

**2021 Operating & Capital Budget
Approved Budget Presentation
November 10, 2020**





Foreword

- This proposed 2021 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 2021. It is being presented to the Port Commission on November 10, 2020.
- 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, 2021 Budget comparisons are made to the 2020 Reforecast, which is an update to the 2020 Budget prepared by staff as of July 2020.

2021 Budget Presentation

Content



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- Narrative overview
- Income Statement – summary & full view
- Cargo projections
- Revenue & expense analysis
- Headcount
- Capital & Liquidity

Note: Totals on the following slides may be slightly off due to rounding differences.

Executive Summary – 2021 Operating & Capital Budget

Narrative overview



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- Economic growth expectations for 2021 – Global, U.S., Texas – trend consistently from 2020 by 5.4, 4.6 and 2.5%, respectively *
- Operating revenues - growing 4.6% to \$398 million - are expected to generate \$146 million in cash flow, “down” 3% from expected 2020 results
 - Container revenues “up” 4% on unit growth; General cargos +3% on expected Steel uptick
- Projecting spend increases for operations associated with capacity growth combined with investments for targeted strategic initiatives
- Promotion and Development spending decrease of 9%
- Headcount growth of 15 new positions for 2021 (9 Ops, 6 G&A)
- \$239 million PHA Operating Capital Plan focused primarily on Container Terminals; Houston Ship Channel (“HSC”) Project 11 anticipated at \$306 million
- Liquidity projections show sufficient resources to fund PHA Operating Capital Plans; this budget assumes PHA’s portion of HSC Project will be funded by proceeds of Revenue bonds

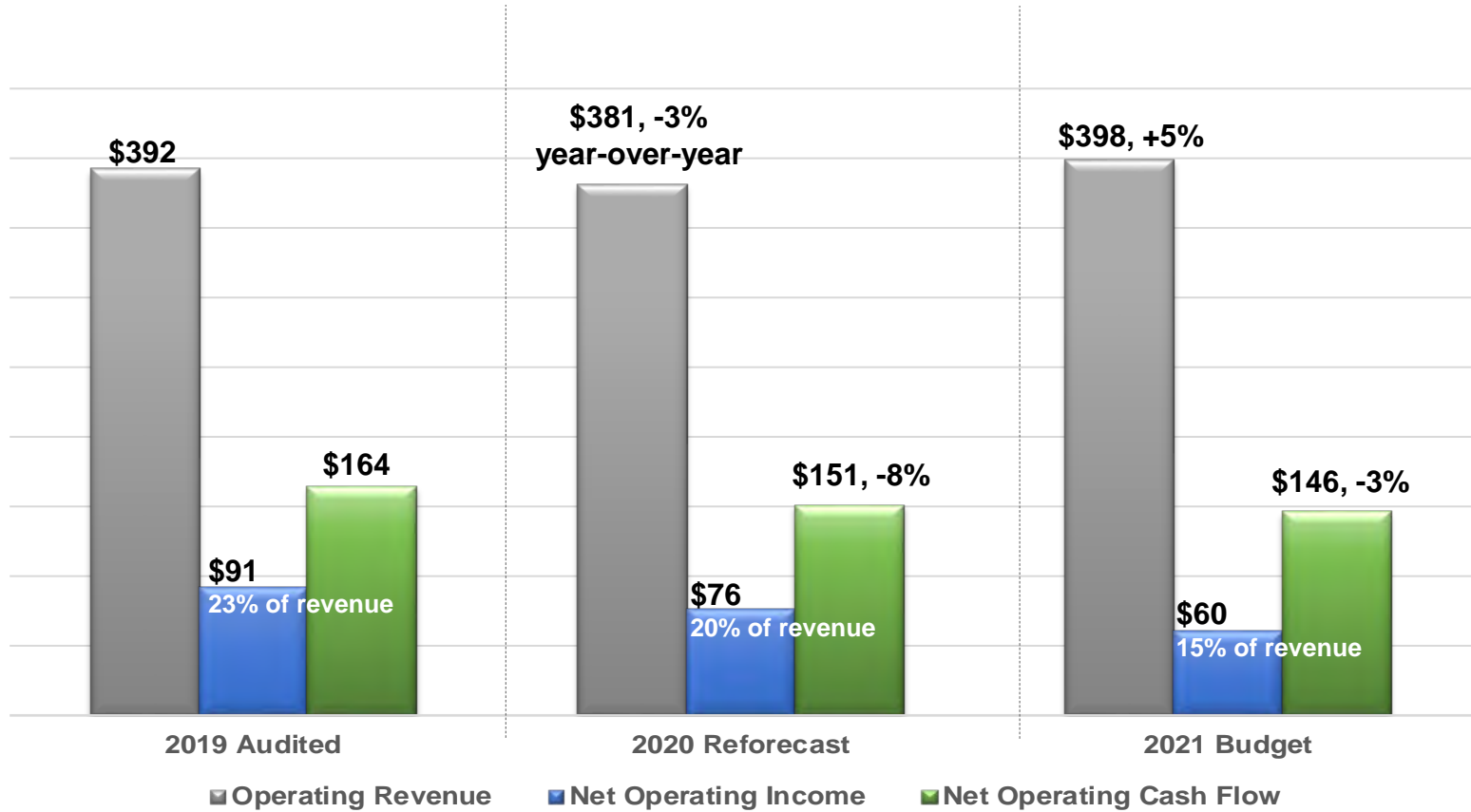
* Federal Reserve Bank “Survey of Professional Forecasters” and FOMC; State Comptroller’s Office

