

Final Draft 11/18/2021

# 2022 Operating & Capital Budget Approved Budget Presentation

Port of Houston Authority  
November 18, 2021





## ***Foreword***

- This 2022 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 2022. It was presented to the Port Commission at an open meeting and approved on November 18, 2021.
- 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.
- For purposes of this presentation, 2022 Budget comparisons are made to the 2021 Reforecast, which is an update to the 2021 Budget prepared by staff as of July 2021. It has been posted on the Port Authority's website ([www.portofhouston.com](http://www.portofhouston.com)).

# 2022 Budget Presentation

## Content



- Key assumptions and narrative overview
- Income Statement – summary & full view
- Cargo projections
- Revenue & expense analysis
- Headcount
- Capital & Liquidity

Note that totals on the following slides may be slightly off due to rounding differences.



# ***Executive Summary – 2022 Operating & Capital Budget***

## ***Key assumptions and narrative***



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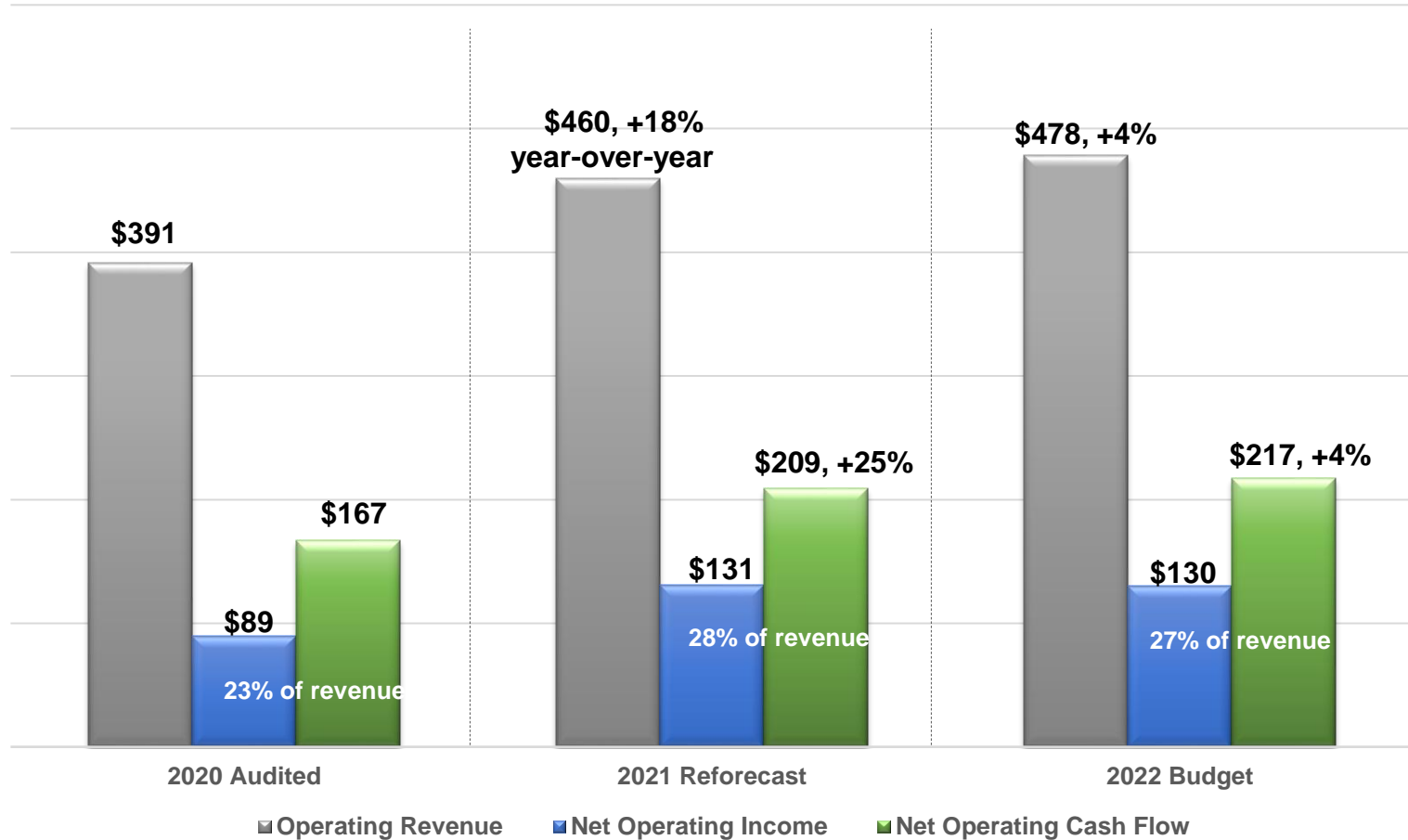
- Container terminal unit growth 9% over 2021 projected
  - Inbound loaded units grow 5%; export loads expand 2%; export empty boxes “up” 42%
  - Import box dwell time reduces, pushing down Storage revenues compared to 2021
- General cargos anticipated to grow double-digits
  - Steel increases 14%; other general cargos “up” 19%
- Proposed CPI adjustment is factored into projected revenues: +5.4% on container tariff items; +3% General cargo tariff
- Salaries and benefits reflect new and replacement headcount; merit increases tied to performance management; market-based salary structure updates; Incentive program
  - New headcount request for 22 plus 51 existing approved/open requisitions
- Other spending increases tied to strategic initiatives and expected return to pre-pandemic patterns
- \$327 million awards projected for the Operating Capital Plan to be assessed project-by-project based on capacity needs and business case; \$460 million in awards anticipated for the Houston Ship Channel Expansion Project (“Project 11”)
- Resulting financial outlook illustrates liquidity sufficient to fund the Operating Capital Plan in 2022 while providing debt service on bonds issued to cover a portion of PHA’s commitment for Project 11

# Projecting solid operating and financial performance

Income Statement summary, \$ in millions



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A stable revenue growth plan into 2022, projecting consistent operating profitability

# Projecting solid operating and financial performance

Income Statement full view, \$ in thousands



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	<b>Audited 2020</b>	<b>Budget 2021</b>	<b>2021 Actual Sep YTD</b>	<b>Reforecast 2021</b>	<b>Budget 2022</b>
Operating Revenue	\$391,284	\$398,187	\$348,273	\$459,860	\$478,391
Operating Expense	252,546	280,736	202,251	273,357	289,255
Gross Margin	138,738	117,451	146,023	186,504	189,136
% of revenue	35.5%	29.5%	41.9%	40.6%	39.5%
General & Administrative Expense	49,480	57,670	41,184	55,721	58,681
% of revenue	13%	14%	12%	12%	12%
Net Operating Income	89,259	59,781	104,839	130,783	130,455
% of revenue	23%	15%	30%	28%	27%
<b>Net Operating Cash Flow</b>	<b>166,713</b>	<b>145,838</b>	<b>163,494</b>	<b>208,729</b>	<b>217,242</b>
Interest expense	-	-	-	-	(15,548)
Other Nonoperating income, net	15,037	6,951	1,060	8,206	10,888
<b>Net Income</b>	<b>\$104,296</b>	<b>\$66,731</b>	<b>\$105,899</b>	<b>\$138,989</b>	<b>\$125,795</b>
% of revenue	27%	17%	30%	30%	26%

