

PORT HOUSTON

Approved Budget
Presentation
November 18, 2022



2023 Budget - Forward

- This proposed 2023 operating budget and capital plan has been developed to guide staff in the operation and management of Port Authority (“PHA”) facilities and activities for Fiscal Year 2023. It is being presented to the Port Commission on November 18, 2022.
- Note that the operating budget does not include Harris County property tax receipts, which are used exclusively for debt service on the outstanding general obligation (“GO”) *ad valorem* tax bonds.
- While the capital plan may be approved as to maximum annual amount of capital expenditures, individual capital (and operating expense) projects exceeding \$50,000 will be presented separately to the Port Commission for approval in accordance with statutory requirements.
- For purposes of this presentation, 2023 Budget comparisons are made to the 2022 Reforecast, which is an update to the 2022 Budget prepared by staff as of July 2022.



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

2023 Budget Presentation - Content

- Executive summary: narrative overview
- Cargo assumptions
- Income Statement – summary & full view
- Revenue & expense analysis
- Headcount
- Capital & Liquidity
- *5-Year Plan Review*

2023 Budget Presentation - Content

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Executive Summary – 2023 Operating & Capital Budget

Narrative overview

- Considering industry and market signals, Container unit growth projected to slow in 2023; General cargo tonnage is projected to trend downward through 2023 to pre-pandemic level growth trends
 - CPI adjustment is factored into the tariff-based revenues
 - Operating revenue of \$609 million is down 4.6% on anticipated Storage and General cargo declines
- Salaries and benefits reflect new and replacement headcount coupled with performance management and incentive program funding tied to attainment of cash generation targets
- Other spending increases tied to strategic initiatives and activities to support business growth and community engagement
- \$579 million in project awards anticipated for the Port Operating Capital Plan; \$99 million in awards planned for the Houston Ship Channel Expansion Project (“Project 11”)
- Liquidity outlook portrays the ability to cash fund the 2023 (and 5-year) operational Capital Plan
 - Additional credit or ‘award capacity’ may be necessary in late-2023
 - Considering alternatives to address funding needs in mid-2023 to complete funding of Project 11

2023 Budget Presentation - Content

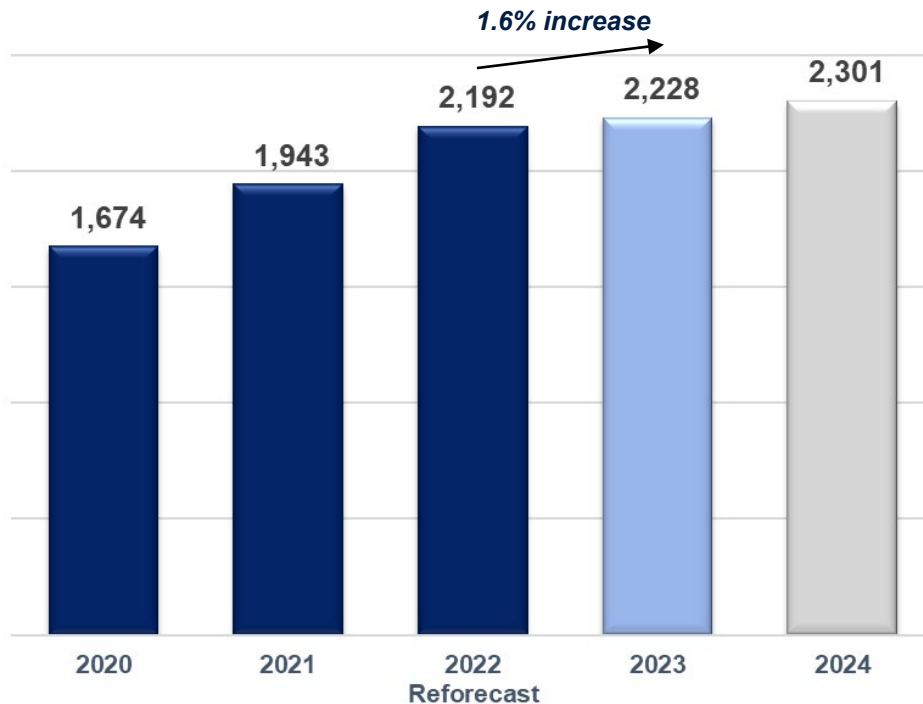
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Cargo assumptions

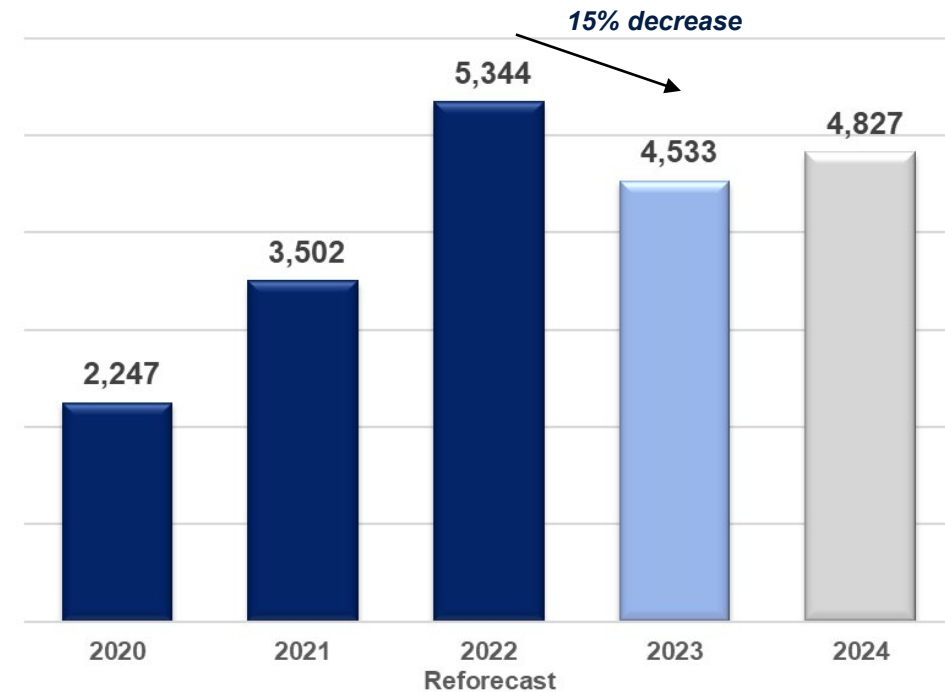
Container growth slowing; Steel trending down, but remains strong (000s)

Container Terminal units



Led by Export loads up 4% as resin production capacity and volumes trend upward

Steel tonnage



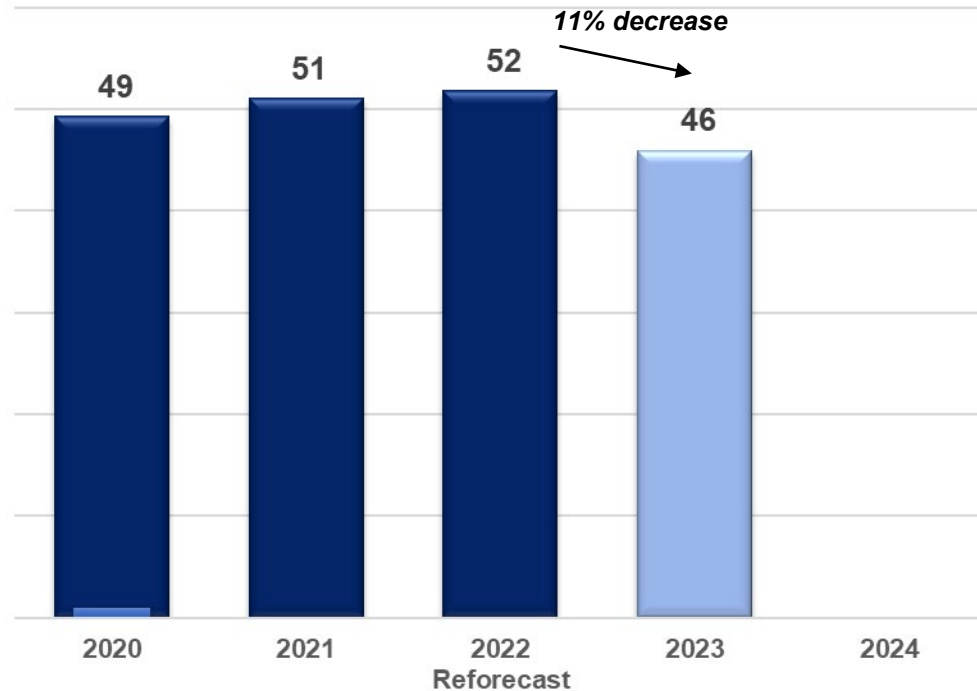
Steel 'recovery' in early 2022 has subsequently trended to healthy levels; drilling activity has potential to trend down in 2023¹, though international demand remains supportive

