



2020 BUDGET LETTER

Port of Houston Authority (the “Authority” or “Port Houston”) is an independent, political subdivision of the State of Texas, operating as a navigation district under Article XVI, Section 59 of the Texas Constitution. Originally constituted in 1911, Port Houston serves as the local sponsor of the Houston Ship Channel (the “Channel”), a federal waterway stretching 52 miles from the City of Houston to the Gulf of Mexico. The Authority’s boundaries are coterminous with Harris County.

The greater Port of Houston includes the Authority’s eight public terminals and an estimated 200 private-sector facilities along the Channel. It is ranked first in the nation in foreign waterborne tonnage, first in U.S. import tonnage, first in U.S. export tonnage and second in the U.S. in total tonnage. The Port of Houston is the primary factor for the Houston metropolitan area serving as the nation’s largest export market in terms of dollar value (as reported by the U.S. Bureau of Economic Analysis for commercial activity through 2018) and contributes to Texas being the nation's top exporting state for 17 consecutive years with \$316 billion in exports in 2018.

Port Houston’s mission is “to move the world and drive regional prosperity.” This includes the promotion of sustainable trade and commerce to create jobs and economic development for the local region, Texas, and the nation. Management considers transparency, fiscally sound business practices, and prudent evaluation of risks and opportunities to be necessary elements for achieving such goals. In addition, a greater focus on financial planning and liquidity management is considered essential, in light of significant infrastructure investments required in the next few years. Expense management and creating operating efficiencies also continue as major objectives for the Authority.

In accordance with statutory requirements specified in Chapter 5007, Texas Special District Local Laws Code, a seven-member Port Commission is appointed from local jurisdictions to serve as governing body of the Authority. The Port Commission approves an annual budget and a one-year capital plan. Port Houston also develops a five-year forecast and a long-range plan addressing goals, strategies and priorities.

The Authority’s budget presentations and other materials are posted on its website (<http://porthouston.com>) in compliance with statutory requirements. Port Houston’s commitment to financial transparency is evident in its participation and awards received under the Texas Comptroller Transparency Stars program.

Operating Budget

A proposed 2020 operating and capital budget was developed to guide staff in the operation and management of Port Houston facilities and activities for Fiscal Year 2020. It was presented to the Port Commission for discussion at an open meeting on November 11, 2019 and approved on that date.

From a sustainability perspective, the Authority's operating revenues, derived primarily from tariffs related to its vessel and cargo activities, dredge material agreements and lease revenues, have generally been sufficient to cover its operating and maintenance costs. Based on the latest projections, Port Houston expects to generate annual cash flows ranging from \$183 million to \$209 million per annum over the next several years. Such excess cash is reinvested in the Authority's capital infrastructure.

In order to make the budget numbers understandable to the general public, the budget presentations posted on the Authority's website include additional narrative on cargo volume assumptions, detail of major changes in revenues and expenses (e.g., increases in terminal maintenance costs and depreciation resulting from investments in equipment and capital assets, etc.), as well as information on Port Houston's budgeted expenditures for promotion and development in compliance with State statutes.

Shown below are highlights of the 2020 operating budget, compared to 2019 (in millions):

	<u>2020 Budget</u>	<u>2019 Budget</u>
Operating Revenues*	\$ 425.4	\$ 400.0
Non-operating Revenues**	<u>11.2</u>	<u>4.0</u>
Total Revenues	\$ 436.6	\$ 404.0
Total Expenses	<u>333.4</u>	<u>307.0</u>
Net Income	<u>\$ 103.2</u>	<u>\$ 97.0</u>
Cash Flow	\$ 183.1	\$ 170.9

* Includes general and administrative revenues.

** Consists primarily of federal grants, insurance claims, and interest income.

For 2020, the Authority budgeted total operating revenues of \$425.4 million. This represents an 6.4% increase over the 2019 budget of \$400.0 million, reflecting growth in container volumes (especially export loads), and an increase in channel development revenues (primarily dredge management placement fees and leases of submerged lands). Non-operating revenues in 2020 reflect an expected increase in federal grant reimbursements.

Total expenses are budgeted at \$333.4 million, an increase of 8.6% versus the prior year, due primarily to higher terminal operating and union labor resulting from increased volumes, as well as depreciation and amortization, asset maintenance, and general and administrative expenses.

Excluding revenues and expenses related to property taxes (see the next section on “Tax Revenues and Debt Service”), Port Houston projects net income of \$103.2 million for 2020, an increase of 6.4% compared to the 2019 budget.

Tax Revenues and Debt Service

Port Houston’s operating budget does not include tax revenues. As the Authority’s unlimited ad valorem tax bonds were approved by Harris County voters at duly-called bond elections, the Authority works closely with the county on an annual basis to ensure that sufficient taxes are levied to cover the principal and interest debt service payments due on the Authority’s outstanding tax bonds.

Net tax receipts, after payment of collection fees to the Harris County Tax Assessor-Collector, are deposited in a segregated account and the funds are used exclusively to meet such debt service requirements, which are approximately \$49.8 million for calendar year 2020. Information on Port Houston’s outstanding debt is posted on its website (<https://porthouston.com>), including the official statements of bond issuances and details of annual debt service payments.

Capital Plan

In recent years, the local region and the State of Texas have experienced significant population growth and economic expansion, due to the business-friendly environment and the expansion of the petrochemical industry. Investments made by local taxpayers in the Authority’s facilities and areas along the Houston Ship Channel over the years also have contributed to economic growth, job creation and expansion of the county, region and state tax base.

