General

Chairman Campo convened the Port Commission meeting

2020-0212-01 Deliberation and public comment regarding a proposal by ship channel industry stakeholders to participate in funding the Houston Ship Channel Expansion - Channel Improvement Project

2020-0212-02 Chairman Campo recognized Roger Guenther, Executive Director, who addressed the Port Commission

2020-0212-03 Chairman Campo recognized Vincent DiCosimo, who addressed the Port Commission

2020-0212-04 Chairman Campo recognized Erik Eriksson, Chief Legal Officer, who addressed the Port Commission

2020-0212-05 Chairman Campo recognized Gareth Williams, Odfjell, who addressed the Port Commission

2020-0212-06 Chairman Campo recognized W.S. Klapprolt, Fairfield Chemical Carriers, who addressed the Port Commission

2020-0212-07 Chairman Campo recognized Chuck Zabriskie, who addressed the Port Commission

Recess Open Meeting and Convene Executive Session

Reconvene Open Meeting

2020-0212-08 Motion to authorize the Port Authority to purchase property in the vicinity of the Turning Basin Terminal from Rains Land and Properties, L.P. on the terms discussed in Executive Session, and authorize the Executive Director to do all things necessary to give effect to the foregoing

2020-0212-09 Chairman Campo directed that staff immediately seek construction access rights to the Port Authority’s Beltway 8 property, to support site preparation

Adjourn Meeting
A special public meeting of the Port Commission of the Port of Houston Authority of Harris County, Texas was convened on February 12, 2020 at 9:31 a.m., at the Port of Houston Authority Executive Office, Fourth Floor Boardroom, at 111 East Loop North, Houston, Texas 77029. The following commissioners, staff, and counsel were present:

- Ric Campo, Chairman
- Theldon R. Branch, III, Commissioner
- Wendy Cloonan, Commissioner
- Dean E. Corgey, Commissioner
- Stephen H. DonCarlos, Commissioner
- Clyde E. Fitzgerald, Commissioner
- Roy D. Mease, Commissioner
- Roger Guenther, Executive Director
- Erik Eriksson, Chief Legal Officer
- Tom Heidt, Chief Operating Officer
- J. Kent Friedman, outside counsel

Chairman Campo convened the special meeting of the Port Commission, stated its purpose was to discuss funding for the deepening and widening of the Houston Ship Channel (Project 11), and reminded everyone that the project was the number one priority for the Port Authority.

Chairman Campo provided a brief recap of recent advocacy efforts including his testimony before the House Ways and Means Subcommittee on Trade. He appreciated the assistance that industry stakeholders had provided thus far and commented that it took a team, not just one group, to get progress made.

Chairman Campo stressed that the Houston Ship Channel would be deepened and widened, with the question being how soon. The normal federal process, with the Port Authority and federal government each contributing its share, would target a completion date between 2030 and 2032. The big question was how that process could be accelerated to allow the work to be completed more quickly: the longer it took, the bigger the cost in terms of jobs, business, and other negative factors.

Chairman Campo called for Item B1 on the agenda, “Deliberation, public comment, and possible actions regarding a proposal by ship channel industry stakeholders to participate in funding the Houston Ship Channel Expansion - Channel Improvement Project.”

Chairman Campo disclosed that industry had been having discussions over the past eight months about paying for half of the cost and today would be presenting a proposal to be discussed as to how such payment would be made. He stressed that it would be the first time the proposal was made public, although there had been meetings between Port
Authority staff and members from industry. It was a plan in progress that needed to be vetted.

Chairman Campo outlined the agenda for the meeting, stating that Mr. Guenther would speak first and provide a brief overview of the status of Project 11. Vincent DiCosimo, representing industry, would then give its proposal. The commissioners would have the opportunity to ask questions before the floor would be opened for public comment. There would also be a short executive session following the open discussion.

(2020-0212-02) Chairman Campo recognized Roger Guenther, Executive Director, who addressed the Port Commission.

Mr. Guenther thanked the chairman and observed there was a good representation of the entire channel industry in attendance. He reported that the feasibility process was currently on track with the Army Corps of Engineers (Corps), the design work was in progress, advocacy had been influential and active discussions on funding agreements continued.

Mr. Guenther highlighted the different segments associated with Project 11. Segments 1A, 1B, and 1C all related to the widening of the Galveston Bay reach from 530 feet to 700 feet. Segment 2 related to improvements at the Bayport Container Terminal while Segment 3 dealt with improvements to the Barbours Cut Terminal. Moving further up the channel, Segment 4 was a deepening from 40 feet to 45 feet above the Beltway 8 bridge. Segments 5 and 6 also entailed deepening the channel, all the way into the Turning Basin Terminal. The current Corps cost estimates totaled $960 million for the entire project.