Projecting continued operational excellence

Income Statement summary, \$ in millions



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A stable top-line growth plan into 2021, projecting sound cash generation

Projecting continued operational excellence

Income Statement full view, \$ in thousands



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	Audited 2019	Budget 2020	2020 Actual Sep YTD	Reforecast 2020	Budget 2021
Operating Revenue	\$391,893	\$425,628	\$283,119	\$380,721	\$398,187
Operating Expense	247,124	259,149	187,521	251,385	280,186
Gross Margin	144,769	166,480	95,599	129,337	118,000
% of revenue	36.9%	39.1%	33.8%	34.0%	29.6%
General & Administrative Expense	53,708	61,412	39,728	53,555	58,220
% of revenue	14%	14%	14%	14%	15%
Net Operating Income	91,063	105,067	55,872	75,782	59,781
% of revenue	23%	25%	20%	20%	15%
Net Operating Cash Flow	163,895	184,976	111,526	150,607	145,651
Nonoperating items and Contributions	11,078	(1,641)	9,308	8,544	6,951
Net Income	\$102,141	\$103,426	\$65,179	\$84,326	\$66,731
Total Cash Flow (GAAP)	\$172,067	\$183,334	\$121,162	\$156,470	\$152,601
\$ of revenue	\$0.44	\$0.43	\$0.43	\$0.41	\$0.38

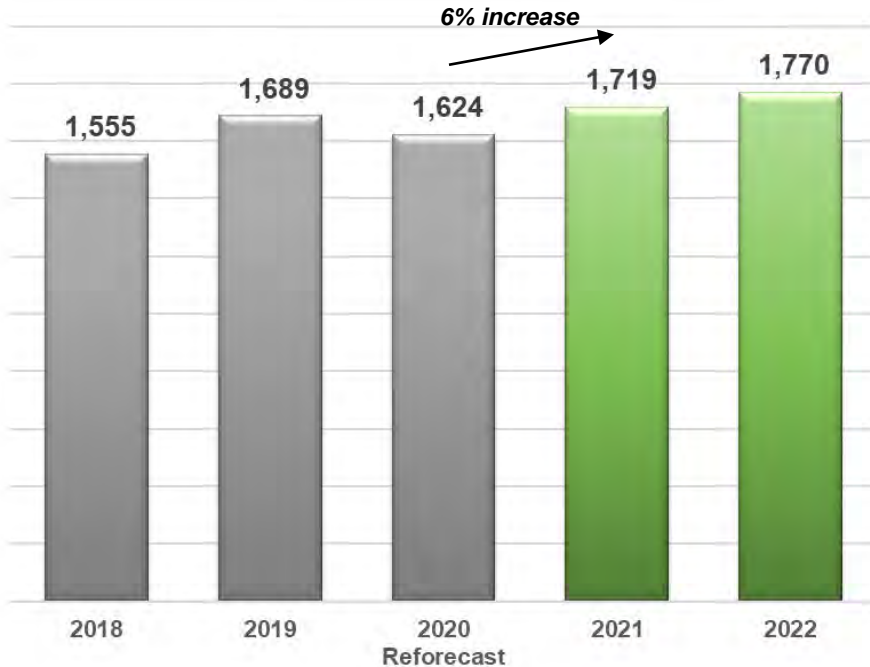
Containers and Steel showing recovery

Container Terminal units, Steel tonnage (000s)



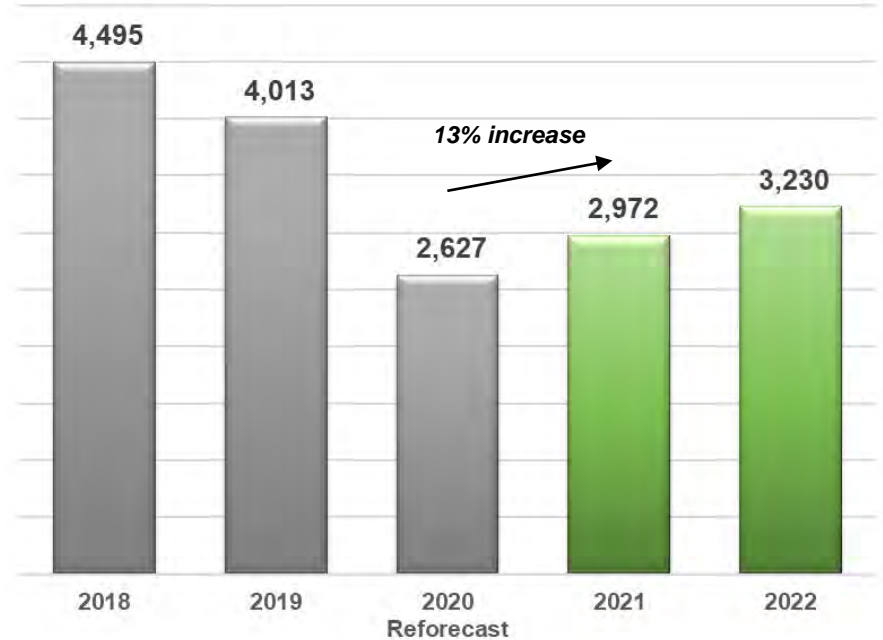
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Total Containers



Export loads up 3% as resin production returns to normal levels; Import loads up 6%

Total Steel



Anticipating market conditions to improve, including drilling activity increase by second-half 2021

