

2019 Budget Presentation

Port of Houston Authority
November 13, 2018



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Foreword

- This proposed 2019 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 2019. It is being presented to the Port Commission on November 13, 2018.
- 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 expense 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 "2018 Budget Reforecast" refer to an update to the 2018 Budget that was prepared by staff as of July 2018 and submitted to the Port Commission. It has been posted on the Port Authority's website (www.portofhouston.com).

Executive Summary – 2019 Operating & Capital Budget

Narrative overview



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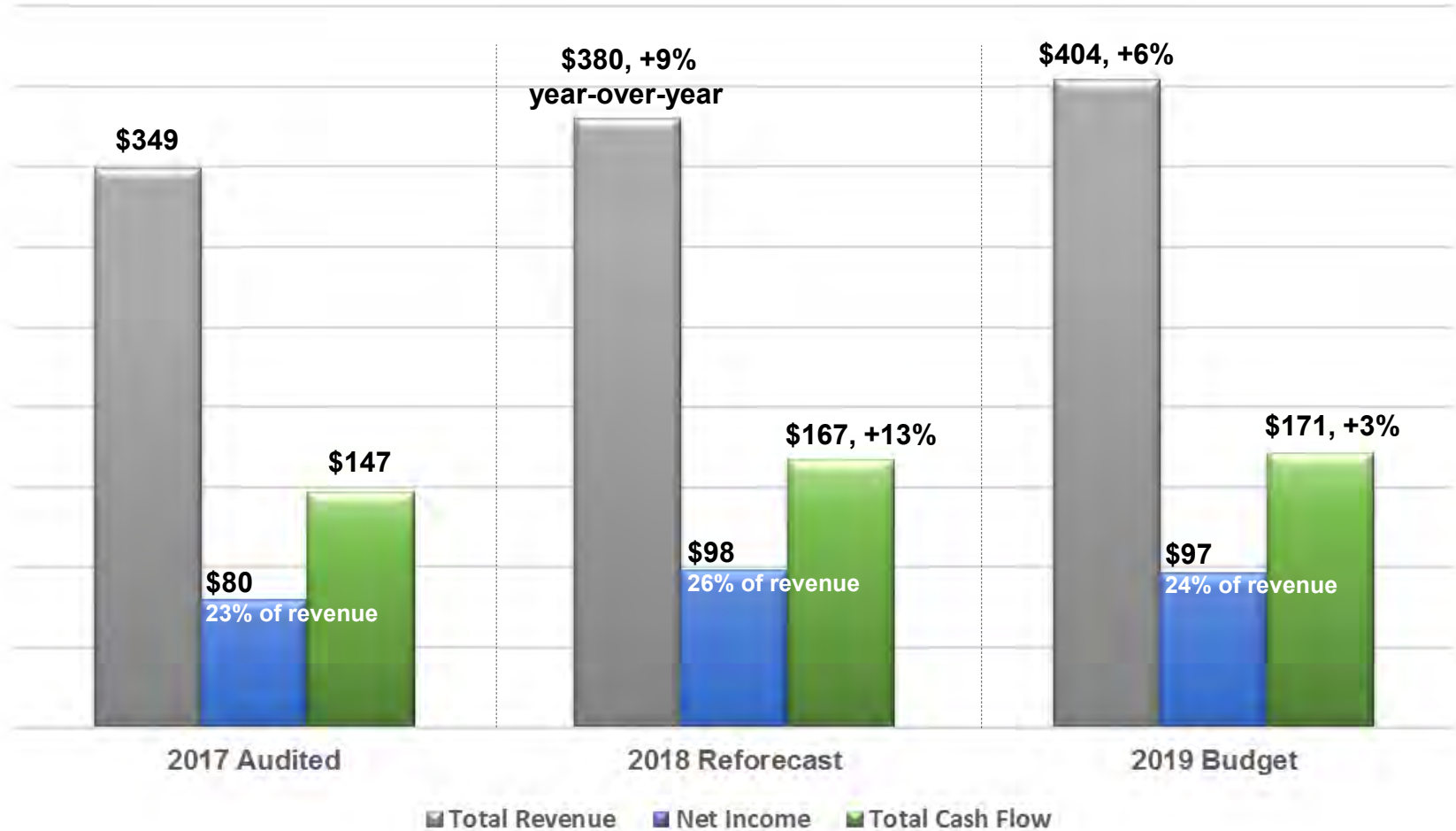
- Operating revenues up 8% anticipating continued ramp-up of resin production combined with growth in Import Loads; Total revenues grow 6%
- Operating expenses, including General & Administrative, grow 8% on volume projections and spending on new initiatives; Total expenses grow 9%
- Operating income dollars up 7%, a 25% profitability margin, “flat” to mid-year 2018 forecast
- Operating Cash Flow increases 7% in 2019 to \$172 million; Total Cash Flow \$171 million, up 3%
- Headcount growth of 33 new positions for 2019
 - 26 Operations (24-Ops, 2-Infrastructure); 7 G&A (2-PSEO, 2-Technology, 2-Finance, 1-People)
- \$287 million Capital Plan focused primarily on Container Terminal development & reinvestment (~89% of Plan)
- Liquidity projections show sufficient resources to fund Capital Plans through the planning horizon, before consideration of ‘major’ Ship Channel Widening/Deepening projects