¹ Baker Hughes Rig Count, *Trading Economics*

Cargo assumptions

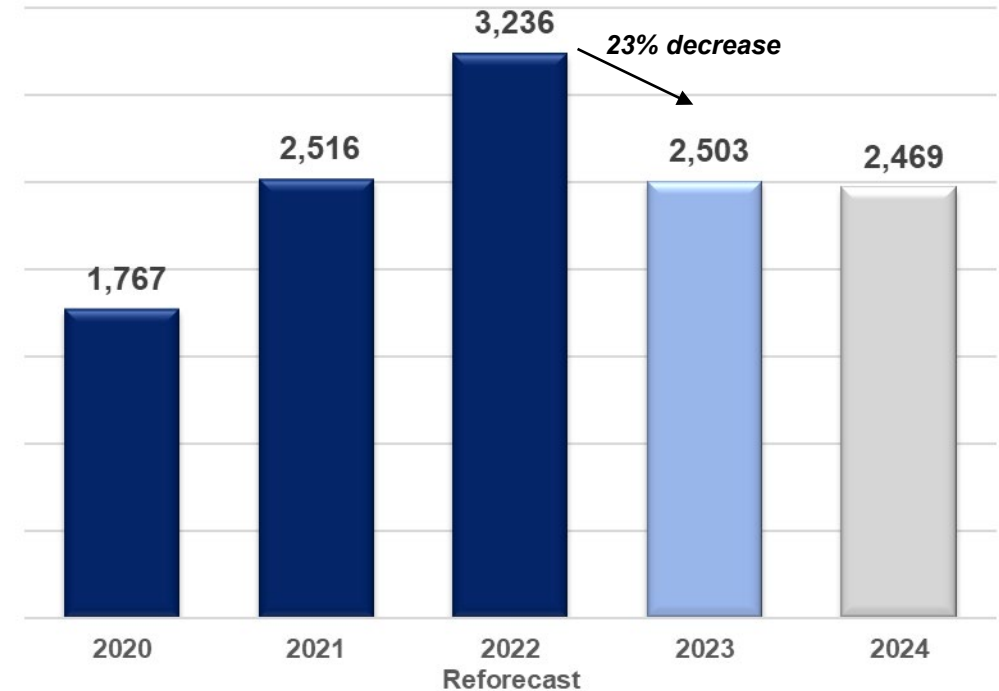
Autos and Other General Cargos (000s)

Total Auto (units)



Bayport Auto Terminal ramping down in 2022; Turning Basin Auto customer ceasing operations in 2023

Other General Cargos (tons)



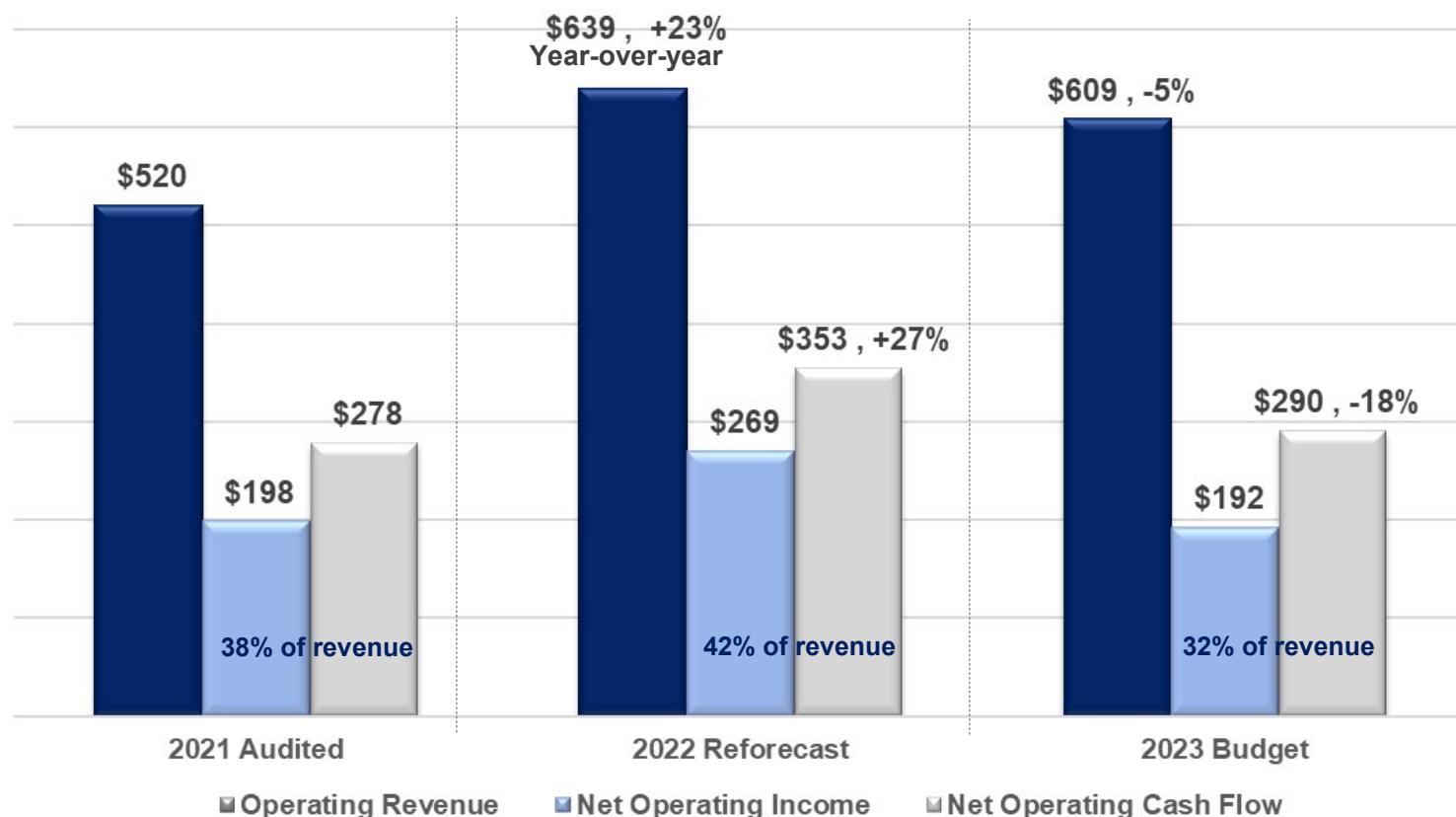
Represents largely 'revenue tonnage' at the Turning Basin and includes bulk and project cargos; decline into 2023 reflects drop in containers and other expected cargo normalization

2023 Budget Presentation - Content

- Executive summary: narrative overview and market perspectives
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Projecting stable performance in a changing environment

Income Statement summary, \$ in millions



Keys to year-over-year changes:

- Reflecting a -5% revenue decline driven by a \$74 million or 60% drop in Storage combined with Turning Basin decreases, softened by marginal unit growth
 - *Normalized*, Operating Revenue grows by 8% into 2023*
- Overhead spending influenced by staffing and benefits cost; growth in Discretionary items
- Decline in Cash generation of -18% illustrates expected drop in Storage
 - *Net Operating Cash Flow grows by 4% when normalized**

* 'Normalized Storage' restates revenues and cash flow to pre-pandemic run-rate Storage fees, escalated with unit and yard capacity growth, but attempts to exclude the effects of extended dwell times resulting from supply chain anomalies.