Note: full Liquidity (Cash) projections for 2022 are provided on page 1-15

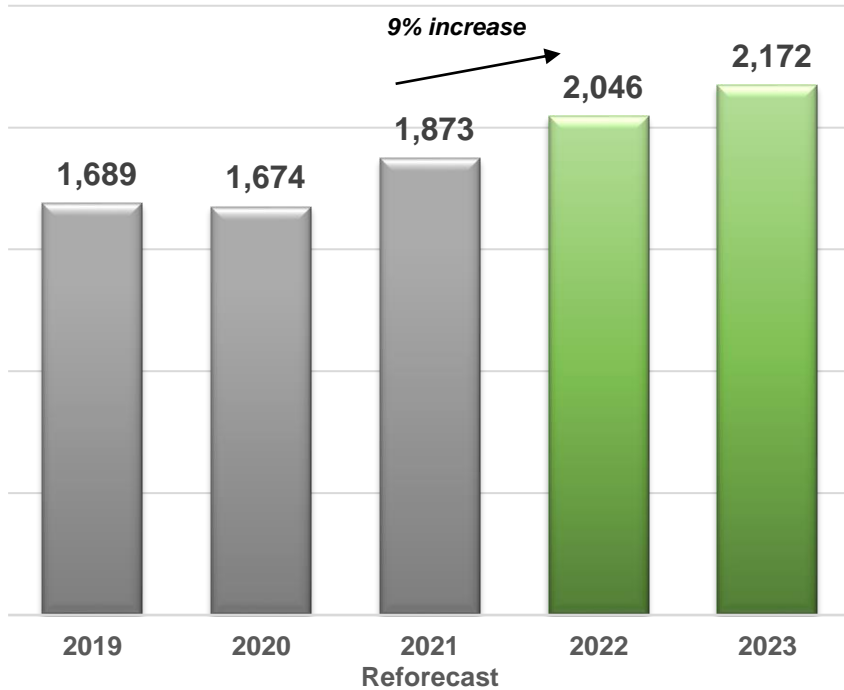
# Container growth; Steel showing recovery

Container Terminal units, Steel tonnage (000s)



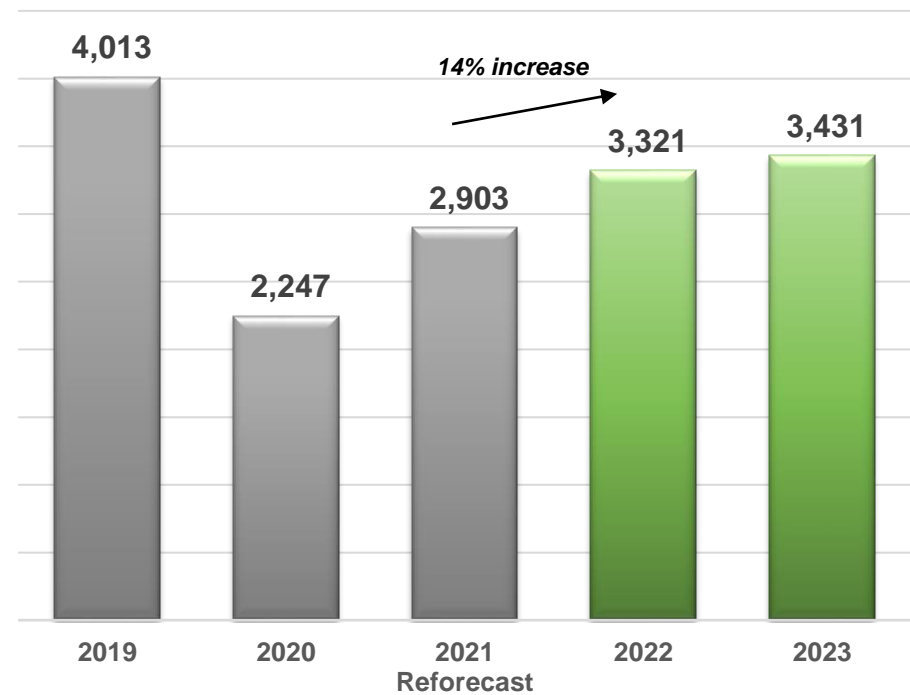
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## Total Containers



Export loads up 2% as resin production returns to normal levels; Import loads up 5%. Empty unit exports up 35% as record levels of import boxes exit.

## Total Steel



Drilling activity has continued to increase this year with demand expected to continue strong into 2022

(Source: AISI, Baker Hughes North America Rig Count, Drewry Multipurpose Shipping)

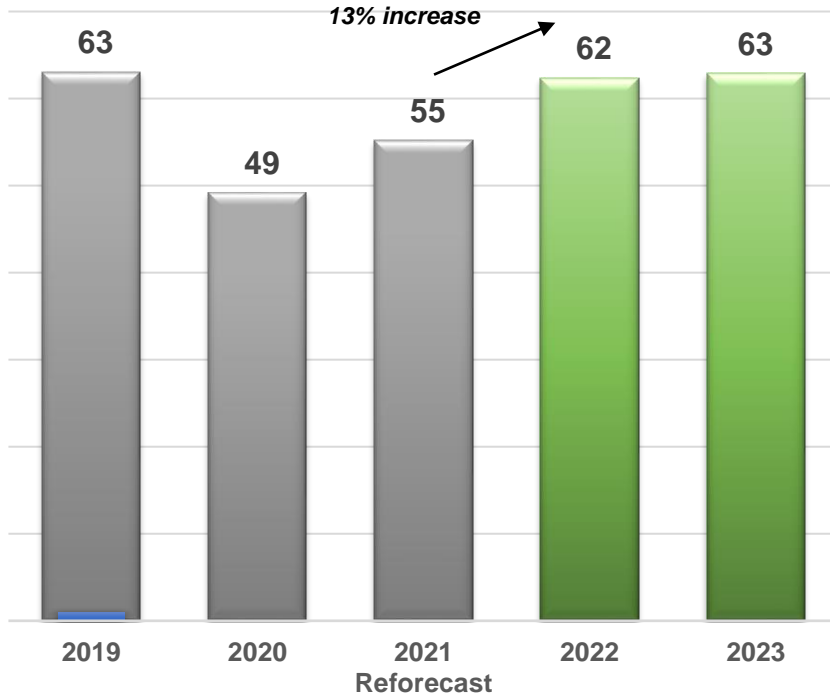
# Autos and Other General Cargos

Auto Units, cargo tonnage (000s)