Projecting continued operational excellence

Income Statement overview, \$ in millions



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A solid growth plan into 2019; net income “flattens” on nonoperating items

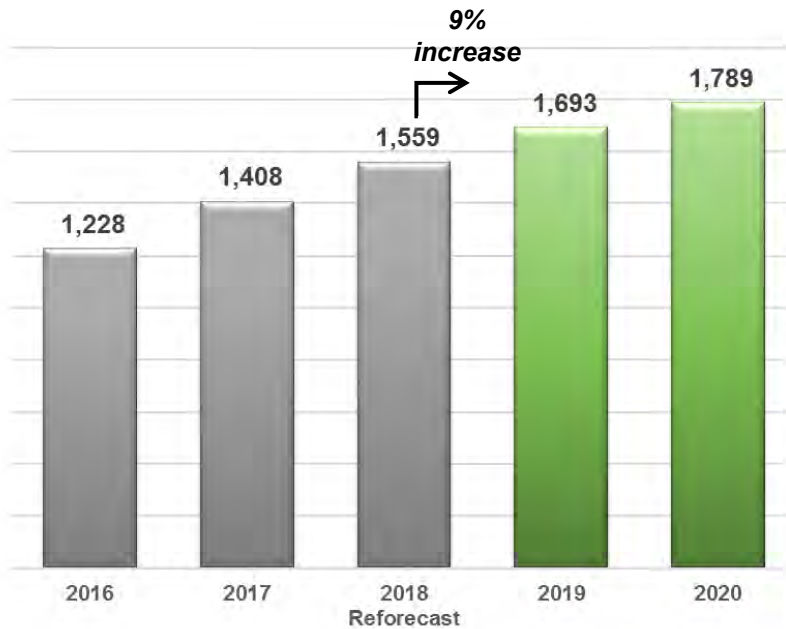
Container and Steel showing continued growth

Container Units, Steel tonnage (000s)



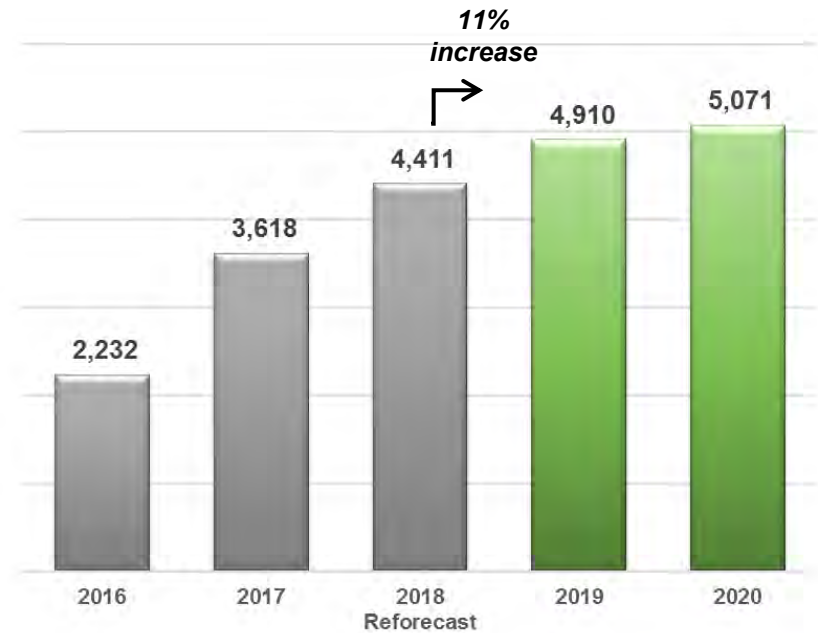
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Total Containers



Export loads up 12.3% as resin production ramps;
Import loads up 8.0% on economic strength,
TransPacific service growth

Total Steel



Anticipating continued 'share' gain from Port of
Houston import tonnage

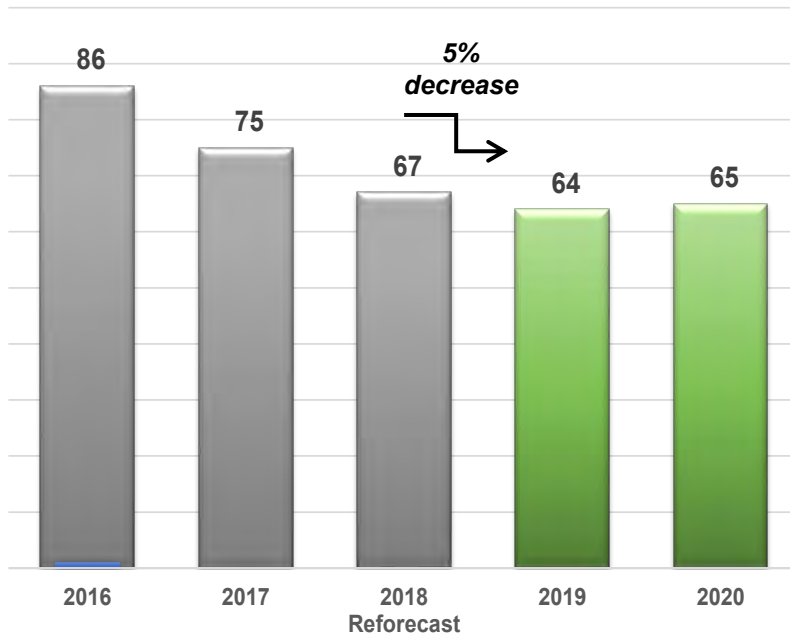
Autos and Other General Cargos

Auto Units, cargo tonnage (000s)