Projecting stable performance in a changing environment

Income Statement summary, \$ in thousands

	Actual 2021	Budget 2022	2022 Actual Sep YTD	Reforecast 2022	Budget 2023	Budget 2023 v. Reforecast	%
Operating Revenue	\$520,340	\$478,391	\$487,758	\$638,746	\$609,476	(\$29,270)	-4.6%
Operating Expense	272,211	290,674	230,400	315,151	349,002	33,853	10.7%
Gross Margin	248,128	187,717	257,359	323,597	260,474	(63,123)	-19.5%
% of revenue	47.7%	39.2%	52.8%	50.7%	42.7%	(7.9pts)	
General & Administrative Expense	49,872	57,262	40,234	54,397	68,092	13,693	25.2%
% of revenue	10%	12%	8%	9%	11%	2.7pts	
Net Operating Income	198,257	130,455	217,126	269,199	192,382	(76,817)	-28.5%
% of revenue	38%	27%	45%	42%	32%	(10.6pts)	
Net Operating Cash Flow	277,885	217,242	277,078	353,428	290,067	(63,361)	-17.9%
Interest expense	(843)	(15,548)	(11,143)	(15,041)	(26,060)	(11,020)	73.3%
Other Nonoperating income, net	4,597	10,888	7,627	11,519	45,647	34,128	296.3%
Net Income	\$202,011	\$125,795	\$213,610	\$265,678	\$211,969	(\$53,709)	-20.2%
% of revenue	39%	26%	44%	42%	35%	(6.8pts)	
Total Cash Flow (GAAP) ¹	\$286,284	\$212,582	\$273,805	\$347,523	\$297,924	(\$49,599)	-14.3%
\$ of revenue	\$0.55	\$0.44	\$0.56	\$0.54	\$0.49	(\$0.06)	

- Downward trend of financial outlook is impacted by anticipated decline in Storage Fees, combined with softening in General cargos, partially softened by marginal Container unit growth; spending is addressed in the next section

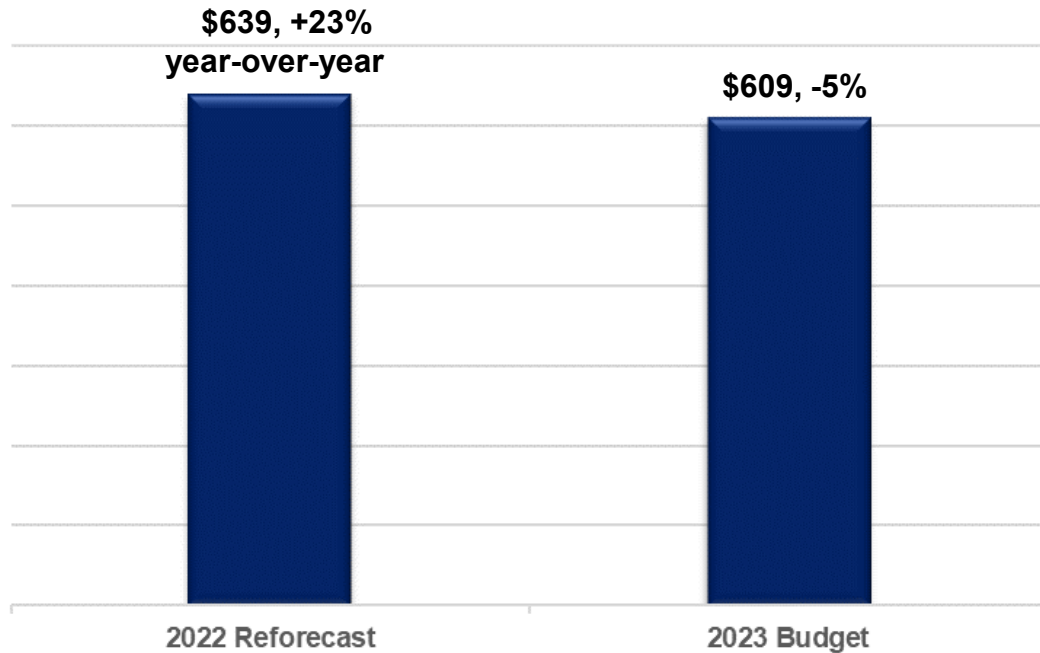
¹ Includes impact of the principal portion of debt service payment

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Operating Revenue analysis, key changes from 2022

\$ in millions

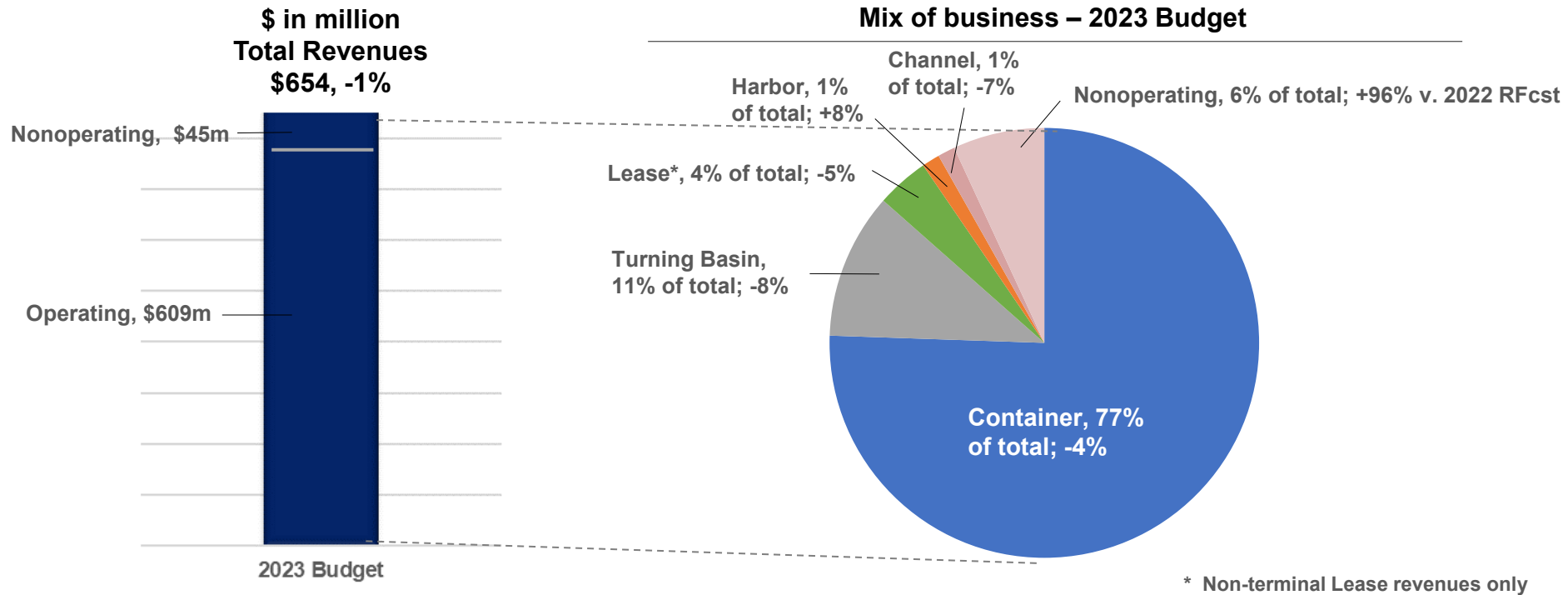


2022 Reforecast	
Operating Revenue	\$639
<hr/>	
• Decrease in Storage revenue	(74)
• Net Container revenue increase	51
• Decrease in Turning Basin on cargo decline	(6)
• Decline in Lease revenue, other	(1)
Subtotal	(30)
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2023 Budget	
Operating Revenue	\$609

When 'normalized' for incremental Storage revenues resulting from Supply Chain anomalies, operating revenues grow by 8% from 2022 to this 2023 Budget.