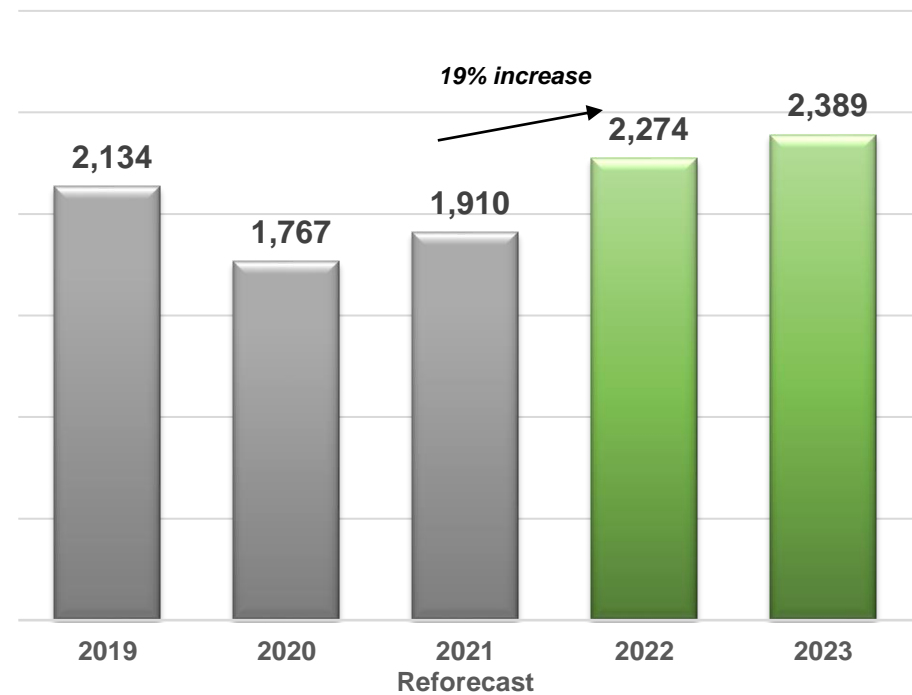
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## Total Autos



Bayport Auto Terminal and Turning Basin autos projecting a return to 2019 levels

## Other General Cargos



Other cargos (cement, project cargo, grains, etc.) showing strong growth into next year

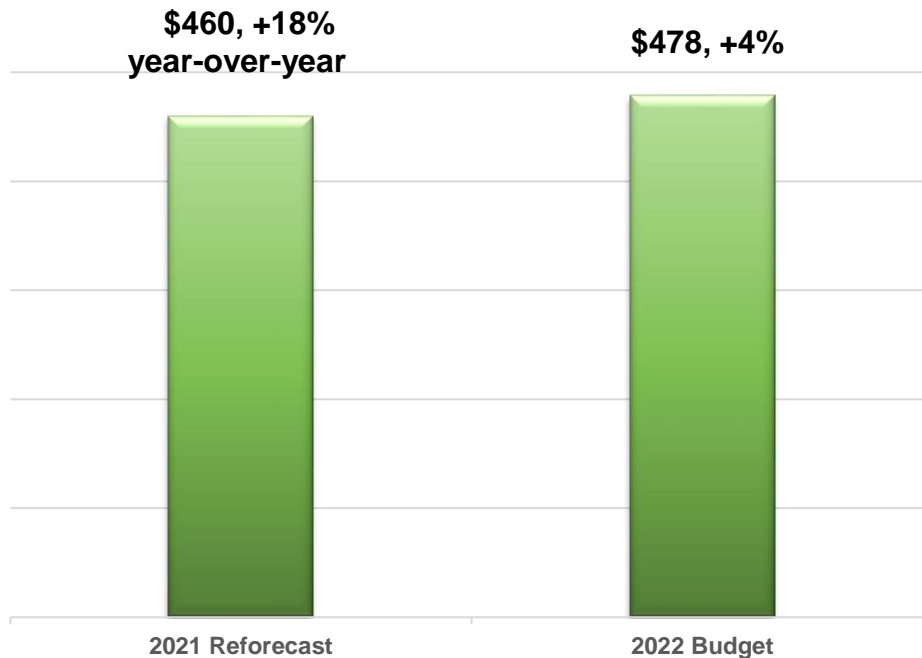


# 2022 Operating Revenue analysis, key changes from 2021

\$ millions



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**2021 Reforecast – Operating Revenue** **\$460**

**Change**

- Increase in Container revenue driven by volume growth, softened by anticipated decline in Storage **16**
- Increase in Turning Basin from cargo growth and lease valuations **2**

**Subtotal** **18**

**2022 Budget – Operating Revenue** **\$478**

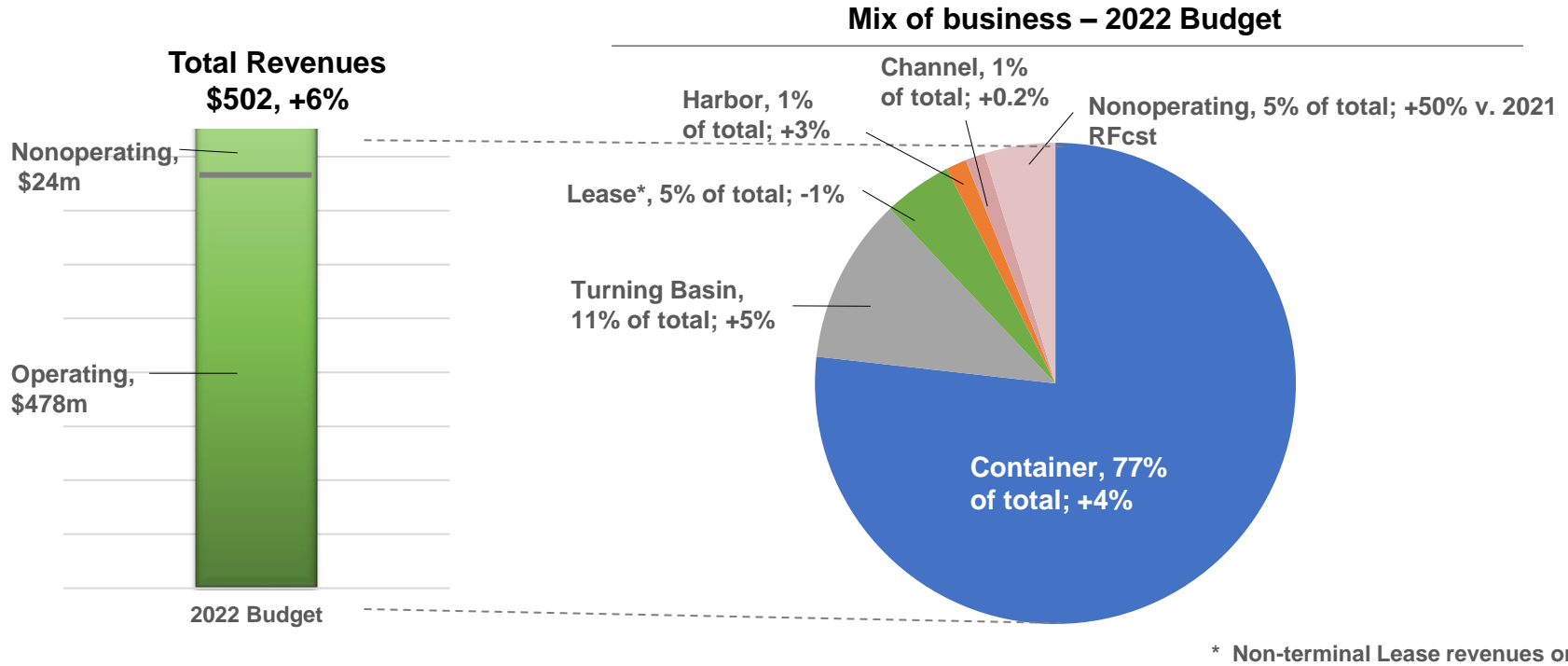
# Revenue growth driven by Container Terminals

