>18%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
<b>Net Operating Income</b>	<b><u>24,476</u></b>	<b><u>50,912</u></b>	<b><u>48,034</u></b>	<b><u>67,704</u></b>	<b><u>87,994</u></b>
Non-Operating Revenue (Expense)	<u>9,109</u>	<u>383</u>	<u>2,640</u>	<u>3,092</u>	<u>(247)</u>
Income before Contributions & Transfers	33,585	51,295	50,674	70,796	87,747
Contributions (to)/from Federal/State Agencies	327	5,851	1,654	2,571	2,055
<b>Net Income</b>	<b><u>\$33,912</u></b>	<b><u>\$57,146</u></b>	<b><u>\$52,328</u></b>	<b><u>\$73,367</u></b>	<b><u>\$89,802</u></b>
<b>Cash Flow</b>	<b>\$97,626</b>	<b>\$132,172</b>	<b>\$101,002</b>	<b>\$139,363</b>	<b>\$157,860</b>

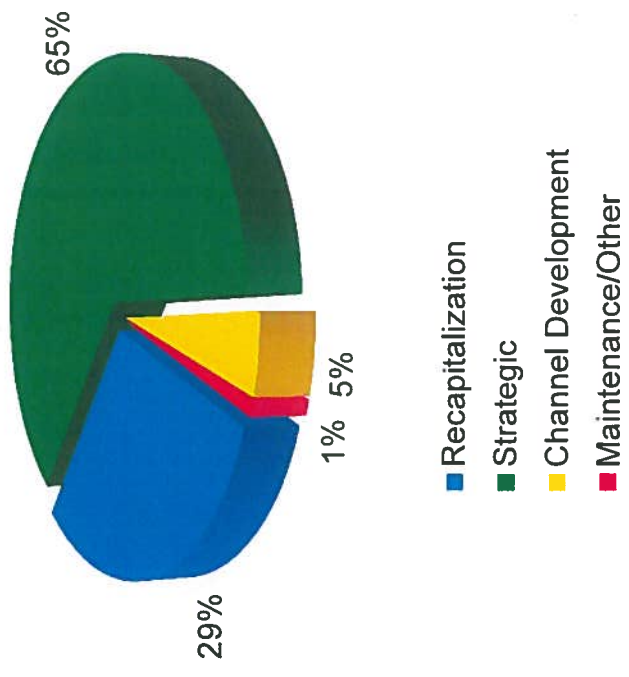
\*Includes G&A Revenues

# Operating cash flow will fund the 2018 Capital budget of \$275 million



## 2018 Capital Improvement Program \$275 Million

- Recapitalization projects = \$79 million
  - Investments required to sustain high service levels and/or enhance productivity
- Strategic projects = \$179 million
  - These investments support new growth opportunities
- Channel projects = \$14 million
  - Development at container terminals and DAMP areas
- Remaining projects = \$3 million
  - Includes maintenance equipment and other replacements



# Liquidity projections show 'coverage' through fiscal 2019



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## Liquidity (000's)

	2017	2018	2019
<b>Funds Available, Beginning of Period</b>	\$ 407,155	\$ 151,613	\$ 33,735
Contingency	(80,000)		
Other Reserves	(32,592)		
Construction Bond Funds	-		
Outstanding Capital PO's and Commitments	(213,240)		
	<u>81,323</u>	<u>151,613</u>	<u>33,735</u>
<b>Sources:</b>			
Net Operating Cash Flow	140,221	156,660	171,067
<b>Available Resources</b>	<u>221,544</u>	<u>308,273</u>	<u>204,802</u>
<b>Uses:</b>			
New Capital Investment	5,532	97,501	37,232
Barbours Cut	29,562	81,875	17,918
Bayport Terminal	8,766	24,314	18,900
Turning Basin Terminals	1,788	14,985	6,356
Bayport Railroad	15,715	13,835	48,830
Channel Development	653	12,565	1,500
Real Estate	2,558	7,662	6,091
Maintenance	3,046	7,073	680
HSSE	-	7,000	5,000
Asset Management	2,311	7,728	6,196
Other	69,931	274,538	148,703
<b>Net Uses</b>	<u>69,931</u>	<u>274,538</u>	<u>148,703</u>
<b>Funds Available, End of Period</b>	<u>\$ 151,613</u>	<u>\$ 33,735</u>	<u>\$ 56,099</u>

# Five Year Plan

Port of Houston Authority  
November 14, 2017





## 2018 – 2022 Budget Income Statement (000's)

	2018 Budget	2019 Budget	2020 Budget	2021 Budget	2022 Budget
Operating Revenue*	\$368,151	\$390,394	\$409,891	\$424,443	\$442,735
Less: Operating Expense	224,226	233,341	246,859	259,244	272,115
Operating Income	143,925	157,054	163,032	165,199	170,620
Less: General & Administrative Expenses	55,931	59,349	58,357	58,626	58,769
% of revenue	15%	15%	14%	14%	13%
<b>Net Operating Income</b>	<b>87,994</b>	<b>97,705</b>	<b>104,675</b>	<b>106,573</b>	<b>111,851</b>
Non-Operating Revenue (Expense)	(247)	(397)	(1,327)	(1,072)	(697)
Income before Contributions & Transfers	87,747	97,308	103,348	105,501	111,154
Contributions (to)/from Federal/State Agencies	2,055	(386)	84	0	0
<b>Net Income</b>	<b>\$89,802</b>	<b>\$96,921</b>	<b>\$103,432</b>	<b>\$105,501</b>	<b>\$111,154</b>
<b>Cash Flow</b>	<b>\$157,860</b>	<b>\$172,467</b>	<b>\$188,976</b>	<b>\$198,393</b>	<b>\$212,581</b>

\*Includes G&A Revenues



## 2018 – 2022 Budget Capital Plan (000's)

	2018 Budget	2019 Budget	2020 Budget	2021 Budget	2022 Budget
Barbours Cut	\$97,501	\$37,232	\$114,961	\$42,100	\$51,252
Bayport Terminal	81,875	17,918	126,768	57,445	5,333
Turning Basin Terminals	24,314	18,900	11,725	22,900	19,750
Bayport Railroad	14,985	6,356	-	2,000	1,428
Channel Development	13,835	48,830	18,435	8,510	44,035
Real Estate	12,565	1,500	30	-	-
Maintenance	7,662	6,091	3,378	3,278	1,813
HSSE	7,073	680	1,280	1,430	1,230
Asset Management	7,000	5,000	7,000	5,000	7,000
Other	7,728	6,196	7,378	6,273	3,912
<b>TOTAL CAPITAL</b>	<b>\$274,538</b>	<b>\$148,703</b>	<b>\$290,955</b>	<b>\$148,936</b>	<b>\$135,753</b>
<b>Funds Available, End of Period</b>	<b>\$33,735</b>	<b>\$56,099</b>	<b>(\$47,480)</b>	<b>\$377</b>	<b>\$75,605</b>