Revenue profile

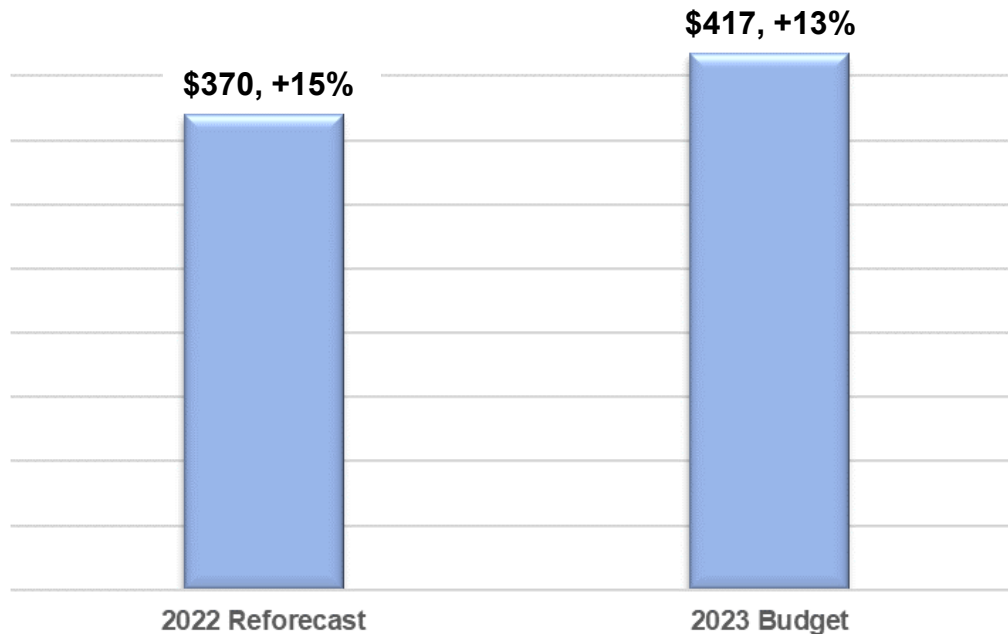
Total Revenues: Operating + Nonoperating (Grants, Interest income, other)



- Container Terminals revenue decline of -4% is largely driven by reduction in Storage, partially offset by unit growth
- Turning Basin revenue decrease is primarily a result of cargo tonnage (Steel -15%, other general cargos -23%)
- Nonoperating up 96% from grant funding associated with Bayport Wharf 6 (PIDP, \$5.9 million) and Barbours Cut (INFRA, \$15.6 million), combined with interest income projected on cash & investments

Expense analysis, key changes from 2022

\$ in millions



2022 Reforecast, Operating and G&A Expenses \$370

Changes in Operating:

• PHA and ILA Salaries / Benefits driven by volume, new/replacement headcount, merit, other	18
• Depreciation and amortization from capacity additions, maintenance dredge	13
• Equipment rental of terminal-use chassis	3
Subtotal Operating changes	34

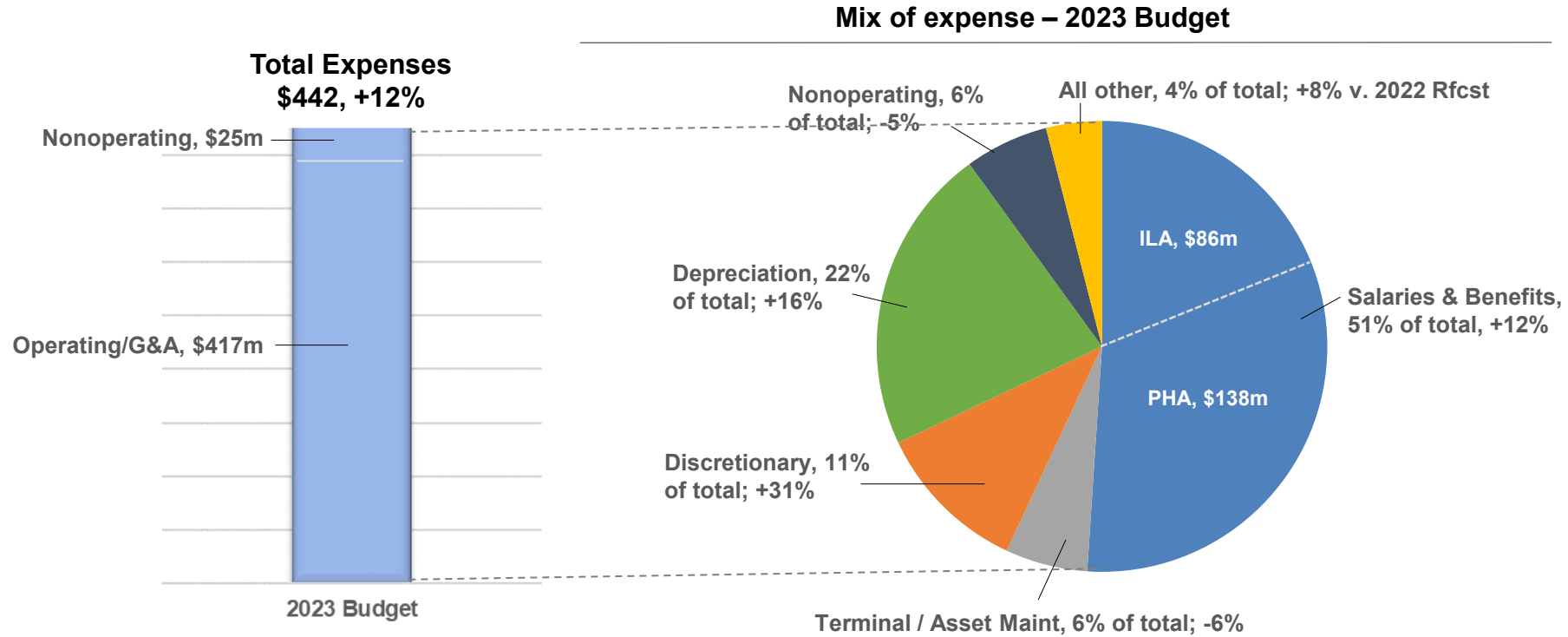
Changes in G&A:

• Salaries / Benefits driven by new/replacement headcount, merit, other	5
• 5% inflation/cost increase provided (Travel, Training, etc.)	1
• Next Generation ERP elements (Software Licenses, other)	2
• Discretionary investments: Disparity Study update	3
Grant Application support	
Enterprise Risk Management program	
Executive Development Initiative	
Long-range Capacity Planning	
Economic Impact Study update	
Houston International Maritime Conference	
• All other: Depreciation on IT assets; Insurance, other	1.5
Subtotal G&A changes	13