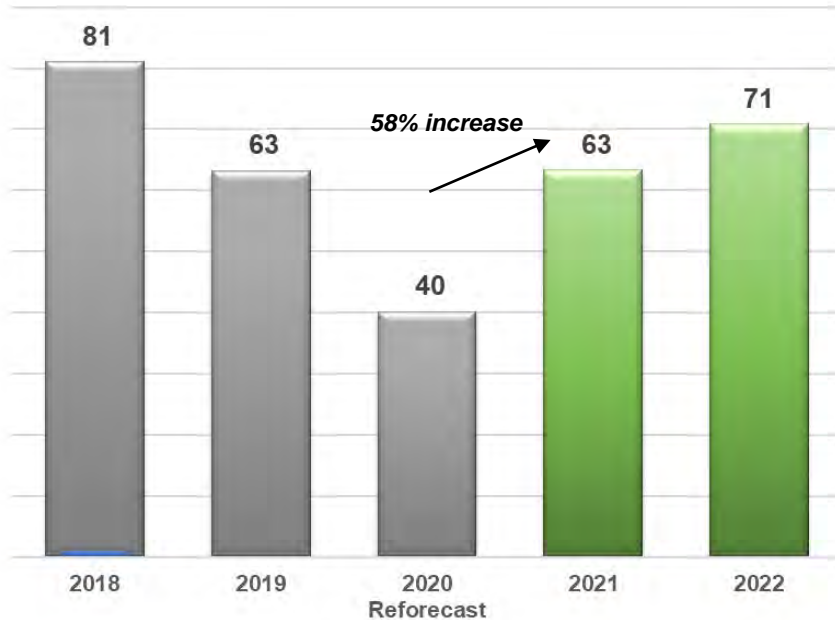
Autos and Other General Cargos

Auto Units, cargo tonnage (000s)



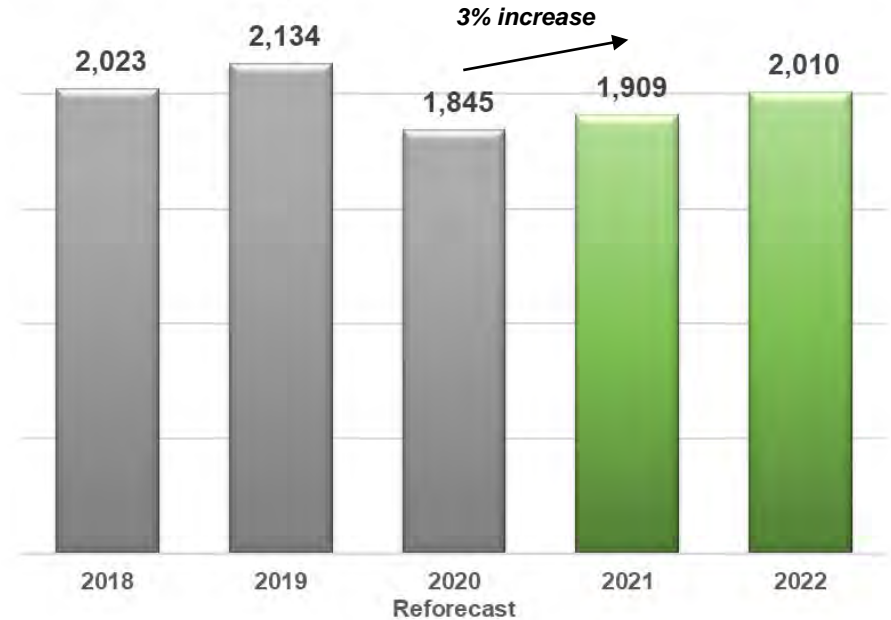
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Total Autos



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

Other General Cargos



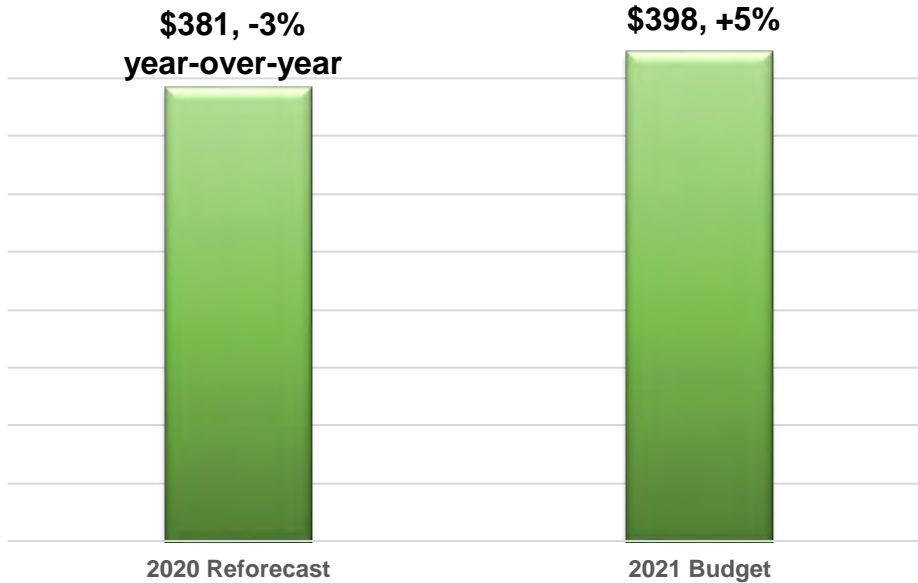
Other cargos (cement, project cargo, grains, etc.) showing growth into next year