Mr. Guenther outlined the project roadmap, beginning in October 2019, which showed the various milestones and collaborations between the Port Authority, the Corps, and industry. Several items on the roadmap had been completed between October and the present. The main item to be discussed at the meeting was funding and industry’s commitment to pay for half of the project.

Mr. Guenther stressed that the Corps’ process was on track. The feasibility report was submitted by the Corps on December 11, 2019 and the Tier 1 meeting with Corps representatives, held in January and attended by Mr. Guenther, Rich Byrnes, Chief Infrastructure Officer, Colonel Timothy Vail, Galveston District Commander, and other high-level Corps staff, was a success. Corps Headquarters reviews were likely in the weeks ahead and, ultimately, the Chief’s Report was targeted for early April. Lt. General Todd Semonite, Chief of Engineers and Commanding General, even indicated that the Chief’s Report could be issued sooner. Port Authority staff was actively monitoring to coordinate with Water Resources Development Act (WRDA) language and passage.
Mr. Guenther acknowledged that the advance design work for construction was in progress. The Port Authority made the commitment to award the largest engineering contract it had ever done to start the design on behalf of the Corps and so accelerate the design process; this would allow construction to begin when the project was authorized.

Mr. Guenther reported that the project was included in the 2020 Work Plan. This gave the Corps $1.13 million to review the project all the way to completion. The Work Plan also included $70.3 million for operations and maintenance of the channel, which was needed before Project 11 can start. Advocacy played a key role in this award and there were many more meetings scheduled in Washington D.C.

Mr. Guenther noted that there were also active discussions going on related to funding agreements. The Port Authority had committed to a 35% share plus the LPP cost, while also prefunding the design efforts. He noted that industry first shared its financing concept in December, it had since been refined, and he emphasized that the issue needed to be resolved so that a project partnership agreement between the Port Authority and the federal government for funding and execution of the project could be executed. He added that this agreement needed to be in place the minute authorization for Project 11 was granted, but in order to accomplish that, the Port Authority needed to know how and when the funds were going to be contributed.

Commissioner Mease congratulated Port Authority staff for all its hard work and added that he believed that the project was headed in the right direction.

Chairman Campo emphasized that the Port Authority had the funds for its share of the cost via its reserves, operating cash flow, and its other revenue streams, and did not have to go out for general obligation bonds.

(2020-0212-03) Chairman Campo recognized Vincent DiCosimo, who addressed the Port Commission.

Mr. DiCosimo thanked the chairman and commissioners for the opportunity to speak. He introduced himself to the audience as (among other titles), the Executive Director of the Coalition for a Fair and Open Port (Coalition) and an executive officer at Targa Resources. He added that he had raised three children in Houston and giving back to the community had always been important for him.

Mr. DiCosimo believed that the widening and deepening of the channel is a generational issue, underpinning the strength of the entire community and, more broadly, the region and the State of Texas. He stated bluntly that he did not come with checks or any kind of upfront payment. There were a number of ways that industry looked at to participate in moving forward and the plan to be outlined just came to fruition in the past few weeks.
Mr. DiCosimo remarked that the plan to be presented was not perfect but he hoped today to listen to propositions and not opposition, and if there was a better methodology, he wanted to know it. Industry spent a lot of time on the proposed plan, but he was open to hearing other ideas. He emphasized that industry wanted to help, but there were legal boundaries for how, when, and where certain things could get done, and added that he felt that the plan mirrored and echoed the way fees and dollars were presently raised.

Mr. DiCosimo began his presentation by presenting the timeline of events. In July 2019, Chairman Campo presented an outline to industry of where Project 11 was going. Analysis subsequently started on a method of payment for industry’s 50% share. Some of the things considered were a management district, a local government corporation, and other mechanisms available for raising funds. The issue with public companies was that a return on investment to stockholders was a fundamental need. Writing checks into a trust fund for channel improvement was very difficult to market to stockholders.

Mr. DiCosimo explained that outside counsel was brought in for this. Masterson Advisors was also consulted to perform an analysis on how bonds could be raised inside of a local government corporation, management district, or a separate company altogether. These options were not an acceptable methodology. At the same time, the Houston Pilots were asked to look at simulations and report on what effects the widening would have. From that data additional models for revenue generation were created.

Mr. DiCosimo stated that there was a meeting in December with a broad swath of stakeholders to review the results of the models and to look at next steps. More meetings were held to review the fee structure during January 2020. He separately noted that there had been over 100 advocacy-related meetings in Washington D.C. and Austin, emphasizing the talking points of Project 11. Regardless of the outcome of the current meeting, industry was committed to moving forward and advocating on behalf of Project 11.