2023 Budget, Operating and G&A Expenses \$417

Expense profile

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



- Salaries & Benefits, including ILA, growing to support sustained volume, capacity additions and initiatives
- Depreciation expense reflects capacity additions and maintenance dredge
- Discretionary includes rental of chassis; various study/program updates; and employee development initiatives
- Terminal/Asset Maintenance decreasing (BCT pavement replacement)
- Nonoperating includes interest expense, \$26m; Contributions “To” (Port Road, Pelican Island. other), \$5m; partially offset by bond premium amortization

Promotion & Development Fund

Improvement Plan (approved Sept 2022)

	2022 Budget	2023 Budget
Organizational Partnership		
Organizational Support	\$287,500	\$201,750
Memberships	25,550	30,750
Events & Sponsorships	143,275	167,025
Discretionary Funding	117,000	209,500
Strategic Programmatic Funding		
Maritime Workforce Support	110,000	125,000
Community Outreach Support	30,900	38,400
Community Grants Program	325,000	375,000
Parks & Green Space Program	580,000	580,000
Maritime Education Program	156,900	168,900
Public Boat Tour	1,278,351	1,392,549
Advocacy Support	739,500	742,250
Business Equity Program	126,000	160,000
Miscellaneous	28,950	72,950
Total	\$3,948,926	\$4,264,074



COMMUNITY

ENHANCE
COMMUNITY CONNECTIONS

Optimally partner and
steward resources to benefit
stakeholders

INITIATIVES

-  **COMMUNITY PARTNERSHIPS**
PROJECT-FOCUSED
ENGAGEMENT
-  **ENVIRONMENTAL STEWARDSHIP**
SUSTAINABLE BUSINESS
PRACTICES
-  **REGIONAL COMPETITIVENESS**
SUPPORT FREIGHT MOBILITY
INITIATIVES



Objectives:

- a) Cultivate key relationships to accomplish common goals
- b) Demonstrate transparency and accountability
- c) Engage in proactive two-way communication

Environmental, Social, Safety & Governance (ESSG)

Spend integrated in 2023 budget

Funding \$80+ million in programs, initiatives and assets that support ESSG

Programs and initiatives

Assets

Environmental, \$70.9 million

Smart Control of lighting; incremental Greenspace maintenance (Damp and Marsh sites); Environmental Department, events and initiatives

Electric Wharf cranes; Hybrid RTG cranes; Electric vehicle purchases; a portion of Project 11 focused on NOx reduction, new oyster reefs / restoration, new bird islands

Social & Safety, \$10.9 million

Sam Houston Tour operations; Community Grants, Green Space (Parks) and Maritime Education programs; Health and Wellness program funding; Community Relations and Safety Department expenses and programs; a portion of Fire Department expenditures associated with local community support

New Sam Houston Boat to support Community tours

Governance, \$2.2 million

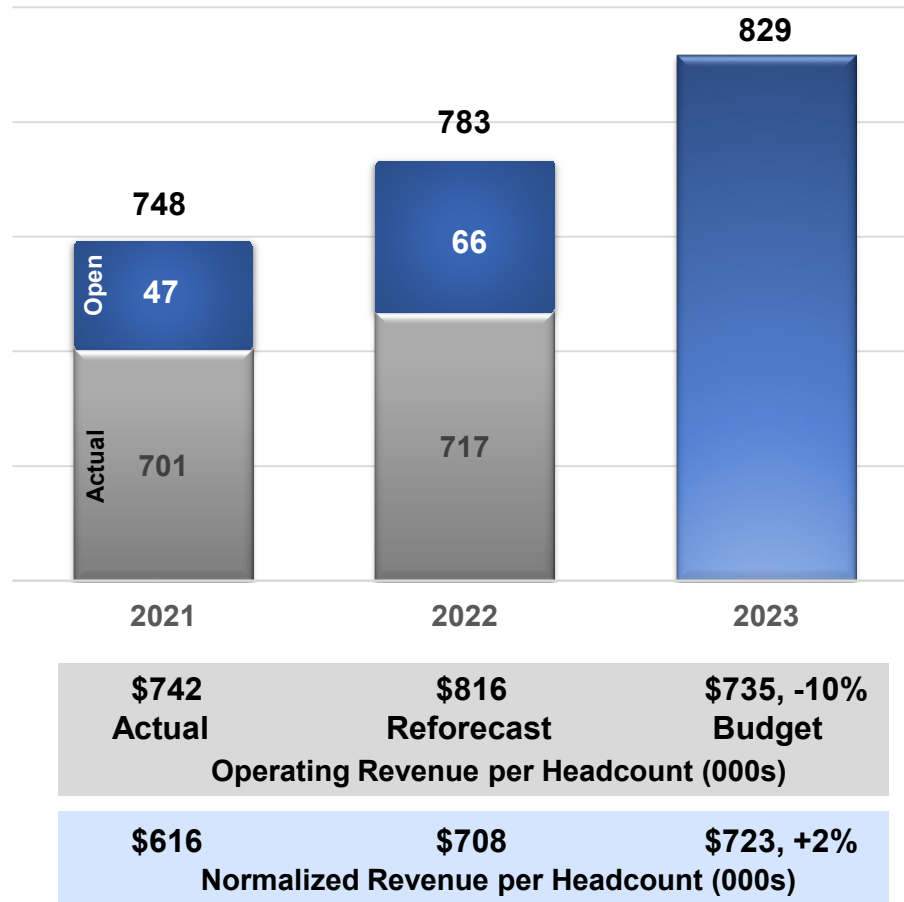
Business Equity Department and projects; Carbon Neutrality Assessment; ISO certifications

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Staffing growth to support Operations and strategic initiatives

Headcount analysis, Number of Employees*



2023 Budgeted Staffing	
Exempt	261
Nonexempt	456
Total Actual Headcount, 9/30/2022	717
Approved, existing open requisitions	66
- 8 new from 2021 & '22, 58 replacements	
New in 2023 **	46
Total Budgeted Positions	829
2023 Budget – Headcount	829

* Does not include Casual Labor

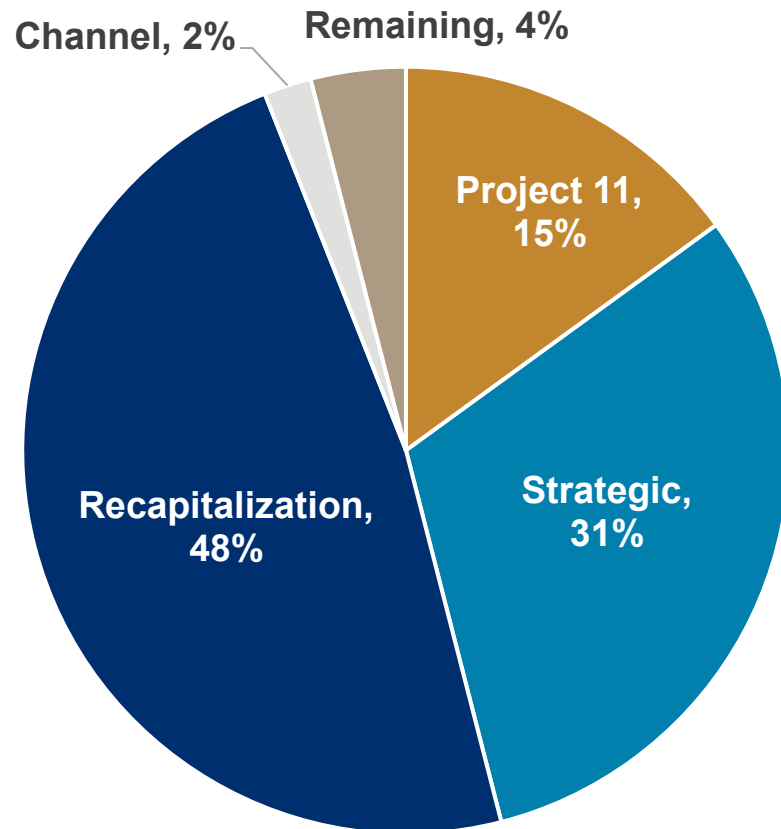
** 46 new in 2023: 30 Operating (23-Ops, 7-PSEO); 16 G&A (4-Executive, 2-Infrastructure, 3-Technology, 2-People, 4-Finance, 1-Business Equity)