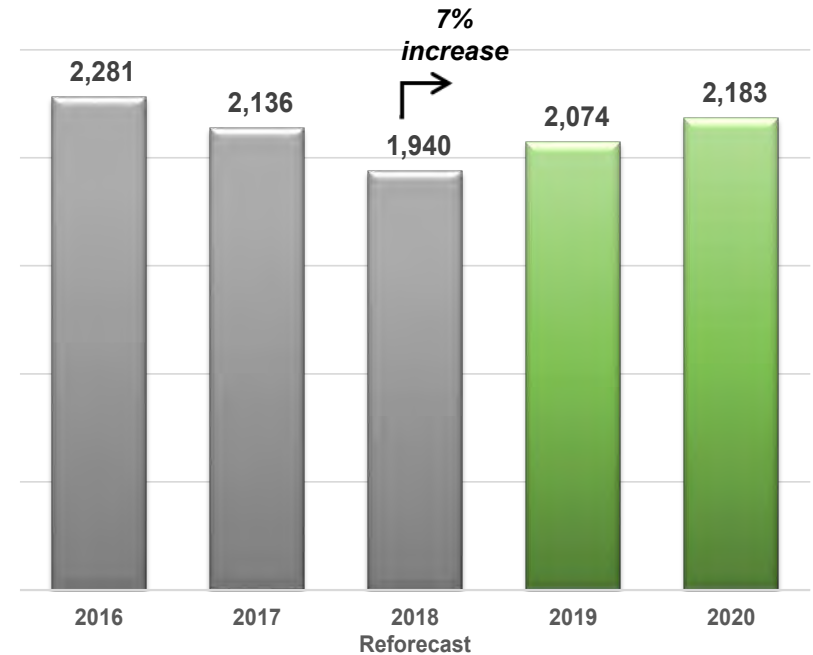
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Total Autos



Bayport Auto Terminal projecting slight growth;
Turning Basin Auto down 8%

Other General Cargos



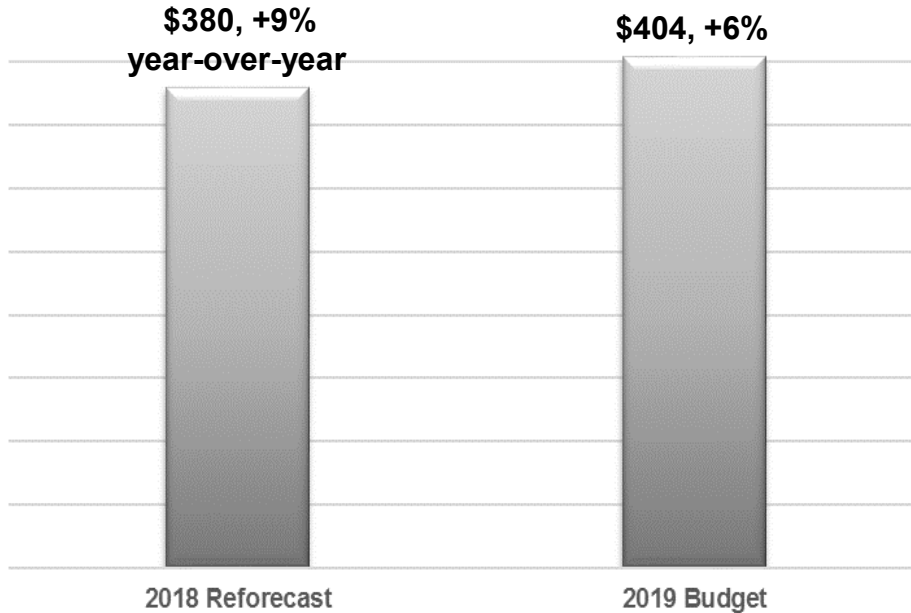
Other cargos (machinery & equipment, bagged goods, wood products, etc.) showing growth into next year

2019 Revenue analysis, key changes from 2018

\$ in millions



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| 2018 Reforecast – Total Revenue | \$380 |
|--|---------------|
| | <u>Change</u> |
| • Increase in Container revenue driven by volume growth | 27 |
| • Increase in Turning Basin from cargo and lease revenues | 2 |
| • Decrease in Lease revenues | (2) |
| • Increase in Channel Development revenue streams due to DMA Fees and Barge Fleeting | 2 |
| • Decrease in Nonoperating revenues, primarily driven by reduced Interest Income | (5) |
| Subtotal | 24 |
| 2019 Budget – Total Revenue | \$404 |