2021 Operating Revenue analysis, key changes from 2020

\$ in millions



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2020 Reforecast – Operating Revenue	\$381
	<u>Change</u>
• Increase in Container revenue driven by volume growth	12
• Increase in Turning Basin from cargo growth	5
Subtotal	17
2021 Budget – Operating Revenue	\$398

Revenue growth driven by Container Terminals

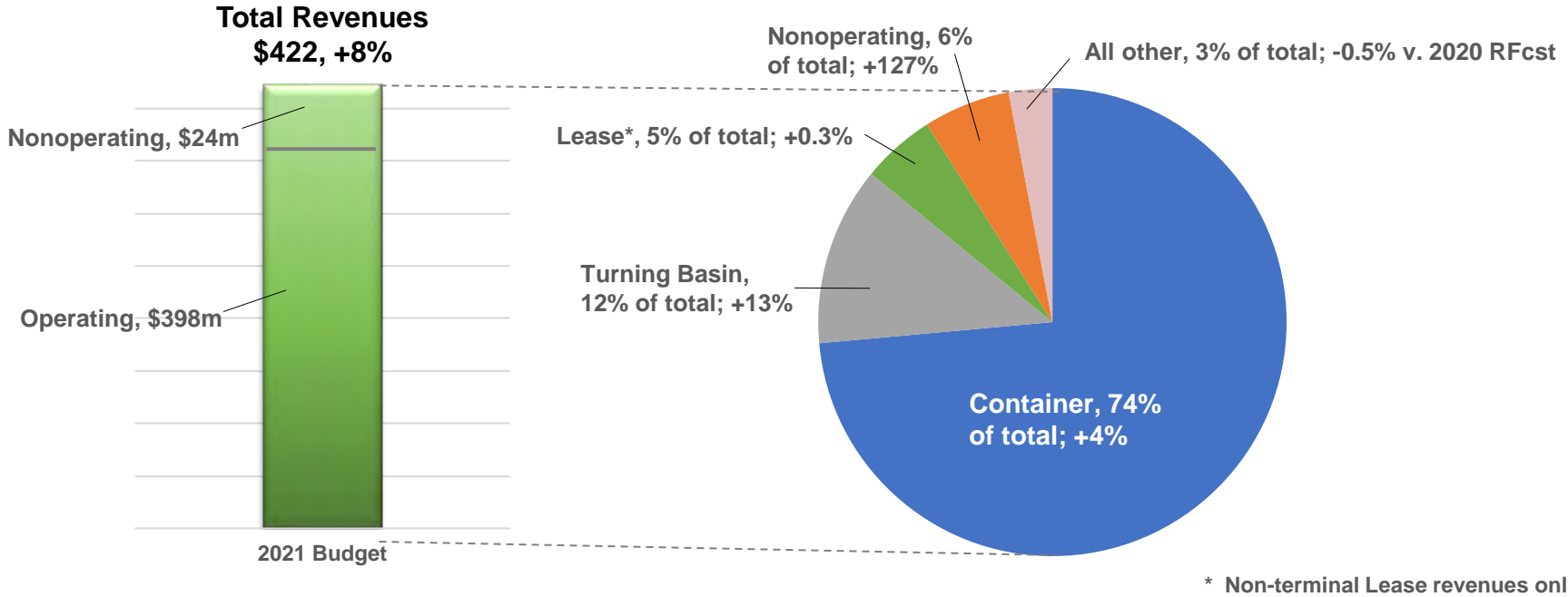
Total Revenues: Operating + Nonoperating (Grants, Interest income, other)

\$ millions (mix and year-over-year growth)



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Mix of business – 2021 Budget



- Container Terminals revenue growth on a 6% increase in units; Bayport up 6%, BCT up 5%
- Turning Basin Terminals revenue growth led by expected steel tonnage increase of 13%
- Nonoperating up 127% primarily from grant revenue associated with Bayport Wharf 6 and Port Road

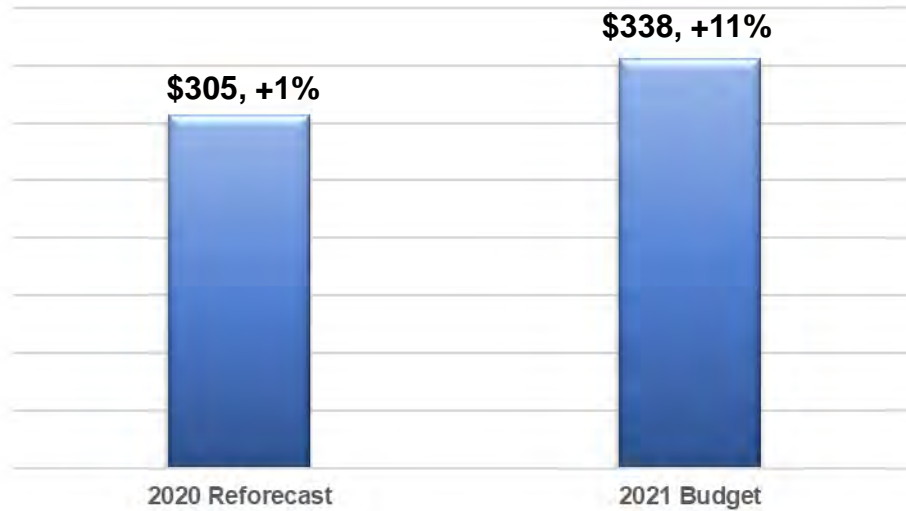
2021 Expense analysis, key changes from 2020

\$ in millions



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2020 Reforecast – Operating and G&A Expense **\$305**