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Proposed 2023 Capital awards comprehend PHA Operating CIP budget of \$579 million and \$99 million for Project 11

2023 Capital Improvement Program



- Project 11 awards of \$99 million will fund Segment 1C and Segment 4 Placement Areas
- Strategic projects, \$211 million
 - Bayport Wharf 7 and STS Cranes, Container Yard (“CY”) 1 South Design, Bayport South development; BPT East and BCT West Areas Design; Next Gen ERP; other
- Recapitalization projects, \$329 million
 - BCT Wharves 4 & 5, CY 6 & 7, Cranes; Turning Basin City Dock 21/22, Manchester Wharf 2, Waterlines at Turning Basin South
- Channel maintenance projects, \$11 million
 - Placement Area and USACE cost share
- Remaining projects, \$28 million
 - Executive Office Building, Fire suppression at BCT, Dispatch equipment, other

2023 Capital Awards proposed

(\$ in thousands)

	2021 Actual	2022 Budget	2022 Reforecast	2023 Budget
Bayport Terminal	\$119,069	\$140,272	\$155,037	\$179,102
Barbours Cut	21,813	82,199	135,463	296,828
Channel Development	20,994	18,317	19,434	11,160
Turning Basin Terminals	4,528	38,396	25,507	36,000
Maintenance	11,144	5,453	21,992	6,490
Real Estate	208	26,781	19,445	26,368
PSEO	2,236	6,660	4,751	3,930
Other	5,185	8,655	7,770	18,808
PHA Operating Capital	185,177	326,733	389,399	578,686
Project 11	157,785	460,095	521,238	98,732
Total Capital	<u>\$342,962</u>	<u>\$786,829</u>	<u>\$910,637</u>	<u>\$677,418</u>
Grant Reimbursements	\$5,567	\$22,421	\$16,195	\$24,319

2022 Reforecast represents actual awards through September plus 3 months of forecasted awards for remainder of the year.

Bayport Terminal development

Container capacity growth: 2023 and 5-year plan overview

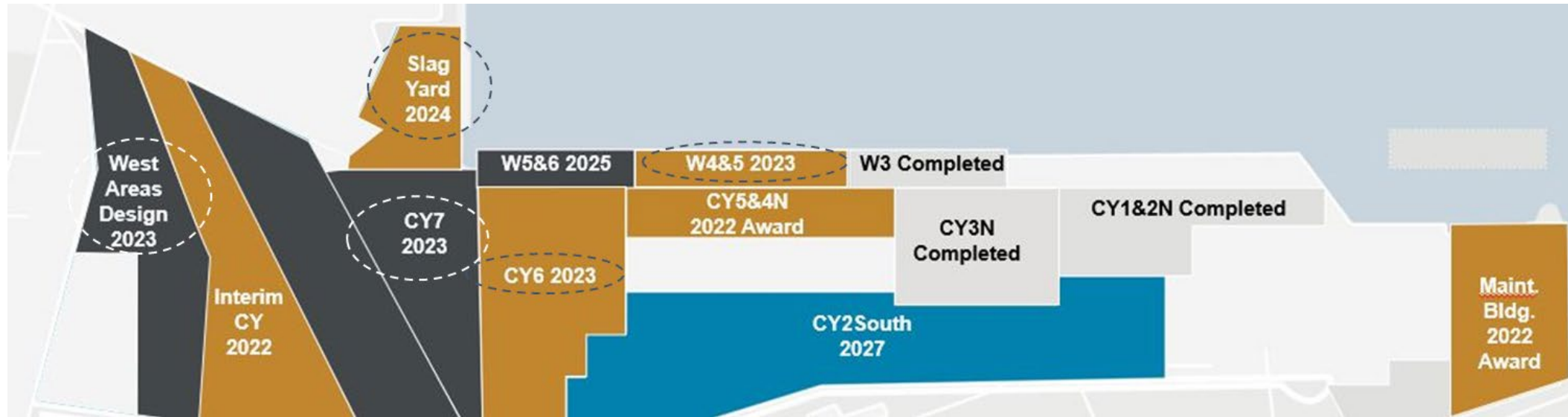


Wharf 7 Construction	\$ 90,000
4 STS Cranes- Wharf 7	50,000
Bayport South Development Prep	15,000
East Areas Design (CY8 & CY9)	6,000
Container Yard CY1S Design	4,000
Wharf 1 and SSB #5 Design	3,500
Exit Gate Expansion	3,000
Other (Fill Dirt, IT, Vehicles, etc.)	7,602
Total Projects	\$ 179,102

Unless noted, dates are of construction award

Barbours Cut Terminal recapitalization and development

Container capacity growth: 2023 and 5-year plan overview



Unless noted, dates are of construction award

Wharf 4 & 5 & SSB Construction	\$ 101,875
CY 6 Reconstruction	102,130
CY 7 Reconstruction	61,000
5 RTG Cranes (phase 2)	12,500
West Areas Design	3,000
Wharf 5 & 6 & SSB Design (phase 2)	6,300
Slag Yard-Rack Yard (Reefer Plug) - Design	5,000
Other (Fire Suppression, Vehicles, etc)	5,023
Total Projects	\$ 296,828

Summary of Cash planning projections (\$ in thousands)

Resources distinguished for PHA CIP and HSC Project 11

	2022	2023	2024
Beginning available, PHA Operating *	\$ 517,102	\$ 707,037	\$ 398,287
Sources:			
Proceeds from debt issuance	-	-	-
Operating cash flow and net grant funds	348,090	314,467	316,443
Available Resources	865,191	1,021,504	714,730
Uses:			
Debt Service	(20,553)	(32,782)	(45,567)
Operating Capital cash outflow	(172,601)	(590,435)	(518,171)
Project 11 funding inflow/outflow **	35,000	-	(15,000)
Net Uses	(158,154)	(623,217)	(578,738)
Ending available, PHA Operating	\$ 707,037	\$ 398,287	\$ 135,992
Beginning available, Project 11	\$ 390,194	\$ 181,334	\$ 202,861
Project 11 funding inflow/outflow	(35,000)	-	15,000
Proceeds from debt issuance	-	425,000	-
Project 11 cash outflow, net of credits	(173,860)	(403,472)	(212,153)
Ending available, Project 11	\$ 181,334	\$ 202,861	\$ 5,708

- Projecting a stable liquidity position for PHA operating funds as the Port invests in new capacity while supporting Project 11 bonds
- *Note projected strength in PHA Operating funds may be leveraged to delay Project 11 debt issuance*
- Financing alternatives are being developed to fund Project 11 costs, shown here as an additional debt issuance of \$425 million in mid-2023

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

** 2022 funding from P11 to PHA reflects reimbursement of funds from bond issuance; 2024 is placeholder

Projected Capacity to award new projects (\$ in thousands)

	2022	2023	2024
Beginning Funds Available (Uncommitted) *	\$ 454,814	\$ 278,031	\$ 610,256
Sources:			
Proceeds from debt issuance	-	425,000	-
Operating cash flow and net grant funds	348,090	314,467	316,443
Credit instrument (Note purchase, other)	406,318	302,957	12,746
Available Resources	1,209,221	1,320,455	939,445
Commitments:			
PHA Operating CIP Awards	389,399	578,686	379,853
Project 11 Awards	521,238	98,732	36,413
Debt Service	20,553	32,782	45,567
Total Commitments	931,190	710,199	461,833
Ending Funds Available (Uncommitted)	\$ 278,031	\$ 610,256	\$ 477,613

- 2023 anticipated Awards for Port Commission approval total \$677 million
 - \$579 million PHA Capital projects
 - \$99 million Project 11
- Financing alternatives are being developed to fund Project 11 costs, shown here as an additional debt issuance of \$425 million in mid-2023
- Note the potential for an incremental credit of \$300 million in late 2023 to support PHA CIP award capacity

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

Executive Summary – 2023 Operating & Capital Budget

Key takeaways

- Container unit growth rates and General Cargos are projected to slow in 2023 based on industry and market signals.
- Financial outlook for next year is strong and illustrates a potential decline relating to cargo, market uncertainties and a return to pre-pandemic operating trends.
- Capital plans continue for accelerated Container capacity additions to provide efficient growth opportunities for our Customers.
- Liquidity position is sound, with decisions coming in 2023 with regards to the lowest cost financing approach to complete funding of the acceleration of the Houston Ship Channel Expansion Project.