Mr. DiCosimo stressed that he was speaking on behalf of a fairly narrow industry group, but one that was responsible for in excess of 70% of the vessel traffic along the channel. The rest of industry, not a part of the 70%, was not necessarily in agreement with the proposed funding plan. Mr. DiCosimo used the analogy of a toll road, stating that on one side was a Costco and on the other, a mom-and-pop hamburger place: two cars would pay the same toll, even if one went to Costco and the other to the burger place; however, an 18-wheeler would pay more to use the toll road as it was a bigger vehicle. The concept of the funding plan was very similar to that.

Mr. DiCosimo referenced his presentation (which is maintained in the files of the Port Authority) showing how many transits went through the channel each day. The question was how to move forward as an industry and participate in the growth. The best
way for industry to pay its share was to have a fee. A deep dive was then done to determine what the ability to charge fees was. The Port Authority was provided a detailed legal analysis from industry’s outside counsel on the methodology and the conclusion that fees could be charged. In fact, fees were already being charged in the form of security fees, fire boat fees, and Pilot fees. Fees can be charged if they are reasonable, used solely to provide for the cost of a service, enhance safety and efficiency, and do not impose more than a small burden, whether intrastate or foreign.

Mr. DiCosimo outlined several key assumptions. The project would cost $1 billion over four to five years. The fees would finance 50% of Project 11, however, the fees could not be collected in advance of the project’s completion, and Mr. DiCosimo acknowledged that there would be a four- to five-year gap before the fees could be collected. A construction loan that converted to a permanent loan of a half billion dollars over 30 years with a rate of 4% was considered, but the resulting total to be paid back would be $1.1 billion.

Mr. DiCosimo noted how revenue from each transit of the ship channel was looked at, and the same approach was taken that the Pilots use when modeling a fee structure. The length overall (LOA) and beam of a vessel was used to dictate the fees associated with each, mirroring an existing fee structure used by the Pilots. The proposal allows for ease of implementation and collection, and everyone on the channel would participate as the charge would be assessed on a vessel-by-vessel basis.

Mr. DiCosimo explained the concept of a vessel unit, which was a multiplier of a vessel’s LOA and beam. A dollar unit was then created, based on an algorithm, to arrive at a specific charge for each vessel based on its size. Some companies that were surveyed emphasized that these additional charges would not affect the number of vessels that use the channel, i.e. the charge was insignificant. Obviously, this would not be the message from every company and shipper doing business on the channel.

Mr. DiCosimo highlighted key assumptions made on vessels. Using the HarborLights data from 2017 and 2018 for batch testing, every vessel was loaded by Cirrus Logistics, the firm that modeled the movements. The 2019 data was just fully collected and would be inputted into the model as well, but there should not be a lot of difference as the 2019 data was flat compared to 2017 and 2018. The model accounted for a half percent annual growth across all vessel types and took out inland barges and tugs but did account for Articulated Tug Barges (ATBs). The result was 16,102 transits in year one. This number also accounted for the removal of all container vessels, as the Port Authority balance sheet was structured around container traffic. In essence, the containers were already paying for the Port Authority’s $500 million share.

Mr. DiCosimo referenced a slide in his presentation that accounted for the amount to be collected per vessel: larger vessels obviously accounted for higher revenues. The bulk
of the larger ships were oil tankers, chemical tankers, and LPG carriers, which would account for industry’s statement that it was paying via the vessel count.

Mr. DiCosimo stressed that the question was how to raise the initial $500 million. As previously stated, local government corporations and management districts were considered but Masterson recognized that the Coalition did not have the ability to raise that kind of money. The best balance sheet belonged to the Port Authority. The Port Authority would then do two tranches of $500 million, one secured by the container side and one secured by the proposed industry fees. That, in essence, was the proposal by industry.

Mr. DiCosimo stressed that a new entity trying to raise a half billion dollars secured by the proposed fees would not have the credit rating to secure a loan. Although the fees coming in would be predictable and the growth is significant, industry did not have success when pitching the idea to bond rating groups.

Mr. DiCosimo reiterated that the expedited plan was the way to go and that industry fully supported it. The traditional way threatened the Port of Houston, Harris County, and the entire State of Texas. There would be lots of changes in the next 30 years and those in Houston needed to take advantage of that today. Mr. DiCosimo declared that Houston was the gateway to the world and he wanted it to remain that way.

Chairman Campo opened the table to questions from the commissioners.

Commissioner Fitzgerald noted that Mr. DiCosimo exempted container ships from the fee structure because they contributed to the Port Authority’s revenue. He wanted to know if other vessels bound for the City Docks and contributed to the Port Authority’s revenues were also exempted. Mr. DiCosimo explained that only container vessels had been exempted, but he would go back and adjust the model accordingly.