Change

Changes in Operating and infrastructure-related:

- Depreciation & amortization 12
- PHA and ILA salaries and benefits 10
- Wharf maintenance (STS Crane relocation) 7

Changes in General and administrative:

- Consulting fees (Next Generation ERP, Environmental Projects, etc.) 2
- PHA salaries and benefits 1
- Other expenses 1

Subtotal 33

2021 Budget – Operating and G&A Expense \$338

Expenses driven by volume growth and other initiatives

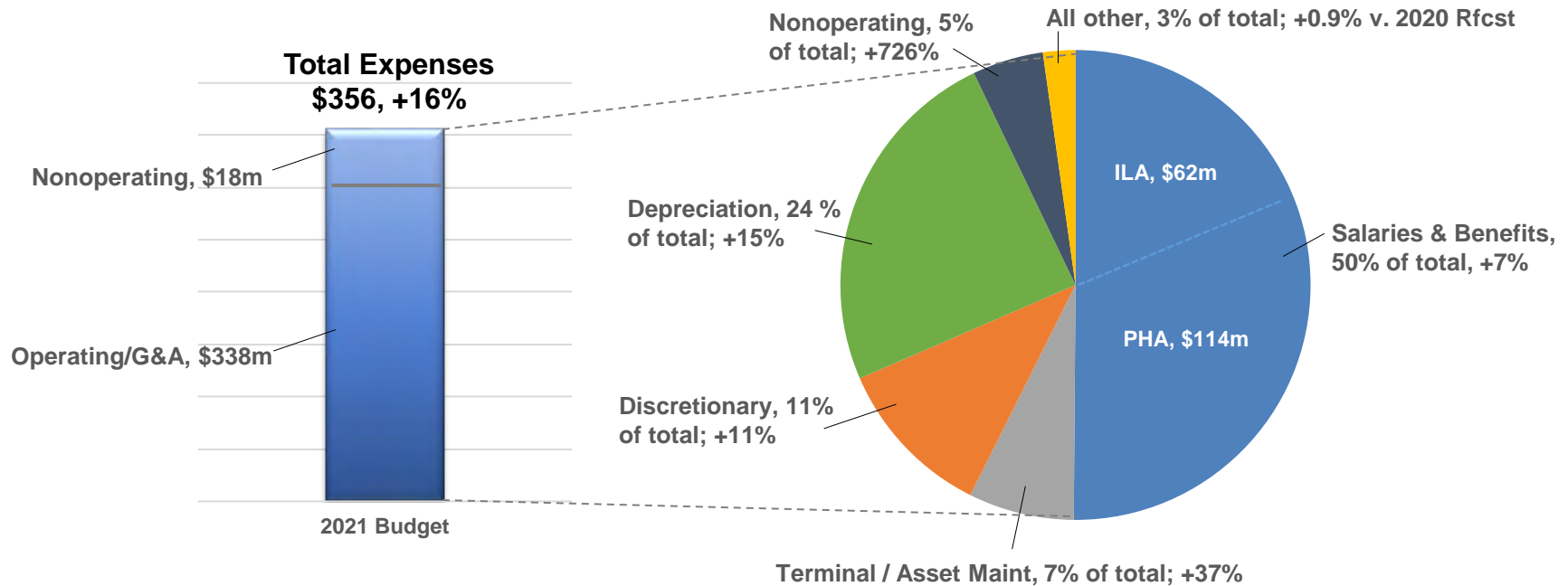
Total Expenses: All Operating + Nonoperating (Contributions, Interest expense, other)

\$ millions (mix and year-over-year growth)



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Mix of expense – 2021 Budget



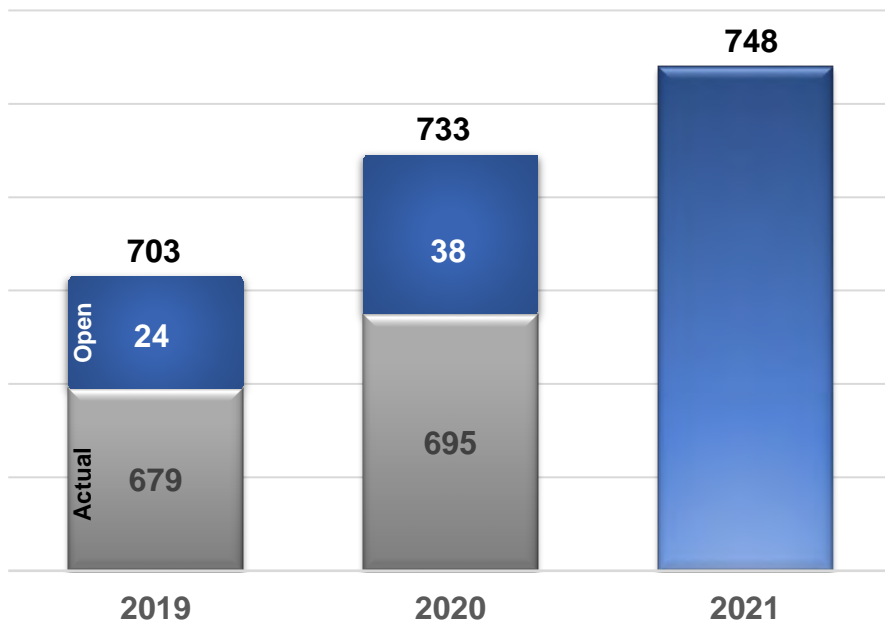
- Salaries & Benefits, including ILA, growing on new headcount (primarily Ops) and capacity additions
- Terminal/Asset Maintenance increasing with capacity additions and volumes, Crane relocation, other
- Discretionary includes Consulting Fees for HSC Project 11, Next Generation ERP, Environmental projects, FICAP program, other
- Depreciation expense reflects capacity additions (Bayport CY7, RTGs, other), recapitalization (BCT CY1 and 2, RTGs, Wharf 3, other) and maintenance dredge
- Nonoperating reflects Contributions for Port Road construction; Interest expense on bond issuance