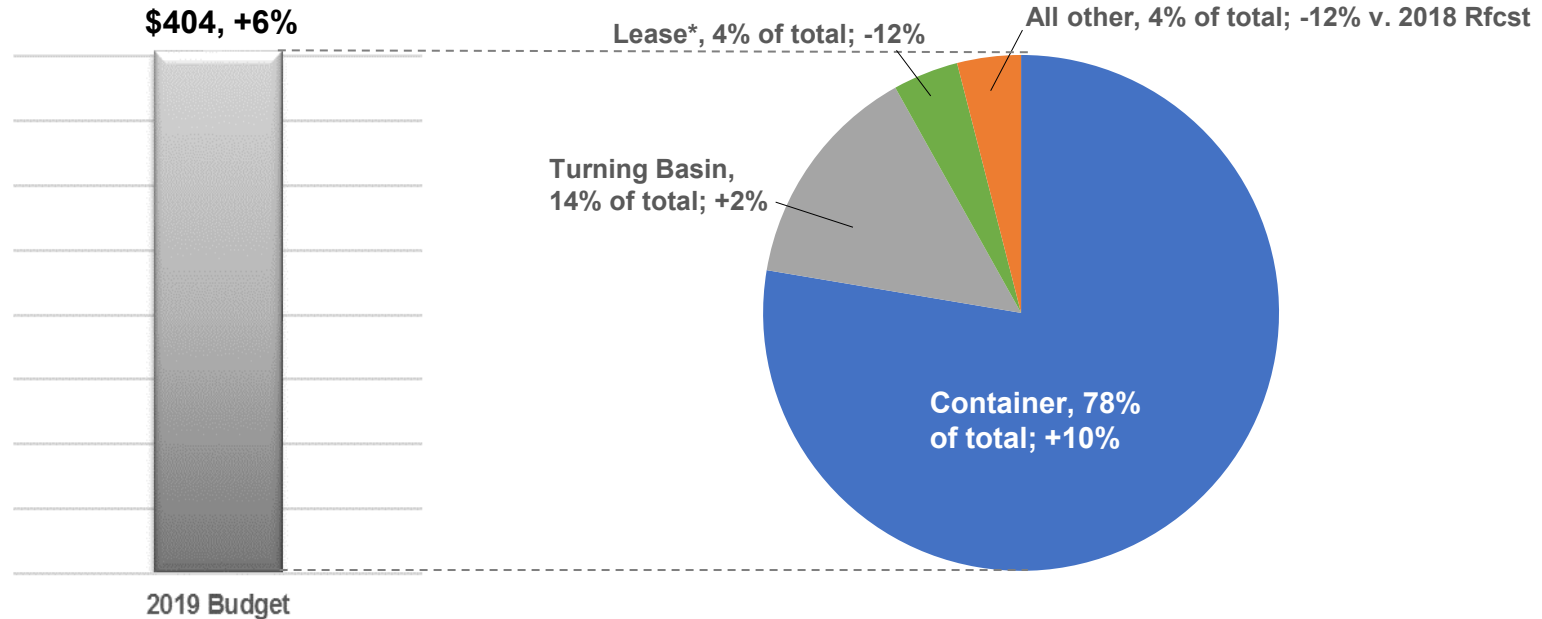
Revenue growth driven by Container Terminals

Total Revenues, in \$ millions (mix and year-over-year growth)



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Mix of business – 2019 Budget



* Non-Terminal Lease revenues only

- 10% Container Terminals revenue growth on a 9% increase in units. Export loaded units up 9.9% and Import loaded units up 8.3%; Empty units up 0.8%
- Turning Basin Terminals with modest growth of 2%; Steel projected up by 11% and other general cargoes up 10%
- Lease* declines 12% primarily from the conclusion of terms for several properties
- All other drops 6% from Nonoperating revenues: lower Interest Income

2019 Expense analysis, key changes from 2018

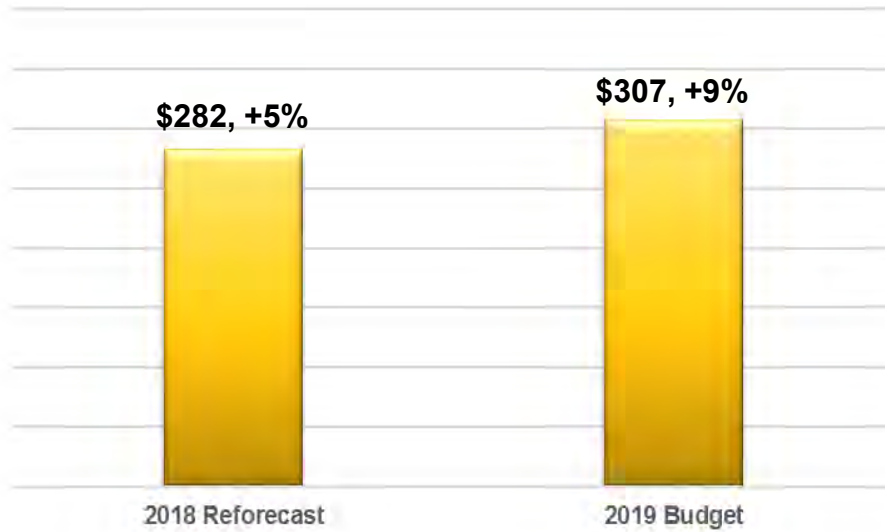
\$ in millions



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2018 Reforecast – Total Expense

\$282



Change

Changes in Operating and infrastructure-related:

- PHA and ILA labor 9
- Depreciation & amortization 5
- Contribution to local/state agencies 3

Changes in General and administrative:

- Personnel salaries and benefits 2
- Fees & services (Cyber security, Environmental Projects, etc.) 2
- Building-related and other expenses 4