Total Revenues: Operating + Nonoperating (Grants, Interest income, other)

\$ millions



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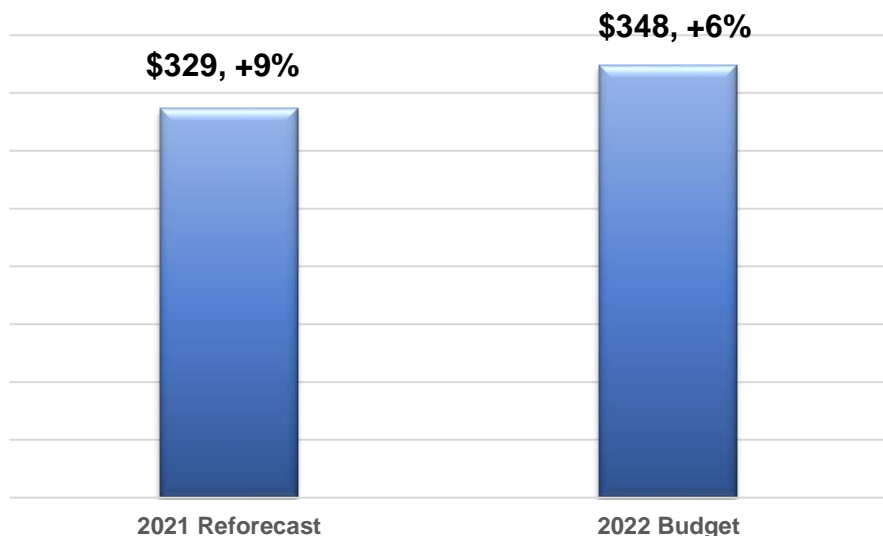
- Container Terminals revenue growth largely on a 4% increase in Loaded units
- Turning Basin Terminals revenue growth led by expected cargo tonnage increase (Steel 14%, other general cargos) combined with Lease valuations
- Nonoperating up 50% primarily from grant funding associated with Bayport Wharf 6 (PIDP), Port Road (TxDOT Rider 45) and Barbour's Cut (INFRA)

# 2022 Expense analysis, key changes from 2021

\$ millions



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2021 Reforecast – Operating and G&A Expense **\$329**

Change

Changes in Operating and infrastructure-related:

- Depreciation & amortization 10
- PHA and ILA salaries and benefits (volume, new/replacement headcount, merit and market adjustments) 8
- Machinery and Equipment (STS Crane relocation in 2021) (2)

Changes in General and administrative:

- Promotion & development-related (Parks, Business Equity, Trade Development) 2
- Salaries and benefits (new/replacement headcount, merit and market adjustments) 1
- Fees & Services related to Cybersecurity and Disaster Recovery Data Center 1
- Allocation to CIP (1)

**Subtotal 19**

**2022 Budget – Operating and G&A Expense \$348**

# Expenses driven by volume growth and other initiatives

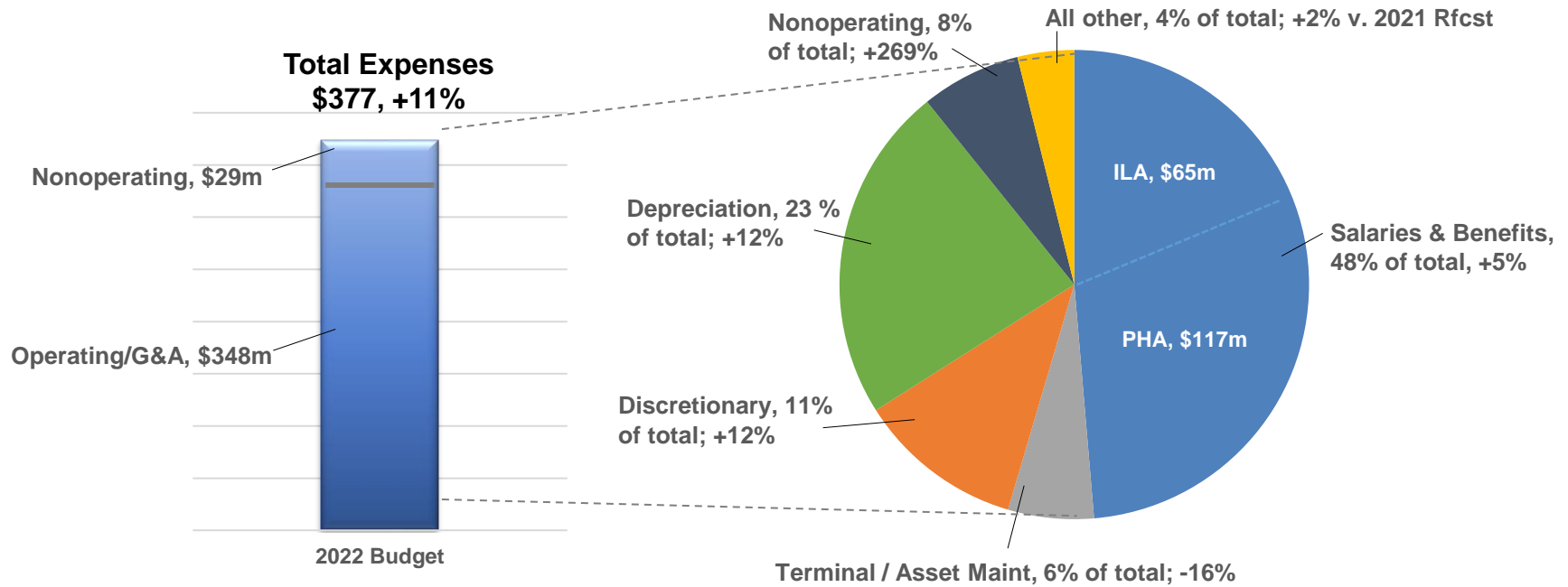
Total Expenses: All Operating + Nonoperating (Contributions, Interest expense, other)

\$ millions



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## Mix of expense – 2022 Budget