Staffing growth will support Operations and strategic initiatives

Headcount analysis, Number of Employees*



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Year	Operating Revenue per Headcount (000s)
2019	\$577 Actual
2020	\$519 Reforecast
2021	\$532,+2% Budget

2021 Budgeted Staffing	
Exempt	248
Nonexempt	447
Total Actual Headcount, 9/30/2020	695
Approved, existing open reqs	38
- 11 new from 2020, 27 replacements	
New in 2021 **	15
Total Budgeted Positions	748
2021 Budget – Headcount	748

* Does not include Casual Labor

** 15 new in 2021: 9 Operating (9-Ops); 6 G&A (3-Infrastructure, 1-Technology, 2-Finance)

Operating cash flow will fund the PHA Operating Capital budget of \$239 million



2021 Capital Improvement Program



- Strategic projects = \$130 million
 - *These investments support new growth opportunities*
- Recapitalization projects = \$71 million
 - *Investments required to sustain high service levels and/or enhance productivity*
- Channel projects = \$28 million
 - *Container terminals & Turning Basin dredging*
- Remaining projects = \$10 million
 - *Includes maintenance equipment and other replacements*

Note: Excludes PHA's portion of HSC Project 11 construction costs estimated at \$306M for 2021

Liquidity planning projections, 2021 Operating & Capital Budget

Funds available for Commission award

\$ in thousands



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PORT HOUSTON	2020	2021	2022
Funds Available, Beginning of Period	\$ 503,177	\$ 142,785	\$ 56,937
Debt Service, Contingency, & Other	(87,754)	-	-
Outstanding PO's and Commitments	(308,024)	-	-
	107,399	142,785	56,937
Sources:			
Total Cash Flow ¹	156,470	152,601	148,676
Available Resources	263,869	295,387	205,613
Uses:			
New Capital Investment			
Bayport Terminal	81,963	122,378	36,900
Barbours Cut	7,674	38,898	33,780
Channel Development	2,564	27,872	16,189
Turning Basin Terminals	8,531	24,617	14,500
Real Estate	5,345	9,109	17,327
Maintenance	5,170	12,229	5,203
Bayport Rail	6,064	-	-
Other	3,772	3,347	15,968
Net Uses	121,084	238,450	139,867
Funds Available, End of Period	\$ 142,785	\$ 56,937	\$ 65,746
HOUSTON SHIP CHANNEL			
HSC Project 11 ²	\$ 2,680	\$ 305,700	\$ -

¹ Total Cash Flow includes Principal & Interest payments (\$4m in 2021, \$17m in 2022) associated with potential 2021 Revenue bond issuance

² Based on current estimates and schedules



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Backup Details



2021 Budget

Nonoperating – Summary (000's)

	<u>2019 Audited</u>	<u>2020 Budget</u>	<u>2020 Actual Sep YTD</u>	<u>2020 Reforecast</u>	<u>2021 Budget</u>
Nonoperating Revenues	\$13,132	\$2,563	\$6,471	\$7,674	\$3,708
Contribution from Federal/State Agency	1,770	8,599	572	2,954	20,449
Total Nonoperating Revenues	14,902	11,162	7,043	10,628	24,157
Nonoperating Expenses	(502)	532	(2,450)	(2,192)	4,459
Contribution to Federal/State Agency	4,327	12,271	186	4,277	12,746
Total Nonoperating Expenses	3,825	12,803	(2,264)	2,085	17,205
Nonoperating items and Contributions	\$11,077	(\$1,641)	\$9,307	\$8,543	\$6,952

Comments:

- Nonoperating revenue includes Interest Income-Securities
- Nonoperating expense includes Interest expense associated with HSC Project 11
- Contribution 'from' Federal/State Agencies includes grants for Wharf 6 and Port Road projects; Contributions 'to' reflect Port Road project expenditures



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2021 Operating and Capital Budget

This concludes the presentation of the 2021 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.