2023 Operating and Capital Budget

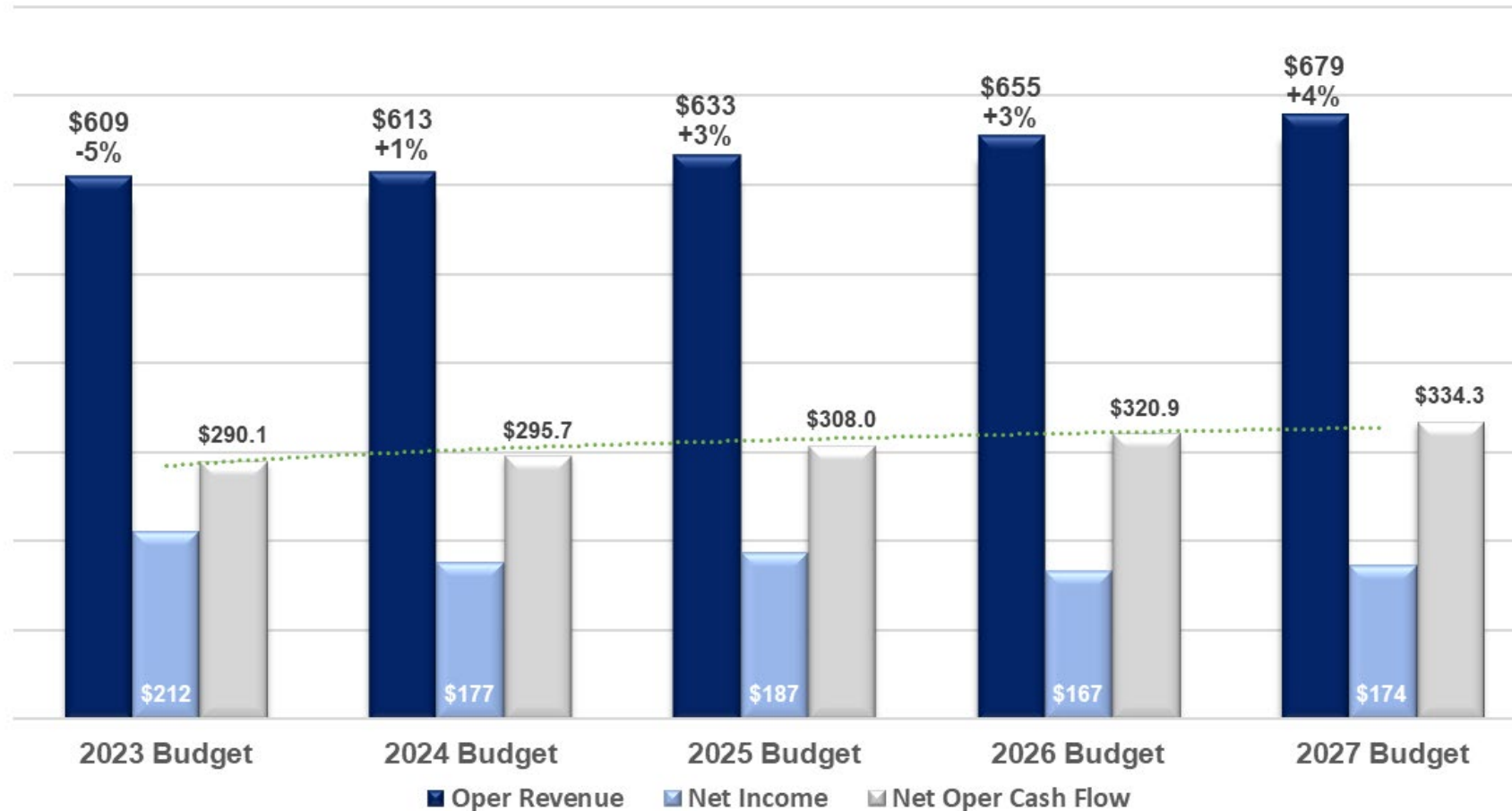
- This concludes the presentation of the 2023 Budget proposal for the Port Commission's consideration and possible adoption.
- The following 5-year Plan materials are provided to the Port Commission for review, though no action is required.

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5-year Income Statement summary - Operating

\$ in millions



Key assumptions:

- Unit growth pegged at Texas Gross State Product rates; 3.5% CAGR
- General cargos grow ~2% annually
- Operating expenses trend with volume; slight margin deterioration on increased Depreciation
- Salary and wages trend on ongoing performance-based merit

- Operating revenues reflect a steady 2.7% compound annual growth rate across this planning horizon while Net Operating Cash generation grows by 3.6%
- Net income trend influenced by depreciation on capacity additions and interest expense on revenue bond issuances

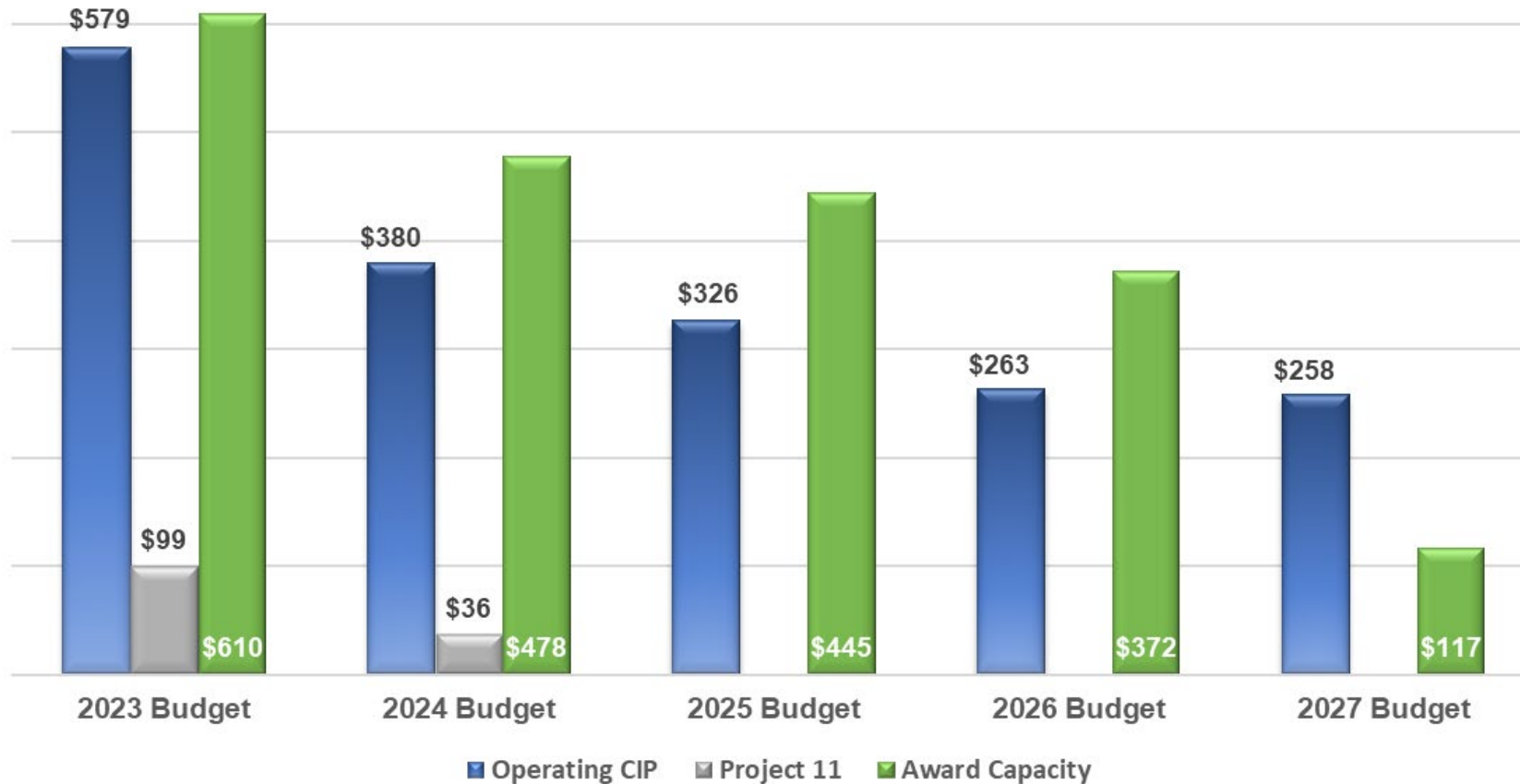
2023-2027 – Income Statement (\$ in thousands)