Commissioner Corgey asked if the barges that were modeled were only ATBs. Mr. DiCosimo stated that was correct. The qualifier was that if a barge came in and required a Pilot, then it was accounted for.

Commissioner Corgey asked for clarification on the fees, wanting to know if they were for both entering and exiting the ship channel, and Mr. DiCosimo replied that was correct. He further clarified that if the fee was $2,000, then it would be $2,000 to get in and $2,000 to get out. He added that it currently cost his company approximately $25,000 for a single vessel to get to the dock.

Commissioner Branch noted that, based on Mr. DiCosimo’s statement, ships could be paying upwards of $30,000 to dock at industry facilities. Commissioner Branch mentioned the vessels coming to the City Docks, and Mr. DiCosimo assured him that those ships would be taken out of the current model but that they wouldn’t move the needle too
much. Mr. DiCosimo stressed that the intent of the model was to take out all Port Authority-related vessel traffic, of which the container ships accounted for a significant portion.

Commissioner Branch asked if the Coalition would be interested in buying bonds if the Port Authority offered them for purchase. Mr. DiCosimo reported that the question had been posed by members of the Coalition, but he did not yet have an answer, and there might be interest in this option at the senior and director levels.

Commissioner DonCarlos asked who would collect the proposed fees if the Port Authority were to issue bonds on behalf of industry. Mr. DiCosimo explained that they would be rolled into the current collection mechanism for Pilot fees.

Commissioner DonCarlos expressed concern with the current proposal, specifically that the Port Authority would be assuming all the risk of the bond debt on behalf of the Coalition. He wanted to know if Coalition members would be willing to sign a guaranty stating the funds would be available, adding that enforcing collection of the fees could prove difficult. Mr. DiCosimo suggested the Port Authority enforce the fees by not allowing vessels to move until payment is collected, and that the fee would be collected in real time, not in arrears.

Mr. DiCosimo agreed that there was risk with this proposal, yet he reiterated that the best balance sheet was the Port Authority’s. There may be a paradigm shift in the coming years with the demand for commodities, but he tempered the model as a means of accounting for this very reason. He would be more than happy to bring the model before a smaller group and adjust it even more to reflect slower growth. He is hard pressed to believe in a more than 10% decline in vessel traffic.

Commissioner DonCarlos expressed disappointment that the proposal effectively had the Port Authority funding the entire process and would be paid back through customers. He provided an anecdotal example from Baytown where Chevron Phillips was building a cracker project and needed to expand a road from two lanes to five lanes. Chevron worked with the city to fund the project because it was an investment in its infrastructure. Baytown worked out an agreement where the company was repaid 80% of its investment through a reduction in industrial rates, but it was the industry that fronted the money.

Commissioner DonCarlos believed there were ways in which the project could be funded in such a way that did not require the Port Authority to put up $500 million in bonds and assume the associated risk. Mr. DiCosimo explained that if there were more time and he had nothing else to do then he could get something done similar to the Chevron example. He stressed that time was short. Mr. DiCosimo recognized the disappointment from the
commissioners, and stressed industry’s commitment to the project despite the fact that checks were not being written.

Commissioner Fitzgerald asked if Mr. DiCosimo had thought about going to the State of Texas and soliciting funds on behalf of the Coalition – other states gave a substantial amount of funding to ports because of the economic benefit. Mr. DiCosimo admitted that no funds had been solicited from the State of Texas. He stressed that time was short, but he would be happy to address it the next time he was in Austin.

Commissioner Corgen wanted clarification that the trigger for fees on barges would be whether they needed to be piloted, and Mr. DiCosimo confirmed this. Commissioner Corgen voiced concern that many of the ATBs did not require a state pilot, and he would hate to see a situation where a financial incentive was created to not use pilots.

Commissioner Cloonan questioned whether harbor fees had been collected elsewhere. Mr. DiCosimo reported that harbor fees have been collected elsewhere in the past and there had been few legal challenges. Commissioner Cloonan stated that she had read the memo issued by the Coalition’s counsel regarding the harbor fees and was not completely comfortable with it.

Chairman Campo recognized Mr. Eriksson, who addressed the Port Commission.

Mr. Eriksson provided an overview of the legal issues surrounding the harbor fees. There were constitutional constraints on these types of fees; as a result, Congress passed WRDA 86, to organize under federal law the way the fees could be assessed. 33 U.S.C. §5 allows for fair and equitable fees that can be used for services, enhance safety, and impose only a small burden.