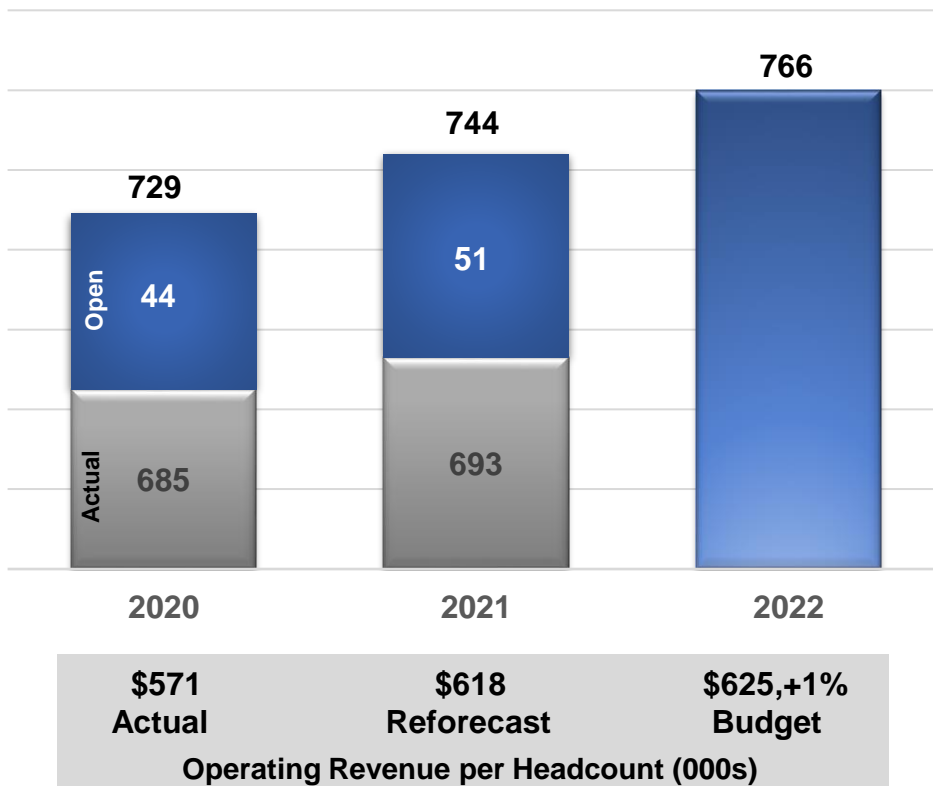
- Depreciation expense reflects capacity additions, recapitalization and maintenance dredge
- Salaries & Benefits, including ILA, growing to support capacity additions and initiatives
- Discretionary includes increases for drainage/dust control for East Industrial Park, P&D expenses for Parks and resumption of Employee training, travel, seminars, etc.
- Terminal/Asset Maintenance decreasing (STS crane relocation and Splash Zone Painting in 2021)
- Nonoperating includes interest expense of \$15.5m and contributions for Port Road

# Staffing growth will support Operations and strategic initiatives

Headcount analysis, Number of Employees\*



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2022 Budgeted Staffing	
Exempt	255
Nonexempt	438
<b>Total Actual Headcount, 9/30/2021</b>	<b>693</b>
Approved, existing open reqs	51
- 8 new from 20 & 21, 43 replacements	
New in 2022 **	22
<b>Total Budgeted Positions</b>	<b>766</b>
<b>2022 Budget – Headcount</b>	<b>766</b>

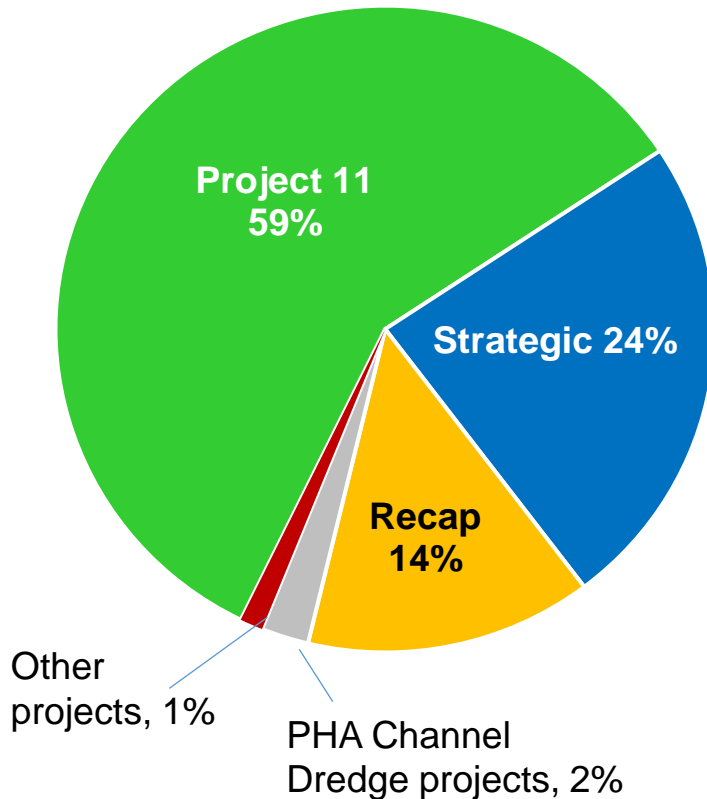
\* Does not include Casual Labor

\*\* 22 new in 2022: 11 Operating (8-Ops, 1-PSEO, 2-Infrastructure); 11 G&A (3-Infrastructure, 3-Technology, 2-People, 1-Legal, 1-Finance, 1-Business Equity)



# 2022 Capital awards comprehend \$327 million for PHA Capital projects and \$460 million for Project 11 commitment

## 2022 Total Capital Improvement Program



- Project 11 awards of \$460 million are planned for Segments 1B, 2, 1C and certain pipeline removal / relocation
- Strategic projects of \$189 million
  - *New growth opportunities: Bayport Container Yard 1N, **Wharf 7, East End design***
  - *Next Generation ERP*
- Recapitalization projects = \$111 million
  - *BCT: Rebuild BCT Maint facility; CY3 RTGs; **CY4 and 5; CY6 & 7 design; BCT West design***
  - *Turning Basin: Manchester Wharf 2; City Docks 20, 21 and Wharf 8*
- PHA Channel projects = \$18 million
  - *Container terminals, Turning Basin and Woodhouse dredging*
- Remaining projects = \$9 million
  - *Includes maintenance equipment, PCC renovations, Smartcontrol lighting, other*