Subtotal 25

2019 Budget – Total Expense \$307

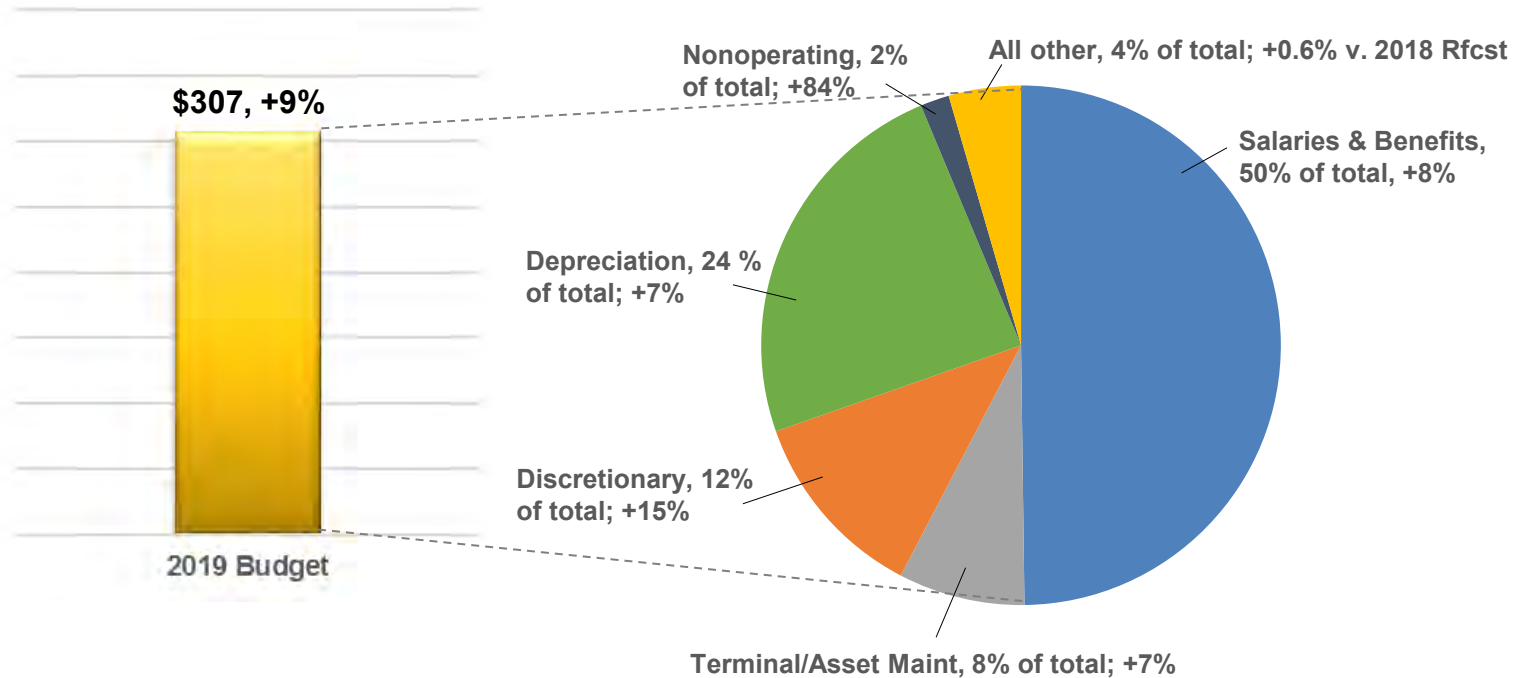
Expenses driven by volume growth and other initiatives

Total Expenses, in \$ millions (mix and year-over-year growth)



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Mix of expense – 2019 Budget



- Salaries & Benefits, including ILA labor, growing, though not as fast as Revenue
- Depreciation expense reflects capacity additions and recapitalization
- Discretionary includes Fees & Services for Cyber security, Environmental and other strategic initiatives
- Terminal/Asset Maint. increasing with volumes, LED initiative, Executive Office Building updates
- *Gross margin rate*, which reveals efficiency of operational spend, is “up” from mid-year 2018 Reforecast
- *G&A spend as a percent of revenue*, which illustrates efficiency of overhead spend, is “flat” to mid-year 2018 Reforecast (and 2018 Budget)