The crux of the analysis then was whether the fee being proposed by the Coalition was a service fee. Mr. Eriksson noted Mr. DiCosimo mentioned that the proposed fee was similar to the Port Authority’s fire protection fee, which it has had in place for almost 50 years. Roughly $7 million a year was collected from this fee, the funds were used for fire boats and fire stations, and there were few issues with collection of this fee, which was $600 per transit. This was the analogy used by the Coalition.

However, the primary question here was whether under WRDA 86 the proposed fees would also come under another section of law, 33 U.S.C. §2236, for financing, construction, and operation of a navigation project. Mr. Eriksson’s concern was whether the fee would be looked at by the courts as a service fee, in which the fee could be charged based on the worth of the service, or if it would be looked at as a fee under Section 2236, in which case there would be concern.
Mr. Eriksson explained that under Section 2236, a fee associated with the cost of deepening could only be assessed against those vessels that would now be able to transit and that could not transit previously. In addition, if the fee was associated with the cost of widening of the channel, then it would apply only to vessels comparable in size to those used to justify the widening. In addition, some exclusions to this would apply.

Mr. Eriksson reiterated that the biggest concern with the levying of a fee was whether it would be looked at as a service fee, and therefore pass muster, or a fee under Section 2236, where there were widening and deepening constraints on it. He observed that there was no case law related to this subject, and added that if bonds were to be issued, then the financiers would look very closely at this as well.

If the fee did in fact fall under Section 2236, then a sensitivity analysis would have to be carried out to account for the vessels to which it would be applicable, and additionally the fee would have to be commensurate with the benefit, and the kind of financing that could be raised with such a fee had to be considered. He added that under Section 2236 a public hearing would be required, as would a federal filing, and a window was provided for a court challenge. All this was part of the due diligence that had to be conducted.

Commissioner Cloonan remarked that other fees that had been looked at as comparable were considered service fees, and Mr. DiCosimo confirmed that was correct, the fees he looked at were considered service fees and had not been challenged legally.

Mr. Eriksson noted this was a good thing, but those were lower fees, and emphasized that part of the risk analysis here was the likelihood of the fee being challenged based on the proposed amount, and the impact on the project.

Chairman Campo summarized the answer by stating the fee proposed by the Coalition could be legal and proper in a certain construct, but it was complicated.

Chairman Campo noted that fourth quarter earnings of most of the Coalition showed record years. In July of 2019, the big issue regarding industry’s portion of the cost was the modeling to come from the Pilots, to help figure out how much cash flow industry participants were going to be able to generate from a deeper and wider channel. Once the information was obtained, each company looked at it and the consensus was that throughput increase would be significant – hydrocarbon and crude exports were expected to double in the next five years, and Houston was also the number one exporter of propane in the world.

Chairman Campo wanted clarification on the disconnect between increased cash flow and throughput by companies doing well and why they could not write checks. Mr. DiCosimo answered that it was not as easy as simply not writing checks. When an investment was made the question becomes what is the return on such an investment. It
was difficult for industry to look at such an investment in the channel, and such investment was worth a specific amount of dollars.

Chairman Campo replied that he did not understand that explanation. If the issue was that industry needed the Pilots’ analysis to show increased throughput and cash flow as a result of a wider channel by 2024, and if additional analysis showed decreased cash flow as a result of the widening completed by 2032 or 2033, then industry should be able to discern a return on investment. He did not understand why this calculation could not be made and disseminated to industry shareholders.

Mr. DiCosimo noted that Chairman Campo’s explanation allowed for a calculation of return on investment, but such investment assumed a one-to-one correlation, and industry would not know that every dollar put in would be allocated toward growth. What the industry investment committees were looking at, for each dollar put into the fund, was whether the return on the dollar was fully recovered or proportional to the dollars put into the fund, and it was not always a one-to-one ratio. Industry would not write a check as it was looking at the best investment and how to get such a return.

Chairman Campo asked how a shipping company would relate the proposed fee charged to it back to the customer. He wanted to know if industry would be paying a higher price for the cost of shipping, or if the shipping company would bill industry directly for such fee. Mr. DiCosimo answered that it would be different with every company and would depend on if the company were to charter the ship itself, had its own commodity on the ship, or on the location of the end user.

Chairman Campo clarified that the shipping company may end up having to absorb the cost as opposed to passing it along to the customer waiting at the dock, and Mr. DiCosimo agreed that could be the case.

Chairman Campo asked if the Coalition modeled and analyzed other competitive ports for the costs of ingress and egress as compared to the Port of Houston. He added that cargo and products would flow to the easiest and cheapest mechanism to get from point A to point B, and if the Port of Houston became less competitive due to charging fees, the concern would be that business was being pushed away and jobs would be hurt.