# Projected Capacity to award new projects \$ in thousands



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	2021	2022	2023
<b>Beginning Funds Available (Uncommitted) *</b>	<b>\$ 115,323</b>	<b>\$ 470,374</b>	<b>\$ 140,402</b>
<b>Sources:</b>			
Proceeds from debt issuance	400,000	-	250,000
Operating cash flow and net grant funds	219,649	228,162	221,784
Credit instrument (Note purchase, other)	100,000	250,000	(150,000)
<b>Available Resources</b>	<b>834,972</b>	<b>948,536</b>	<b>462,187</b>
<b>Commitments:</b>			
PHA Operating CIP Awards:			
Bayport	159,572	140,272	43,100
BCT	21,930	82,199	147,223
Channel Development	21,948	18,317	368
Turning Basin Terminals	11,758	38,396	11,285
Real Estate	3,169	26,781	55,100
Maintenance	7,759	5,453	4,365
Bayport Railroad	3,419	1,500	1,500
Other	6,838	13,816	12,018
<b>PHA Operating CIP Awards</b>	<b>236,395</b>	<b>326,734</b>	<b>274,958</b>
Project 11 Awards			
Segment 1A, Oyster, Beltway 8	126,460	-	-
Segment 1B, 2, 1C, other	-	460,095	-
Segment 3, a portion of 4 - Cost share	-	-	50,312
<b>Project 11 Awards</b>	<b>126,460</b>	<b>460,095</b>	<b>50,312</b>
Debt Service	1,744	21,304	21,924
<b>Total Commitments</b>	<b>364,599</b>	<b>808,133</b>	<b>347,194</b>
<b>Ending Funds Available (Uncommitted)</b>	<b>\$ 470,374</b>	<b>\$ 140,402</b>	<b>\$ 114,993</b>

- 2022 anticipated Awards for Port Commission approval total \$787 million
  - \$327 million PHA Capital projects
  - \$460 million Project 11
- A need for additional financing support may exist as early as 2023, modeled here as an additional \$250 million
- Note the incremental credit planned of \$250 million in 2022 to support award capacity is later reduced by \$150 million
  - No drawdowns on these facilities are planned

\*Total cash and investments less total POs and commitments, contingency, self-insurance, other

# Summary of Cash planning projections *\$ in thousands*

## Resources distinguished for PHA CIP and HSC Project 11



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	2021	2022	2023
<b>Beginning available, PHA Operating *</b>	<b>\$ 273,385</b>	<b>\$ 371,423</b>	<b>\$ 316,840</b>
<b>Sources:</b>			
Proceeds from debt issuance	50,000	-	250,000
Operating cash flow and net grant funds	219,649	228,162	221,784
Available Resources	543,034	599,585	788,624
<b>Uses:</b>			
Debt Service	(1,744)	(21,304)	(21,924)
Operating Capital cash outflow	(169,867)	(261,441)	(321,580)
Project 11 funding outflow	-	-	(125,000)
Net Uses	(171,610)	(282,745)	(468,504)
<b>Ending available, PHA Operating</b>	<b>\$ 371,423</b>	<b>\$ 316,840</b>	<b>\$ 320,120</b>
<b>Beginning available, Project 11</b>	<b>\$ -</b>	<b>\$ 319,910</b>	<b>\$ 117,800</b>
Project 11 funding inflow from PHA	-	-	125,000
Proceeds from debt issuance	350,000	-	-
Project 11 cash outflow	(30,090)	(202,110)	(233,391)
<b>Ending available, Project 11</b>	<b>\$ 319,910</b>	<b>\$ 117,800</b>	<b>\$ 9,409</b>

- Projecting a stable liquidity position for PHA operating funds as the Port invests in new capacity while supporting Project 11
- Note amount and timing of subsequent financing in 2023 will change as container volumes evolve
- The amount of Port funding provided to Project 11 from operating cash flow will vary
- Separation of Port operating from Project 11 funds is necessary for bond covenant and liquidity management

\* Total cash and investments less prior year PO balances, contingency, self-insurance, other



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# Backup Details



## 2022 Budget

# Nonoperating – Summary (000's)

	<u>2020 Audited</u>	<u>2021 Budget</u>	<u>2021 Actual Sep YTD</u>	<u>2021 Reforecast</u>	<u>2022 Budget</u>
Nonoperating Revenues	\$8,165	\$3,708	\$3,488	\$4,327	\$1,494
Contribution from Federal/State Agency	5,188	20,449	2,723	11,633	22,421
<b>Total Nonoperating Revenues</b>	<b>13,353</b>	<b>24,157</b>	<b>6,211</b>	<b>15,960</b>	<b>23,915</b>
Interest expense	-	-	-	-	15,548
Nonoperating Expenses	(1,918)	4,459	1,821	3,676	605
Contribution to Federal/State Agency	235	12,746	3,329	4,079	12,422
<b>Total Nonoperating Expenses</b>	<b>(1,683)</b>	<b>17,205</b>	<b>5,150</b>	<b>7,755</b>	<b>28,575</b>
<b>Nonoperating items and Contributions</b>	<b>\$15,036</b>	<b>\$6,952</b>	<b>\$1,061</b>	<b>\$8,205</b>	<b>(\$4,660)</b>

### Comments:

- Nonoperating Revenues include Interest Income-Securities and Interest Income-Delinquent A/R
- Contribution 'from' Federal/State Agencies includes grants for Wharf 6, Port Road and Barbour's Cut projects
- Nonoperating expenses include County Appraisal District fees and costs associated with the credit facility
- Contributions 'to' reflect Port Road project expenditures





## ***2022 Operating and Capital Budget***

This concludes the presentation of the 2022 Budget proposal for the Port Commission's consideration and possible adoption.

The following 5-year Plan materials are provided to the Port Commission for review, though no action is required.