In order to accommodate larger vessels and increased cargo demands in the next 10 to 20 years, Port Houston must continue to develop, expand and renew its facilities. Replacing aging infrastructure, such as the Barbours Cut Terminal which opened in 1977, with more modern equipment supports our legislative mandate to facilitate commerce, navigation and safe waterways.

As shown in the Five-Year Plan posted on the Authority’s website, we estimate capital investments of approximately \$1.3 billion will be required during the period 2020 through 2024. Over \$584 million of those capital expenditures are planned for infrastructure and rail expansion at the two container terminals, with another \$70 million for improvements at the general cargo and bulk terminals, and \$507 million for channel development. The balance is designated for projects relating to security, information technology, real estate, building renovations, and maintenance operations.

During 2019, the Authority's investments in capital infrastructure and improvements were funded from its general fund and from grant monies received from federal and other governmental programs. The proceeds from tax bonds issued in prior years have been fully expended.

Port Houston's 2020 capital budget was approved by the Port Commission on November 11, 2019 for up to \$232 million in capital infrastructure improvements (see the chart on Page 5). Approximately \$140 million will be allocated to the container terminals for continuing development of Bayport and modernization at Barbours Cut, while \$29 million is designated for channel development projects and another \$25 million relates to improvements at the general cargo and bulk terminals in the Turning Basin area. The remaining 2020 capital budget funds will be used for railroad improvements, port security, real estate, building renovations, and information technology.

Although the capital plan may be approved as to maximum annual amount of capital expenditures, individual items exceeding \$50,000 (both operating expenditures and capital projects) will continue to be presented separately to the Port Commission for approval in accordance with statutory requirements.

Five Year Plan and Liquidity

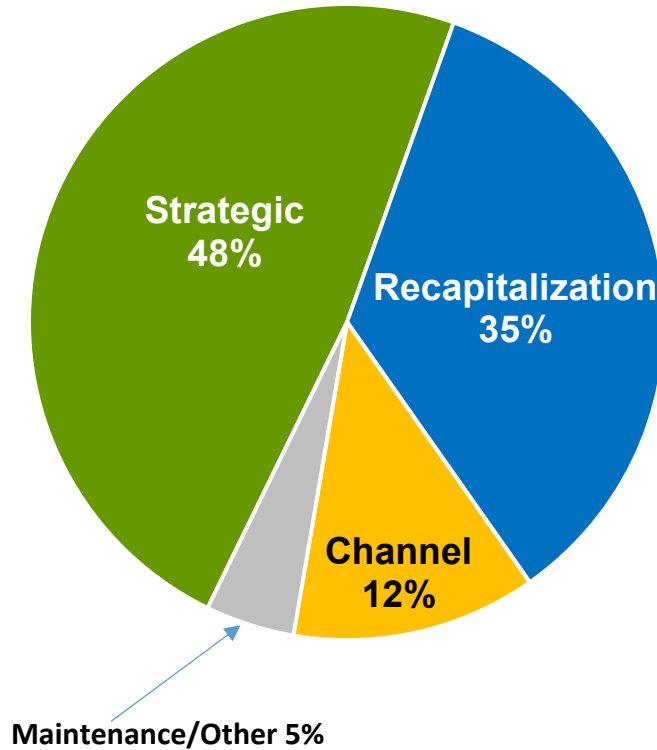
The Authority has estimated that capital improvements of about \$1 billion are required every five to seven years, in order to accommodate industry growth and continue to meet its mission for job creation and economic development. The latest Five-Year Plan also includes additional capital improvements budgeted for Channel Development in support of the Authority's role as the non-federal sponsor of the Houston Ship Channel.

As outlined in the Five Year Plan, Port Houston expects strong operational and financial performance to continue in the near term, allowing it to fund its normal capital improvement projects entirely from internally-generated cash flows. In 2019, the Authority began discussions with local industry regarding the possibility of accelerating Project 11, the 11th major deepening and widening of the Channel, and sharing the estimated \$1 billion cost 50%/50%. In order to complete such a project in 3-5 years, as opposed to the usual federal timeline of over 10 years, the Authority would need to secure additional financing in 2021-2023. More information is available at <https://www.expandthehoustonschipchannel.com/>.

In the past, the Authority has relied on ad valorem tax bonds to help fund its infrastructure investments, but it may also consider other financing alternatives to provide added liquidity in the next few years. As the capital improvement plan is implemented, the Authority will balance the infrastructure needs against available cash and funding resources to provide the greatest return on investment to the taxpayers in the form of jobs and economic growth.

2020 CAPITAL IMPROVEMENT PROGRAM

\$232 MILLION



- Recapitalization projects = \$81 million
 - *Investments required to sustain high service levels and/or enhance productivity*
- Strategic projects = \$112 million
 - *These investments support new growth opportunities*
- Channel projects = \$29 million
 - *Channel project placement area preparation/cost share USACE and maintenance dredging*
- Remaining projects = \$10 million
 - *Includes maintenance equipment and other replacements*

Summary

Port Houston has produced strong financial results in recent years. The budgeting and planning processes are designed to help the Port Commission and Authority staff, as stewards of public funds, make informed decisions that enhance sustainability.

The economic impact of activities along the Houston Ship Channel is significant – \$339 billion annually in economic value and over 1.3 million jobs in Texas alone, according to the latest study published in 2019 by Martin Associates. These activities represent 21% of the State’s Gross Domestic Product. It is incumbent upon all stakeholders to ensure that this economic engine continues to produce jobs and economic development for the region, Texas and the nation.

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Questions relating to the Authority’s budget and financial results may be submitted as a public information request by following the instructions on the Authority’s website (<http://porthouston.com/portweb/governance/public-information-requests/>).