Projecting continued operational excellence

Income Statement overview, \$ in millions



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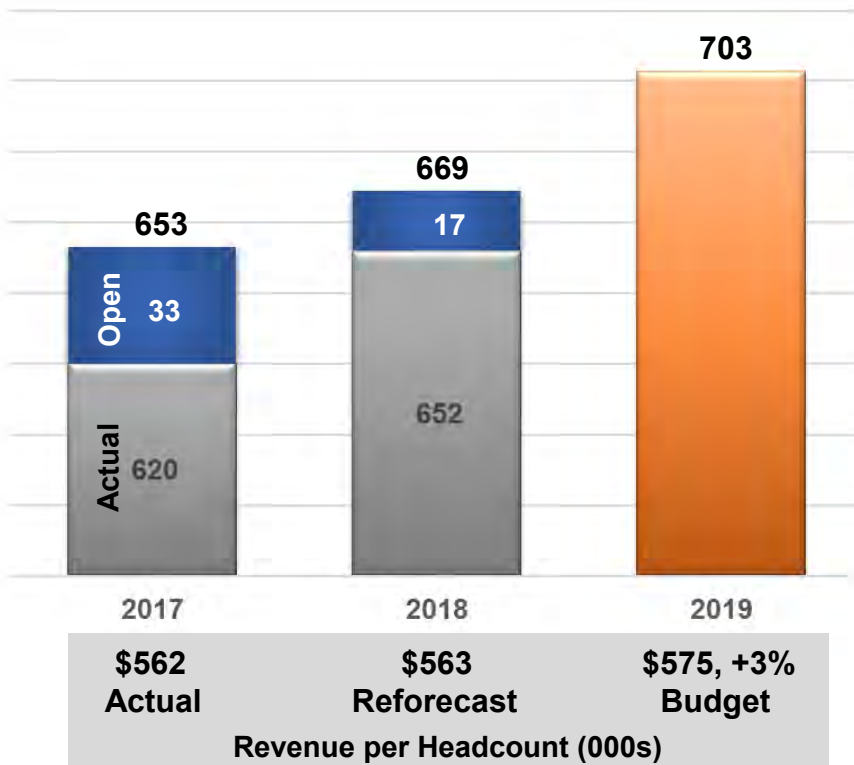
| | 2017 Audited | 2018 Budget | 2018 Reforecast | 2019 Budget |
|--------------------------|-------------------------|------------------------|----------------------------|------------------------|
| Total Revenue | \$349 | \$374 | \$380 | \$404 |
| Total Expense | 269 | 284 | 282 | 307 |
| Net Income | \$80 | \$90 | \$98 | \$97 |
| Net Profit Margin | 23% | 24% | 26% | 24% |
| Cash Flow | \$147 | \$158 | \$167 | \$171 |

Staffing growth will support Operations and strategic initiatives

Headcount analysis, Number of Employees*



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2019 Budgeted Staffing

| | |
|--|------------|
| Exempt | 221 |
| Nonexempt | 431 |
| Total Actual Headcount, 9/30/2018 | 652 |
| Approved, existing open reqs | 18 |
| New | 33 |
| Total Budgeted Positions | 703 |
| 2019 Budget – Headcount | 703 |

* Does not include Casual Labor

Strategic investments support short- and long-term performance



| | 2018 Budgeted | 2018 Actual YTD* | 2019 Budgeted |
|-------------------------|---------------|------------------|---------------|
| Total Incremental Spend | \$5.3 m | \$1.3 m | \$2.4 m |

*2018 Actual YTD calculated through Q3 of 2018

- Strategic spend represents the cost of initiatives and deliverables directly relating to strategic plan action items
- 2018 lags in intended FICAP spending
- As required by statute, the strategic plan will be updated in 2019 and presented to the Commission in 2020.
- Beginning in 2019, P&D budget is NOT included in strategic Incremental Spend calculation

2019 Priority Initiatives:

People & Organization \$265K

- Organizational Change Management
- Enhanced Employee Training and Development Programs (Port Houston Academy)
- Enterprise Collaboration and Knowledge Management through SharePoint Development

Infrastructure \$1,915K

- Marine Structure Condition Assessment
- Houston Ship Channel Mega Study Completion
- Enterprise Asset Software
- Freight Mobility Studies

Growth \$148K

- Inland Cargo Growth Plan
- Operating Terminal Technology Upgrades
- Brand Awareness and Recognition
- Maritime Marketing Analysis

Stewardship \$84K

- Cybersecurity Processes, Procedures, and Guidelines
- Continuous Improvement of M/V Sam Houston Experience
- ISO 45001 Safety Compliance

Age of Wharves

| Terminal | # | Oldest | Newest | Age Range | Ave. Age |
|----------------------------------|----|--------|--------|--------------|----------|
| Bayport | 5 | 2007 | 2018 | 1-12 years | 2010 |
| Barbours Cut | 8 | 1973 | 1997 | 21-46 years | 1983 |
| Turning Basin North and South | 38 | 1915 | 1984 | 33-104 years | 1946 |

Facility Inspection & Condition Assessment Program (FICAP) - Marine Assets- Structures

| Types | Wharves | Docks | Bulkheads | Shorelines | Bridge | Total # |
|---------------------|-----------|-----------|-----------|------------|----------|------------|
| 2017 – Complete | 3 | | | | | 3 |
| 2018 (95% complete) | 26 | 5 | 4 | 4 | | 39 |
| 2019 | 16 | | | | 1 | 17 |
| 2020 | 12 | 2 | 1 | | | 15 |
| 2021 | 9 | 6 | | 28 | | 43 |
| Defer | 1 | | | 19 | | 20 |
| Not Needed | | | 1 | 3 | | 4 |
| Total # | 67 | 14 | 5 | 54 | 1 | 141 |

| FICAP- Budget | | | | | |
|----------------------|------------------|--|------------------------|----------------------|--------------------------|
| Year | Corrosion | Electrical Distribution and Communication | Other “Buckets” | Marine Assets | Zero Based Budget |
| 2019 | ~350,000 | ~\$550,000 | \$0 | ~\$1,000,000 | ~\$2.2m |
| 2020 | tbd | tbd | tbd | ~\$1,000,000 | ~\$2.2m |