Mr. DiCosimo explained that due to the infrastructure that Houston has in the oil and gas industry, it would be very difficult to find a comparable port and it would be difficult for any company to leave Houston due to its hundreds of billions of dollars of that infrastructure. He did note that other commodities may find it easier to relocate elsewhere, but he felt that the fee structure was sensitive to that issue. He added that the consequences of not doing Project 11 was the potential for every industry to explore different options to the Port of Houston.
Chairman Campo reiterated that Project 11 would be done, the question was the timing of completion. Leveraging the Port Authority’s cash flow to fund the entire project would put it in a very perilous position. If there was a downturn in the economy, then the Port Authority would be in trouble financially.

Chairman Campo asked Mr. DiCosimo what he would have done differently if he had more time. Mr. DiCosimo stated he would continue to look at multiple mechanisms, specifically a management district.

Commissioner Branch stressed that the Port Authority was committed to getting the project done in the shortest time frame. He did not want to leverage the Port Authority’s balance sheet as it would stifle its growth.

Commissioner DonCarlos asked Mr. Guenther if the project could be done in phases. He wanted to know if the different segments could be completed as funds were available. Mr. Guenther stated that the project could be done in phases, and certain phases might go together.

Commissioner Mease then asked if funding for the entire project had to be shown up front before the project would be approved. Mr. Guenther explained that authorization first had to be given, and then a contract would be signed showing how the project would be executed.

Chairman Campo added that a plan needed to be shown. If the Port Authority’s plan was project completion in 2024 then it needed to show how such a process would be accomplished.

Commissioner Mease noted that he was under the impression that the Port Authority needed to show it had the funding before the project would be approved. Mr. Guenther stated the short answer was yes. He stressed the contract that needed to be signed would state that the Port Authority was financially obligated to construct the project.

Chairman Campo clarified that construction by 2024 would entail having the capital to do so within the time frame. Ultimately the way the project got completed faster was due to not having to wait on government appropriations and the normal process which would take ten years to receive.

Commissioner DonCarlos asked if Segments 1A through 1C could be done first, and then the rest of the project. Chairman Campo replied that the challenge would then be that the project was bifurcated, and changing the project partnership agreement strategy was not wise; rather, the best way to get the project’s approval was to have if fully funded in advance. The Port Authority, as the non-federal sponsor of the project, was responsible
for a plan to finance the project, and changing that plan was a bad message to send to those responsible for approving the project.

Commissioner Branch asked how a longer project duration would affect industry, and Mr. DiCosimo stated that a longer project duration was not part of the modeling done for the project.

Chairman Campo did not understand Mr. DiCosimo’s answer. If the Pilot’s ran simulations showing how much additional throughput could be had with a project completion by 2024 vs. 2030, then there was math done that shows a dramatic increase in throughput. Mr. Dicosimo clarified that the gap was known, it was called the “at-risk” volumes if the project was not completed until 2030 or 2035.

Commissioner Branch asked if Mr. DiCosimo had modeled only three segments of the project being completed. Mr. DiCosimo answer that he had not bifurcated the project when modeling but could go back and do so.

Chairman Campo noted that the Port Authority had also not modeled a bifurcated project; rather advocacy for Project 11 had been strictly about a non-traditional business plan for completing the project.

Commissioner Fitzgerald asked how much longer it would take before a final proposal was presented. He noted that Mr. DiCosimo had said earlier that some of the issues raised at the meeting could be discussed among members of the Coalition, and Commissioner Fitzgerald wanted to know when Mr. DiCosimo could return with the best proposal that industry could make. Mr. DiCosimo noted the timeline was to first discuss the proposal with the Big 10, then broaden the discussion to the Greater Houston Port Bureau, and then present a refined plan by the end of April.

(2020-0212-05) Chairman Campo recognized Gareth Williams, Odfjell SE, who addressed the Port Commission.

Mr. Williams highlighted that Odfjell had approximately 140 annual vessel calls to the Port of Houston totaling roughly 4 million tons of product. He was very fortunate to be part of the Big 10 as well as to be working closely with the Greater Houston Port Bureau. As a shipowner, the absolute most important project was the widening and deepening of the channel, a vital artery to the world market and how carriers kept the country competitive on the world stage. Odfjell fully supported Project 11.

Mr. Williams noted that when looking at the cost, the question arose as to who the direct beneficiaries were. His comment and concern was the allocation of the cost to the direct beneficiaries. He had no problem with paying a fee, but he did have an issue with how it was charged back to the direct beneficiaries.
Mr. Williams wondered if there was a different mechanism by which the fee could be charged. It could be done by throughput or a direct charge to the customer involved; the fee should not be charged to the shipowners. He observed that under the current proposal, Odfjell would have to pay eight fees in and out to call on eight docks.