Draft  
11/18/2021

# 2022 Operating & Capital Budget 5-Year Plan

Port of Houston Authority  
November 18, 2021

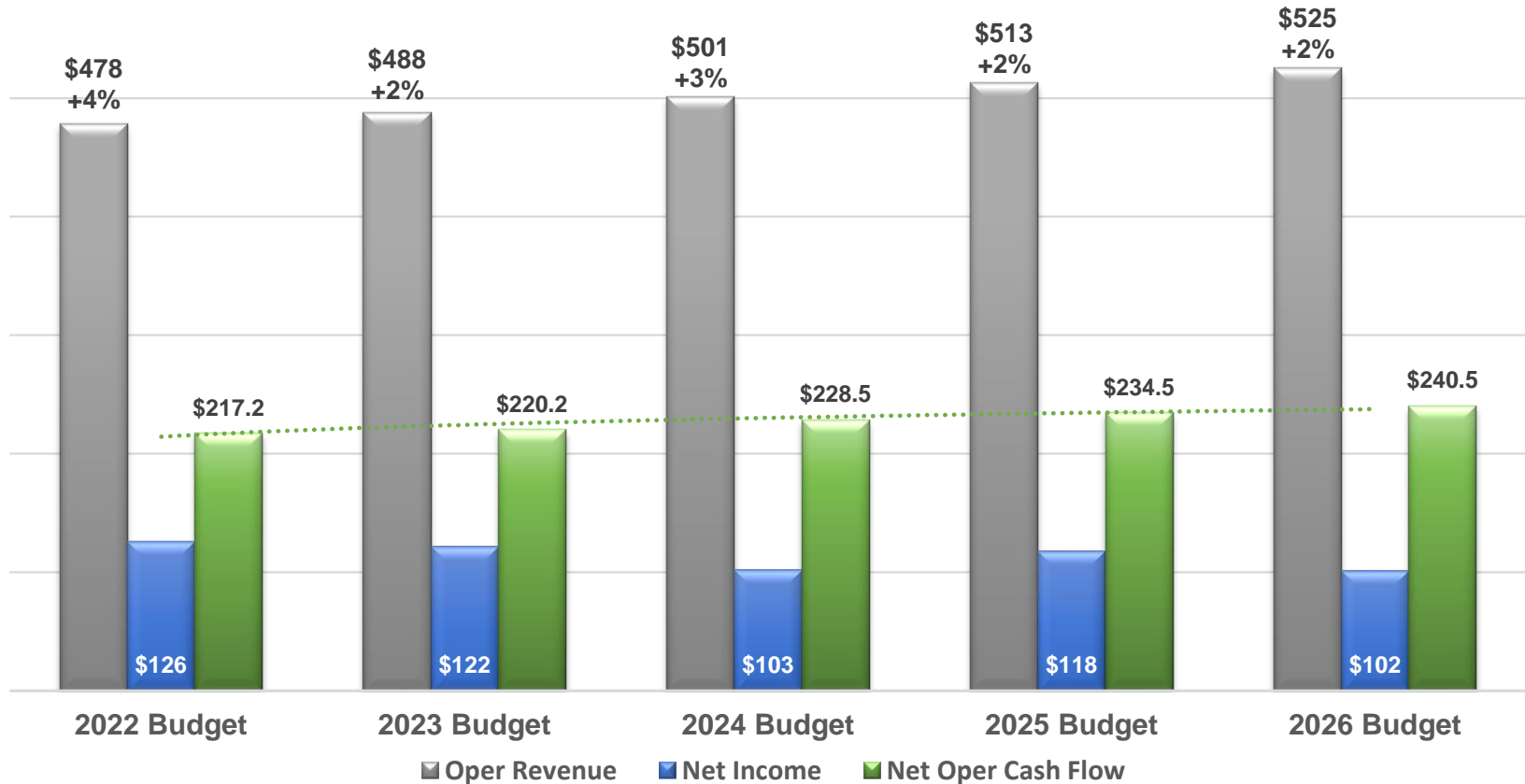


# 5-year Income Statement summary - Operating

\$ in millions



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- Operating revenues reflect a steady 2.4% compound annual growth rate across this planning horizon while Net Operating Cash generation grows by 2.6%
- Net income trend influenced by depreciation on capacity additions and interest expense on revenue bond issuances

## 2022 – 2026 Budget Income Statement (000's)



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	<u>Budget 2022</u>	<u>Budget 2023</u>	<u>Budget 2024</u>	<u>Budget 2025</u>	<u>Budget 2026</u>
Operating Revenue	\$478,391	\$488,118	\$501,024	\$512,929	\$525,414
Less: Operating Expense	<u>289,255</u>	<u>314,929</u>	<u>321,550</u>	<u>322,498</u>	<u>343,222</u>
Gross Margin	189,136	173,189	179,474	190,431	182,192
% of revenue	<b>40%</b>	<b>35%</b>	<b>36%</b>	<b>37%</b>	<b>35%</b>
General & Administrative Expenses	58,681	60,040	62,773	66,404	68,508
% of revenue	<u>12%</u>	<u>12%</u>	<u>13%</u>	<u>13%</u>	<u>13%</u>
Net Operating Income	130,455	113,148	116,701	124,027	113,684
% of revenue	<b>27%</b>	<b>23%</b>	<b>23%</b>	<b>24%</b>	<b>22%</b>
<b>Net Operating Cash Flow</b>	<b>217,242</b>	<b>220,169</b>	<b>228,466</b>	<b>234,483</b>	<b>240,504</b>
Interest expense	(15,548)	(16,487)	(26,729)	(26,277)	(25,802)
Other Nonoperating income, net	10,888	25,057	12,651	20,732	14,156
<b>Net Income</b>	<b><u>\$125,795</u></b>	<b><u>\$121,719</u></b>	<b><u>\$102,623</u></b>	<b><u>\$118,481</u></b>	<b><u>\$102,038</u></b>
% of revenue	<u>26%</u>	<u>25%</u>	<u>20%</u>	<u>23%</u>	<u>19%</u>

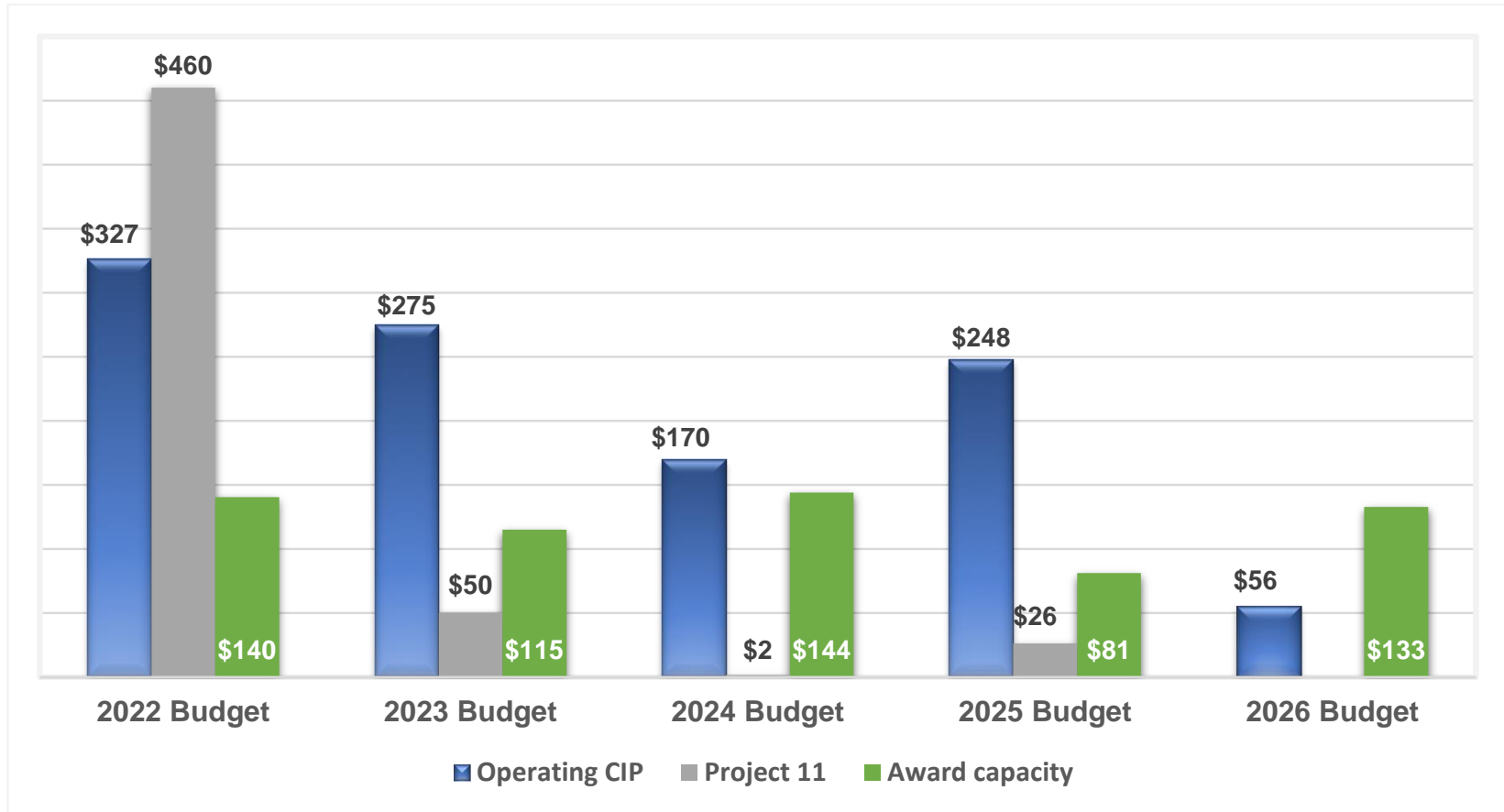
Note: full Liquidity (Cash) projections for this 5-year plan are provided on page 1-23