	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027
Operating Revenue	\$609,476	\$613,452	\$633,052	\$654,692	\$678,540
Less: Operating Expense	349,002	357,710	372,845	393,031	405,892
Gross Margin	260,474	255,743	260,206	261,660	272,648
% of revenue	43%	42%	41%	40%	40%
General & Administrative Expenses	68,092	74,941	78,359	83,071	86,919
% of revenue	11%	12%	12%	13%	13%
Net Operating Income	192,382	180,802	181,847	178,589	185,729
% of revenue	32%	29%	29%	27%	27%
Net Operating Cash Flow	290,067	295,730	308,009	320,880	334,292
% of revenue	48%	48%	49%	49%	49%
Interest expense	(26,060)	(34,310)	(34,310)	(34,310)	(34,310)
Other Nonoperating income, net	45,647	30,644	39,839	22,704	22,525
Net Income	\$211,969	\$177,135	\$187,376	\$166,983	\$173,943
 Total Cash Flow (GAAP) ¹	 \$297,924	 \$272,990	 \$294,038	 \$289,325	 \$302,078
\$ of revenue	\$0.49	\$0.45	\$0.46	\$0.44	\$0.45

Note: full Liquidity (Cash) projections for this 5-year plan are provided on following pages.

¹ Includes impact of the principal portion of debt service payment

5-year Capital Budget summary – Awards-based (\$ in millions)



- 2024 - 2027 Operating CIP includes Bayport Wharf 1 and Container Yard 1 South, East End container yards; BCT Admin building and redevelopment of Wharves 5&6 and container yards; and Executive Office Building.
- Award capacity represents uncommitted funds available for award by Port Commission of future projects; 5-year plan includes a potential additional credit of \$300 million in 2023 for PHA CIP

5-year Capital Budget summary – Awards-based (\$ in thousands)

	2023 Budget	2024 Budget	2025 Budget	2026 Budget	2027 Budget
Bayport Terminal	\$179,102	\$109,124	\$ 94,910	\$180,355	\$152,800
Barbours Cut	296,828	102,387	192,315	25,650	24,280
Channel Development	11,160	36,979	6,120	21,483	1,290
Turning Basin Terminals	36,000	26,775	2,610	16,425	63,875
Real Estate	26,368	55,155	8,250	5,000	5,000
Maintenance	6,490	20,939	4,845	1,576	3,270
Bayport Railroad	5,400	12,000	-	-	-
Other	17,338	15,927	17,378	12,649	7,398
Total Capital	\$578,686	\$379,286	\$326,428	\$263,138	\$257,913
Project 11	98,732	36,979	-	-	-
Total Capital	<u>\$677,417</u>	<u>\$416,265</u>	<u>\$326,428</u>	<u>\$263,138</u>	<u>\$257,913</u>
Grant Reimbursements	\$24,319	\$20,694	\$30,062	\$13,102	\$13,102

- 2024 - 2027 Operating CIP includes Bayport Wharf 1 and Container Yard 1 South, East End container yards; BCT Admin building and redevelopment of Wharves 5&6 and container yards; and Executive Office Building.

Liquidity (Cash) rollforward (\$ in thousands)

	2022	2023	2024	2025	2026	2027
Beginning available, PHA Operating *	\$ 517,102	\$ 707,037	\$ 398,287	\$ 135,992	\$ 69,802	\$ 54,050
Sources:						
Proceeds from debt issuance	-	-	-	-	-	-
Operating cash flow and net grant funds	348,090	314,467	316,443	339,467	335,995	348,147
Available Resources	865,191	1,021,504	714,730	475,459	405,796	402,197
Uses:						
Debt Service	(20,553)	(32,782)	(45,567)	(45,567)	(45,565)	(45,564)
Operating Capital cash outflow	(172,601)	(590,435)	(518,171)	(368,918)	(306,182)	(263,824)
Project 11 funding inflow/outflow	35,000	-	(15,000)	8,827	-	-
Net Uses	(158,154)	(623,217)	(578,738)	(405,658)	(351,746)	(309,389)
Ending available, PHA Operating	\$ 707,037	\$ 398,287	\$ 135,992	\$ 69,802	\$ 54,050	\$ 92,808
Beginning available, Project 11	\$ 390,194	\$ 181,334	\$ 202,861	\$ 5,708	\$ -	\$ -
Project 11 funding inflow/outflow	(35,000)	-	15,000	(8,827)	-	-
Proceeds from debt issuance	-	425,000	-	-	-	-
Project 11 cash outflow, net of credits	(173,860)	(403,472)	(212,153)	3,120	-	-
Ending available, Project 11	\$ 181,334	\$ 202,861	\$ 5,708	\$ -	\$ -	\$ -

Staff will bring proposed solutions at the appropriate time for funding of the remaining costs associated with Project 11.

Award capacity rollforward (\$ in thousands)

	2022	2023	2024	2025	2026	2027
Beginning Funds Available (Uncommitted) *	\$ 454,814	\$ 278,031	\$ 610,256	\$ 477,613	\$ 445,085	\$ 372,377
Sources:						
Proceeds from debt issuance	-	425,000	-	-	-	-
Operating cash flow and net grant funds	348,090	314,467	316,443	339,467	335,995	348,147
Credit instrument (Note purchase, other)	406,318	302,957	12,746	-	(100,000)	(300,000)
Available Resources	1,209,221	1,320,455	939,445	817,080	681,080	420,524
Commitments:						
PHA Operating CIP Awards	389,399	578,686	379,853	326,428	263,138	257,913
Project 11 Awards	521,238	98,732	36,413	-	-	-
Debt Service	20,553	32,782	45,567	45,567	45,565	45,564
Total Commitments	931,190	710,199	461,833	371,995	308,703	303,477
Ending Funds Available (Uncommitted)	\$ 278,031	\$ 610,256	\$ 477,613	\$ 445,085	\$ 372,377	\$ 117,046

Staff will bring proposals for this credit capacity at the appropriate time.

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



THANK YOU

PORT HOUSTON
Financial Planning