**2021 Operating & Capital Budget
5-year Plan
November 10, 2020**

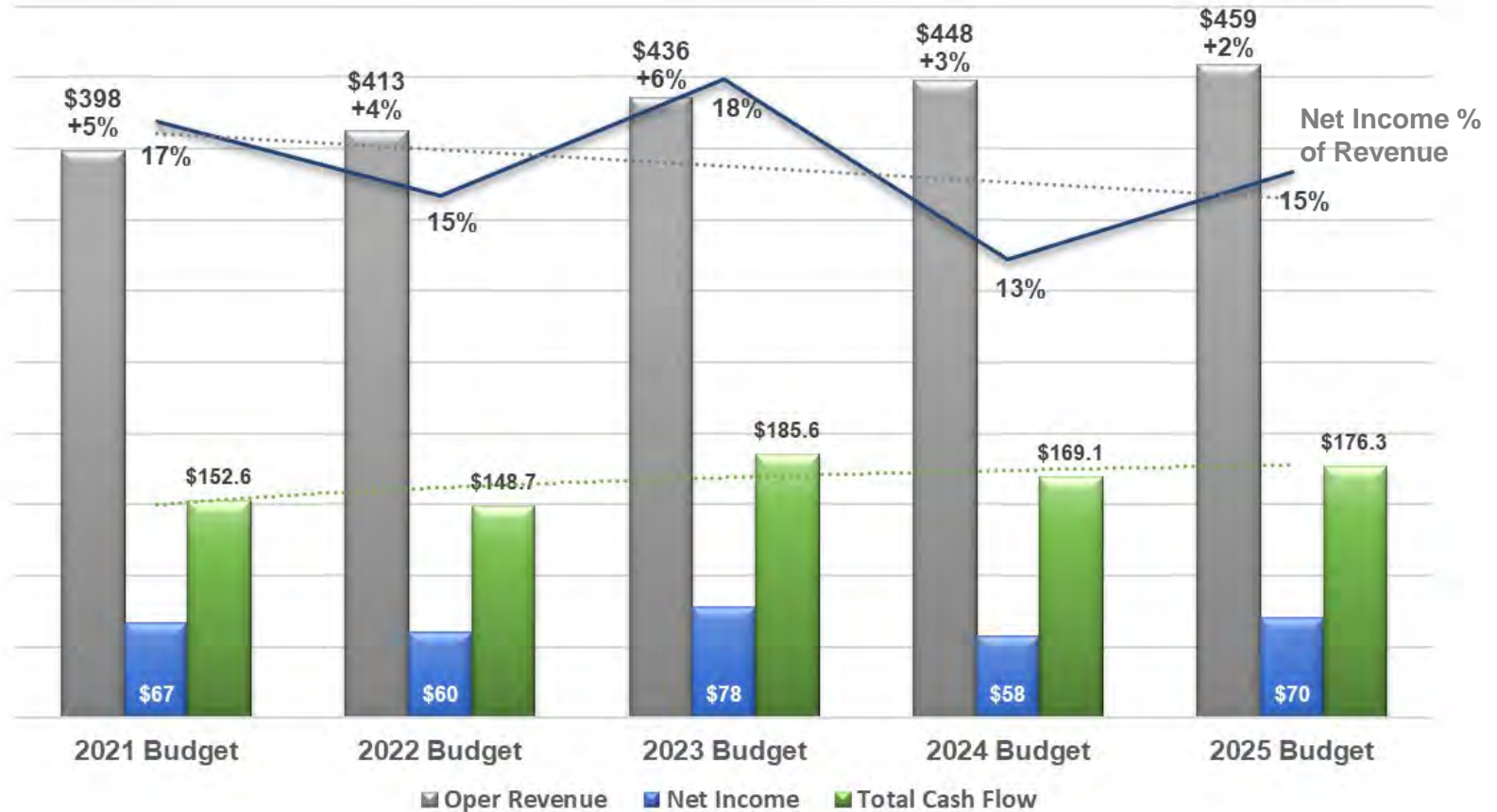


5-year Income Statement summary - Operating

\$ in millions



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- Operating revenues reflect a 3.6% compound annual growth rate (“CAGR”) 2021-2025 compared to Cash generation growing 3.7%
- Total Cash Flow includes debt service (\$87m) tied to financing PHA’s portion of HSC Project 11

2021 – 2025 Budget Income Statement (000's)



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	<u>2021 Budget</u>	<u>2022 Budget</u>	<u>2023 Budget</u>	<u>2024 Budget</u>	<u>2025 Budget</u>
Operating Revenue	\$398,187	\$412,541	\$436,048	\$447,912	\$458,638
Less: Operating Expense	280,186	293,690	320,800	331,317	330,600
Gross Margin	118,000	118,851	115,248	116,594	128,038
% of revenue	30%	29%	26%	26%	28%
Less: General & Administrative Expenses	58,220	60,072	63,592	66,768	69,881
% of revenue	15%	15%	15%	15%	15%
Net Operating Income	59,781	58,779	51,655	49,827	58,157
% of revenue	15%	14%	12%	11%	13%
Non-Operating Revenue (Expense)	(752)	(5,055)	(8,255)	(9,435)	(9,205)
Income before Contributions & Transfers	59,029	53,724	43,401	40,392	48,953
Contributions (to)/from Federal/State Agencies	7,702	6,736	34,846	\$17,250	21,386
Net Income	<u>\$66,731</u>	<u>\$60,460</u>	<u>\$78,247</u>	<u>\$57,642</u>	<u>\$70,339</u>
Total Cash Flow (GAAP) ¹	\$152,601	\$148,676	\$185,571	\$169,086	\$176,320
\$ of revenue	\$0.38	\$0.36	\$0.43	\$0.38	\$0.38