# 5-year Capital Budget summary – Awards-based

\$ in millions



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- Operating CIP includes acceleration of container capacity; BCT Maintenance building; Executive Office Building, Next-generation ERP and other essential infrastructure investments
- Award capacity represents uncommitted funds available for award by Port Commission of future projects; 5-year plan includes an additional credit facility of \$250 million in 2022



# 2022 – 2026 Budget

## Award capacity rollforward (000's)



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	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
<b>Beginning Funds Available (Uncommitted) *</b>	<b>\$ 115,323</b>	<b>\$ 470,374</b>	<b>\$ 140,402</b>	<b>\$ 114,993</b>	<b>\$ 144,040</b>	<b>\$ 81,241</b>
<b>Sources:</b>						
Proceeds from debt issuance	400,000	-	250,000	-	-	-
Operating cash flow and net grant funds	219,649	228,162	221,784	237,205	247,056	243,259
Credit instrument (Note purchase, other)	100,000	250,000	(150,000)	-	-	(100,000)
Available Resources	<u>834,972</u>	<u>948,536</u>	<u>462,187</u>	<u>352,198</u>	<u>391,095</u>	<u>224,500</u>
<b>Commitments:</b>						
PHA Operating CIP Awards:						
Bayport	159,572	140,272	43,100	58,442	3,300	365
BCT	21,930	82,199	147,223	27,343	154,815	730
Channel Development	21,948	18,317	368	32,610	10,368	19,180
Turning Basin Terminals	11,758	38,396	11,285	15,100	57,885	18,825
Real Estate	3,169	26,781	55,100	5,796	7,500	7,500
Maintenance	7,759	5,453	4,365	20,939	4,845	1,576
Bayport Railroad	3,419	1,500	1,500	-	-	-
Other	6,838	13,816	12,018	9,843	8,988	7,645
PHA Operating CIP Awards	<u>236,395</u>	<u>326,734</u>	<u>274,958</u>	<u>170,072</u>	<u>247,700</u>	<u>55,821</u>
Project 11 Awards						
Segment 1A, Oyster, Beltway 8	126,460	-	-	-	-	-
Segment 1B, 2, 1C, other	-	460,095	-	-	-	-
Segment 3, a portion of 4 - Cost share	-	-	50,312	-	-	-
Segment 5 - Cost share	-	-	-	1,747	-	-
Segment 6, pipelines - Cost share	-	-	-	-	26,369	-
Project 11 Awards	<u>126,460</u>	<u>460,095</u>	<u>50,312</u>	<u>1,747</u>	<u>26,369</u>	<u>-</u>
Debt Service	1,744	21,304	21,924	36,339	35,785	35,717
<b>Total Commitments</b>	<u>364,599</u>	<u>808,133</u>	<u>347,194</u>	<u>208,158</u>	<u>309,854</u>	<u>91,537</u>
<b>Ending Funds Available (Uncommitted)</b>	<b>\$ 470,374</b>	<b>\$ 140,402</b>	<b>\$ 114,993</b>	<b>\$ 144,040</b>	<b>\$ 81,241</b>	<b>\$ 132,963</b>

\* Total cash and investments less POs and commitments, contingency, self-insurance, other

# 2022 – 2026 Budget

## Liquidity (Cash) rollforward (000's)



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	2021	2022	2023	2024	2025	2026
<b>Beginning available, PHA Operating *</b>	<b>\$ 273,385</b>	<b>\$ 371,423</b>	<b>\$ 316,840</b>	<b>\$ 320,120</b>	<b>\$ 131,053</b>	<b>\$ 105,595</b>
<b>Sources:</b>						
Proceeds from debt issuance	50,000	-	250,000	-	-	-
Operating cash flow and net grant funds	219,649	228,162	221,784	237,205	247,056	243,259
Available Resources	543,034	599,585	788,624	557,325	378,109	348,853
<b>Uses:</b>						
Debt Service	(1,744)	(21,304)	(21,924)	(36,339)	(35,785)	(35,717)
Operating Capital cash outflow	(169,867)	(261,441)	(321,580)	(239,933)	(201,728)	(176,725)
Project 11 funding outflow	-	-	(125,000)	(150,000)	(35,000)	(4,984)
Net Uses	(171,610)	(282,745)	(468,504)	(426,272)	(272,514)	(217,425)
<b>Ending available, PHA Operating</b>	<b>\$ 371,423</b>	<b>\$ 316,840</b>	<b>\$ 320,120</b>	<b>\$ 131,053</b>	<b>\$ 105,595</b>	<b>\$ 131,428</b>
<b>Beginning available, Project 11</b>	<b>\$ -</b>	<b>\$ 319,910</b>	<b>\$ 117,800</b>	<b>\$ 9,409</b>	<b>\$ 8,697</b>	<b>\$ 3,082</b>
Project 11 funding inflow from PHA	-	-	125,000	150,000	35,000	4,984
Proceeds from debt issuance	350,000	-	-	-	-	-
Project 11 cash outflow	(30,090)	(202,110)	(233,391)	(150,712)	(40,615)	(8,066)
<b>Ending available, Project 11</b>	<b>\$ 319,910</b>	<b>\$ 117,800</b>	<b>\$ 9,409</b>	<b>\$ 8,697</b>	<b>\$ 3,082</b>	<b>\$ -</b>

\* Total cash and investments less prior year POs, contingency, self-insurance, other



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# THANK YOU

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**Questions?**

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