Examples of Findings - Marine Assets - Structures

Follow-Up/Recommended Actions

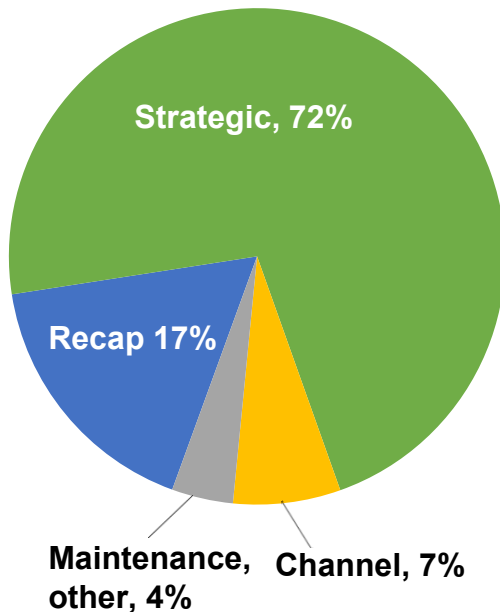
| Property | Priority (Intermediate) | Priority | Routine | Total Actions |
|------------------------------------|----------------------------|----------|---------|---------------|
| Albermarle Lease | 0 | 0 | 0 | 0 |
| Manchester Wharf 1 | 0 | 0 | 1 | 1 |
| Northside Turning Basin - CD 21 | 1 | 5 | 9 | 15 |
| Northside Turning Basin - CD 22 | 0 | 9 | 7 | 16 |
| Northside Turning Basin - CD 23 | 0 | 0 | 1 | 1 |
| Northside Turning Basin - CD 24 | 0 | 5 | 6 | 11 |
| Northside Turning Basin - CD 25 | 1 | 5 | 6 | 12 |
| Northside Turning Basin - CD 26 | 1 | 5 | 14 | 20 |
| Northside Turning Basin - CD 27 | 0 | 2 | 3 | 5 |
| Northside Turning Basin - CD 28 | 0 | 3 | 7 | 10 |
| Northside Turning Basin - CD 30 | 0 | 4 | 6 | 10 |
| Northside Turning Basin - CD 31 | 0 | 4 | 7 | 11 |
| Northside Turning Basin - Block 22 | 0 | 0 | 0 | 0 |
| Northside Turning Basin - BH1 | 0 | 0 | 5 | 5 |
| Vopak Lease | 0 | 0 | 0 | 0 |
| Totals per Priority | 3 | 42 | 72 | 117 |

Operating cash flow will fund the 2019 Capital budget of \$287 million



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2019 Capital Improvement Program



- Strategic projects = \$206 million
 - *These investments support new growth opportunities*
- Recapitalization projects = \$49 million
 - *Investments required to sustain high service levels and/or enhance productivity*
- Channel projects = \$19 million
 - *Development at container terminals and DAMP areas*
- Remaining projects = \$13 million
 - *Includes maintenance equipment and other replacements*

Liquidity projections, 2019 Operating & Capital Budget

\$ in thousands



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| | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|---|--------------------------|-------------------------|-------------------------|
| Funds Available, Beginning of Period | \$ 361,939 | \$194,476 | \$ 78,011 |
| Debt Service, Contingency, Other | (58,220) | - | - |
| Outstanding PO's and Commitments | (110,337) | - | - |
| | <u>\$ 193,382</u> | <u>\$194,476</u> | <u>\$ 78,011</u> |
| Sources: | | | |
| Net Operating Cash Flow | 166,534 | 170,932 | 174,622 |
| Available Resources | <u>\$ 359,916</u> | <u>\$365,408</u> | <u>\$252,633</u> |
| Uses: | | | |
| New Capital Investment | | | |
| Barbours Cut | 23,254 | 129,611 | 77,780 |
| Bayport Terminal | 84,281 | 93,473 | 55,389 |
| Turning Basin Terminals | 7,310 | 20,092 | 44,383 |
| Bayport Railroad | 14,543 | 19,472 | 13,615 |
| Channel Development | 5,451 | 6,847 | 3,527 |
| Real Estate | 871 | 5,946 | 1,190 |
| Maintenance | 14,839 | 5,100 | - |
| PSEO | 11,169 | 5,000 | 10,397 |
| Other | 3,722 | 1,856 | 10,385 |
| Net Uses | <u>165,440</u> | <u>287,397</u> | <u>216,666</u> |
| Funds Available, End of Period | <u><u>\$ 194,476</u></u> | <u><u>\$ 78,011</u></u> | <u><u>\$ 35,967</u></u> |

Five Year Plan

Port of Houston Authority
November 13, 2018



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2019 – 2023 Budget Income Statement (000's)