Mr. DiCosimo explained that any inter-channel movement was excluded in the current proposal, and only entry and exit of the channel would be subject to a fee. Mr. Williams was grateful for the clarification but stressed a mechanism for charging the direct beneficiaries was preferred.

Chairman Campo asked how Odfjell would pass on a fee, such as the one proposed, to a customer. Mr. Williams noted that Odfjell was not a cost-plus model, but rather has to arrive at an overall freight number that is all-inclusive. He would love to be able to separate specific fees out, but that has proved to be difficult because of the number of cargoes carried.

Chairman Campo clarified that in a competitive market, Odfjell would bid against other shipping companies and the lowest bid would win. A shipper willing to take a lower margin by making a lower bid would win the business, and Mr. Williams confirmed that the chairman was correct.

Chairman Campo recognized W.S. Klapprolt, Fairfield Chemical Carriers, who addressed the Port Commission. Mr. Klapprolt noted that there were 41 19,000 to 20,000 deadweight tankers in his company’s service, and he did not see a direct benefit to the widening and deepening. In his opinion, the major issue to the channel was the fog season, and a wider and deeper channel would not help vessel movement in fog.

Mr. Klapprolt referenced the Pronto Program, which is a pilot program aimed at alleviating congestion. If the program deems that a deepening and widening was necessary, then he would see the benefit to it.

Mr. Klapprolt noted, per the Port Authority’s website, that the Port of Houston supports the creation of nearly 1.3 million jobs in Texas and 3.2 million nationwide with economic activity totaling nearly $339 billion in Texas, 2.6% of the State’s gross domestic product, and more than $801.9 billion in economic impact across the nation. With that said, other stakeholders that would benefit from Project 11 should be looked at to come up with the funding. This would include the communities of Harris County, Galveston County, and Fort Bend County. Exploring the State’s rainy day fund should also be done.
Mr. Klapprolt stressed that his personal view was that the money was better spent developing outlying Texas ports which would be more competitive such as Freeport and Beaumont. In the prolonged poor chemical market, which chemical carriers have faced since 2008, most chemical and parcel carriers operating the smaller ships were in the red, and another tariff or fee would not work.

Mr. Klapprolt noted that for his company, working off the proposed fee structure, another $1,100 per transit would be charged to his ships, and just like Odfjell, Fairfield Chemical Carriers was not a cost-plus operator.

(2020-0212-07) Chairman Campo recognized Chuck Zabriskie, who addressed the Port Commission.

Mr. Zabriskie stated that he was speaking privately as a 30-year private investment banker familiar with the energy industry. He believed the merits of the project had been laid out clearly. Private industry stood to benefit significantly. Industry needed to move volumes and it needed to move them in the next few years, and to his understanding, completion of Project 11 in 2030 or 2031 did not benefit industry.

Mr. Zabriskie explained that with 500 million barrels of commodity storage on the channel, that was $500 million to raise. This equaled $1 per barrel and the barrels cost $100 to build. Accordingly, coming up with $1 per storage barrel to support investment was not a heavy lift for industry. It was a difficult thing to decide who paid how much, but there was no need to go before the Port Commission for the use of its balance sheet.

Mr. Zabriskie emphasized that to a banker who spent time in structured finance, the economics were brilliant. It was a structured transaction and the merits and economics supported it. He encouraged the Port Commission to question and push back on industry’s unwillingness to write checks or come up with a creative financing structure that worked within the legal confines of the U.S. Code.

Mr. Zabriskie questioned charging a vessel an additional $4,000 when it was carrying $40 million worth of commodities. The infrastructure was located at the Port of Houston and should be taken advantage of.

Chairman Campo thanked Mr. DiCosimo for coming before the Port Commission. He is very grateful the project was on track and great progress on advocacy was being made. He encouraged Mr. DiCosimo to sharpen his pencil and get back to work. The Port Authority has its capital and now the other part of the equation needed to be figured out.

At 11:05 a.m., Chairman Campo called for a brief recess and advised that the Executive Session would follow. At 11:22 a.m., Chairman Campo instructed Mr. Eriksson to make the following announcement:
The Port Commission of the Port of Houston Authority of Harris County, Texas will now convene in a closed meeting, as permitted by the Texas Open Meetings Act and Government Code (1) to conduct a private Consultation with Attorneys (Section 551.071, Texas Open Meetings Act), including consultation regarding 33 U.S.C.A. §§5(b) and 2236; deliberate regarding (2) Real Estate (Section 551.072, Texas Open Meetings Act), including disposition of Pelican Island, Turning Basin, and Beltway 8 and Barbours Cut Terminal vicinity properties; (3) Economic Development Negotiations or Incentives (Section 551.087, Texas Open Meetings Act); (4) Employment and Evaluation of Public Officers and Employees (Section 551.074, Texas Open Meetings Act); and (5) Security-Related Matters (Sections 418.175-418.183 of the Texas Government Code, and Section 551.076, Texas Open Meetings Act).