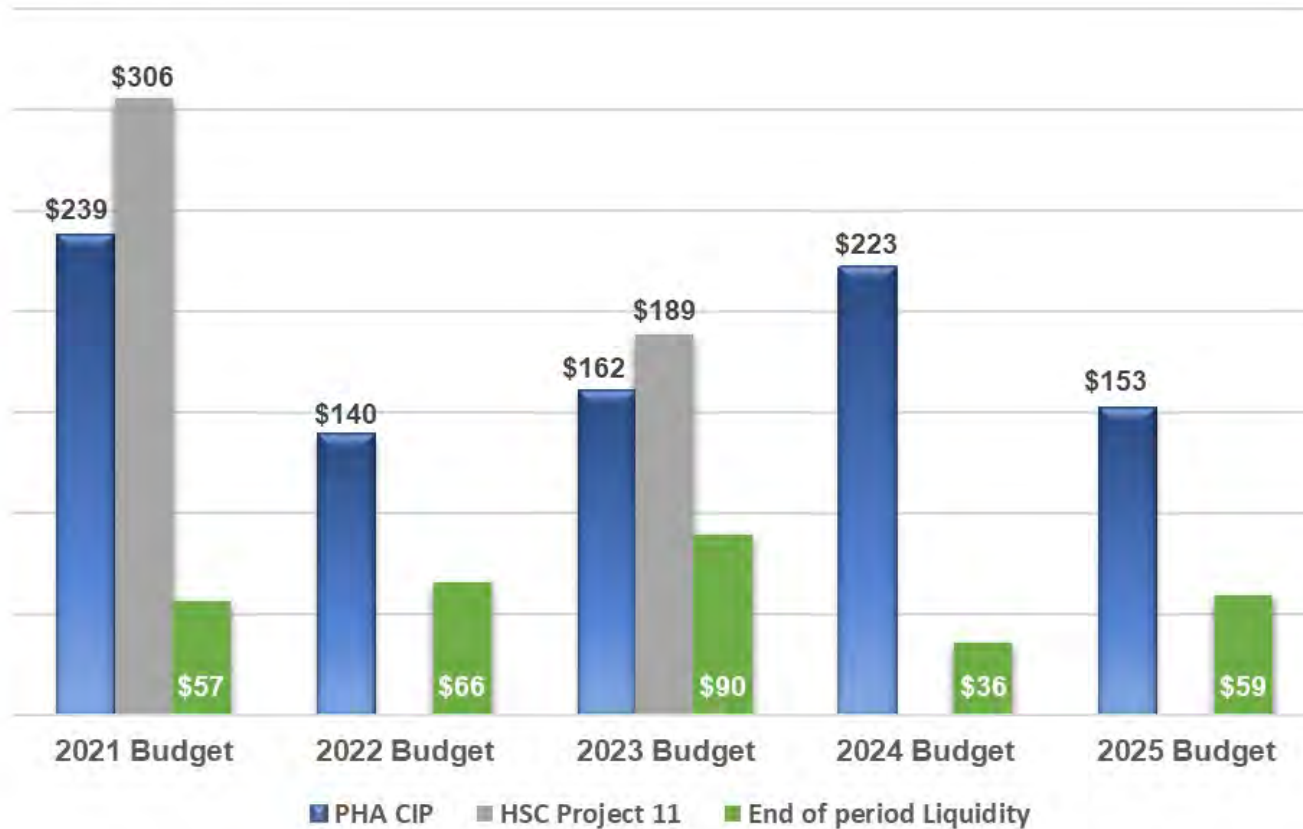
¹ Total Cash Flow includes Principal & Interest payments (\$87m in this 5-year plan) associated with potential 2021 and 2023 revenue bond issuance

5-year Capital Budget summary

\$ in millions



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- Given operating budget assumptions, the Port expects to generate sufficient Total Cash Flow to fund Operating Capital needs while providing debt service for revenue bond issuance
- Liquidity herein represents dollars available for award of future projects – not Cash balances – and does not comprehend line of credit in place (\$100 million) against which awards can be made

2021 – 2025 Budget

Capital & Liquidity (000's)



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PORT HOUSTON	2020	2021	2022	2023	2024	2025
Funds Available, Beginning of Period	\$ 503,177	\$ 142,785	\$ 56,937	\$ 65,746	\$ 89,815	\$ 36,132
Debt Service, Contingency, & Other	(87,754)	-	-	-	-	-
Outstanding PO's and Commitments	(308,024)	-	-	-	-	-
	<u>107,399</u>	<u>142,785</u>	<u>56,937</u>	<u>65,746</u>	<u>89,815</u>	<u>36,132</u>
Sources:						
Total Cash Flow ¹	156,470	152,601	148,676	185,571	169,086	176,320
Available Resources	<u>263,869</u>	<u>295,387</u>	<u>205,613</u>	<u>251,317</u>	<u>258,901</u>	<u>212,452</u>
Uses:						
New Capital Investment						
Bayport Terminal	81,963	122,378	36,900	64,200	61,629	41,788
Barbours Cut	7,674	38,898	33,780	9,482	104,301	12,650
Channel Development	2,564	27,872	16,189	21,213	8,756	20,213
Turning Basin Terminals	8,531	24,617	14,500	11,785	14,600	57,885
Real Estate	5,345	9,109	17,327	37,100	5,786	7,500
Maintenance	5,170	12,229	5,203	4,905	17,905	4,345
Bayport Rail	6,064	-	-	-	-	-
Other	3,772	3,347	15,968	12,818	9,793	8,698
Net Uses	<u>121,084</u>	<u>238,450</u>	<u>139,867</u>	<u>161,502</u>	<u>222,770</u>	<u>153,079</u>
Funds Available, End of Period	<u><u>\$ 142,785</u></u>	<u><u>\$ 56,937</u></u>	<u><u>\$ 65,746</u></u>	<u><u>\$ 89,815</u></u>	<u><u>\$ 36,132</u></u>	<u><u>\$ 59,373</u></u>
HOUSTON SHIP CHANNEL						
HSC Project 11²	\$ 2,680	\$ 305,700	\$ -	\$ 188,510	\$ -	\$ -

¹ Total Cash Flow includes Principal & Interest payments (\$87m in this 5-year plan) associated with potential 2021 and 2023 revenue bond issuance

² Based on current estimates and schedules



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THANK YOU

Financial Planning
Port Houston

Questions?

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