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| | <u>2019 Budget</u> | <u>2020 Budget</u> | <u>2021 Budget</u> | <u>2022 Budget</u> | <u>2023 Budget</u> |
|--|------------------------|------------------------|-------------------------|-------------------------|-------------------------|
| Operating Revenue* | \$399,980 | \$419,675 | \$434,954 | \$446,894 | \$461,885 |
| Less: Operating Expense | <u>245,192</u> | <u>260,727</u> | <u>273,850</u> | <u>285,365</u> | <u>295,636</u> |
| Gross Margin | 154,788 | 158,948 | 161,104 | 161,529 | 166,250 |
| % of revenue | 39% | 38% | 37% | 36% | 36% |
| Less: General & Administrative Expenses | 56,292 | 58,724 | 56,790 | 57,525 | 58,613 |
| % of revenue | <u>14%</u> | <u>14%</u> | <u>13%</u> | <u>13%</u> | <u>13%</u> |
| Operating Income | 98,496 | 100,224 | 104,314 | 104,004 | 107,637 |
| % of revenue | 25% | 24% | 24% | 23% | 23% |
| Non-Operating Revenue (Expense) | <u>1,777</u> | <u>117</u> | <u>(63)</u> | <u>37</u> | <u>(388)</u> |
| Income before Contributions & Transfers | 100,273 | 100,341 | 104,251 | 104,041 | 107,249 |
| Contributions (to)/from Federal/State Agencies | (3,289) | (12,928) | 4,325 | - | (1,007) |
| Net Income | <u><u>\$96,983</u></u> | <u><u>\$87,413</u></u> | <u><u>\$108,576</u></u> | <u><u>\$104,041</u></u> | <u><u>\$106,243</u></u> |
| Cash Flow | \$170,932 | \$174,622 | \$204,086 | \$207,267 | \$213,033 |
| % of revenue | 0.43 | 0.42 | 0.47 | 0.46 | 0.46 |

*Includes G&A Revenues; in addition, a Tariff increase of 1% is included in the 2019 Budget

2019 – 2023 Budget Capital Plan (000's)



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| | 2018 Budget | 2019 Budget | 2020 Budget | 2021 Budget | 2022 Budget | 2023 Budget |
|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Barbours Cut | \$ 99,837 | \$ 129,611 | \$ 77,780 | \$ 14,482 | \$ 90,281 | \$ 25,490 |
| Bayport Terminal | 83,597 | 93,473 | 55,389 | 92,708 | 300 | 13,613 |
| Channel Development | 13,835 | 20,092 | 3,527 | 17,108 | 36,482 | 33,283 |
| Turning Basin Terminals | 24,897 | 19,472 | 44,383 | 3,700 | 6,710 | 18,900 |
| Maintenance | 7,662 | 6,847 | - | 3,833 | 2,808 | 2,770 |
| PSEO | 7,073 | 5,946 | 10,397 | 1,510 | 1,310 | 5,850 |
| Bayport Railroad | 15,343 | 5,100 | 13,615 | - | - | - |
| Real Estate | 12,565 | 5,000 | 1,190 | 10,000 | - | - |
| Other | 9,729 | 1,856 | 10,385 | 6,773 | 6,472 | 3,911 |
| Total Capital | <u>\$274,538</u> | <u>\$287,397</u> | <u>\$216,666</u> | <u>\$150,114</u> | <u>\$144,363</u> | <u>\$103,817</u> |
| Grant Reimbursements | (4,035) | (1,598) | (5,342) | (4,325) | - | - |
| Net Capital | <u>\$270,503</u> | <u>\$285,799</u> | <u>\$211,324</u> | <u>\$145,789</u> | <u>\$144,363</u> | <u>\$103,817</u> |

2019 – 2023 Budget Liquidity (000's)



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| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|---|--------------------------|-------------------------|-------------------------|-------------------------|--------------------------|--------------------------|
| Funds Available, Beginning of Period | \$ 361,939 | \$194,476 | \$ 78,011 | \$ 35,967 | \$ 89,939 | \$ 152,843 |
| Debt Service, Contingency, & Other | (58,220) | - | - | - | - | - |
| Outstanding PO's and Commitments | (110,337) | - | - | - | - | - |
| | <u>\$ 193,382</u> | <u>\$194,476</u> | <u>\$ 78,011</u> | <u>\$ 35,967</u> | <u>\$ 89,939</u> | <u>\$ 152,843</u> |
| Sources: | | | | | | |
| Net Operating Cash Flow | 166,534 | 170,932 | 174,622 | 204,086 | 207,267 | 213,033 |
| Available Resources | <u>\$ 359,916</u> | <u>\$365,408</u> | <u>\$252,633</u> | <u>\$ 240,053</u> | <u>\$ 297,206</u> | <u>\$ 365,876</u> |
| Uses: | | | | | | |
| New Capital Investment | | | | | | |
| Barbours Cut | 23,254 | 129,611 | 77,780 | 14,482 | 90,281 | 25,490 |
| Bayport Terminal | 84,281 | 93,473 | 55,389 | 92,708 | 300 | 13,613 |
| Turning Basin Terminals | 7,310 | 20,092 | 44,383 | 3,700 | 6,710 | 18,900 |
| Bayport Railroad | 14,543 | 19,472 | 13,615 | - | - | - |
| Channel Development | 5,451 | 6,847 | 3,527 | 17,108 | 36,482 | 33,283 |
| Real Estate | 871 | 5,946 | 1,190 | 10,000 | - | - |
| Maintenance | 14,839 | 5,100 | - | 3,833 | 2,808 | 2,770 |
| PSEO | 11,169 | 5,000 | 10,397 | 1,510 | 1,310 | 5,850 |
| Other | 3,722 | 1,856 | 10,385 | 6,773 | 6,472 | 3,911 |
| Net Uses | <u>165,440</u> | <u>287,397</u> | <u>216,666</u> | <u>150,114</u> | <u>144,363</u> | <u>103,817</u> |
| Funds Available, End of Period | <u><u>\$ 194,476</u></u> | <u><u>\$ 78,011</u></u> | <u><u>\$ 35,967</u></u> | <u><u>\$ 89,939</u></u> | <u><u>\$ 152,843</u></u> | <u><u>\$ 262,059</u></u> |