Immediately thereafter the Port Commission retired into closed session.

At 11:54 a.m., Chairman Campo reconvened the open meeting at the Port of Houston Authority Executive Office Boardroom, at 111 East Loop North, Houston, Texas 77029, with the following Commissioners, staff and counsel in attendance:

Ric Campo, Chairman
Theldon R. Branch, III, Commissioner
Wendy Cloonan, Commissioner
Dean E. Corgey, Commissioner
Stephen H. DonCarlos, Commissioner
Clyde E. Fitzgerald, Commissioner
Roy D. Mease, Commissioner
Roger Guenther, Executive Director
Erik Eriksson, Chief Legal Officer
Tom Heidt, Chief Operating Officer
J. Kent Friedman, outside counsel

(2020-0212-08) Commissioner Cloonan moved to authorize the Port Authority to purchase property in the vicinity of the Turning Basin Terminal from Rains Land and Properties, L.P. on the terms discussed in Executive Session, and authorize the Executive Director to do all things necessary to give effect to the foregoing, seconded by Commissioner Branch. Chairman Campo, and Commissioners Branch, Cloonan, Corgey, DonCarlos, Fitzgerald, and Mease voted Aye. Nays none. MOTION PASSED.

(2020-0212-09) Chairman Campo directed that staff immediately seek construction access rights to the Port Authority’s Beltway 8 property to support site preparation. The property would be used for the placement of dredge materials for the
deepening and widening of Project 11 Segment 4, a channel reach that would benefit many industry partners.

Chairman Campo reminded everyone that the next Port Commission meeting would be held on March 24, 2020.

At 11:56 a.m., Chairman Campo adjourned the Port Commission meeting.

The above is a correct copy of the Minutes of the February 12, 2020 meeting of the Port Commission of the Port of Houston Authority.

Ric Campo, Chairman

Erik Eriksson, Secretary
Agenda Item Details

Meeting: Feb 12, 2020 - SPECIAL MEETING PORT COMMISSION OF THE PORT OF HOUSTON AUTHORITY

Category: B. GENERAL

Subject: 1. Deliberation, public comment, and possible actions regarding a proposal by ship channel industry stakeholders to participate in funding the Houston Ship Channel Expansion - Channel Improvement Project.

Access: Public

Type: Action

Recommended Action: The Port Commission, at its February 12, 2020 meeting, deliberate, hear public comment, and take possible actions regarding a proposal by ship channel industry stakeholders to participate in funding the Houston Ship Channel Expansion - Channel Improvement Project, and further authorize the Executive Director to do any and all things in his opinion reasonable or necessary to give effect to the foregoing.

Public Content

Category: General

Department: Executive

Staff Contact: Roger Guenther

Background: Since last spring, representatives of the Coalition for a Fair and Open Port group of ship channel industry stakeholders (the "Coalition") have expressed their willingness to contribute half of the estimated $1 billion cost of the Houston Ship Channel Expansion - Channel Improvement Project ("Project 11"), with the Port Authority funding the remainder.

The details of this proposal to fund the industry portion of these construction costs have now been shared with the Port Authority and other maritime interests:

- In November, representatives of the Coalition briefed the Port Authority and other industry members regarding the Coalition’s proposal that the Port Authority charge a Project 11 harbor fee for transiting the Houston Ship Channel.
- In December, the Coalition provided a legal memorandum outlining federal laws that would govern such a fee, and later submitted an “Introductory Financial Analysis” proposing how this fee could be structured.
- In January, staff met with Vincent DiCosimo, the Executive Director of the Coalition, who provided more detail on the proposed fee. Staff anticipates that the Coalition will submit a revised version of the financial analysis providing more detail and analysis.
To summarize the Coalition proposal:

- The Port Authority would issue $500 million in revenue-backed debt to pay for the stakeholder share.
- The Port Authority would collect fees from certain vessels transiting the ship channel to service this debt.
- Vessels would be charged a fee (i) based on vessel LOA and beam and (ii) multiplied by a sliding-scale factor, also based on vessel size.

**Staff Evaluation/Justification:**

Staff requests that the Port Commission deliberate, hear public comment, and consider possible actions regarding a proposal by ship channel industry stakeholders to participate in funding the Houston Ship Channel Expansion - Channel Improvement Project.