

2020 Budget Presentation

Port of Houston Authority
November 12, 2019





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Foreword

- This proposed 2020 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 2020. It is being presented to the Port Commission on November 11, 2019.
- 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, 2020 Budget comparisons are made to the 2019 Reforecast, which is an update to the 2019 Budget prepared by staff as of July 2019.

2020 Budget Executive Summary

Content



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

Executive Summary – 2020 Operating & Capital Budget

Narrative overview



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- Economic growth expectations for 2020 – Global, U.S., Texas – trend consistently from 2019 from 1.9 – 3.5% *
- Operating revenues - growing 7% to \$425 million - are expected to generate \$185 million in cash flow, “up” 4% from expected 2019 results
 - Container Terminals projecting 5% unit growth stemming from an increase in loaded export boxes; General cargos showing good growth, with steel volumes softening
 - Includes a tariff increase of 1.8% on cargos and 3% for harbor fees effective January 2020
- Investments in employee programs and tools, community and other improvement initiatives result in increased spend and balance of fiscal responsibilities
- Promotion and Development investments increase 6%
- Headcount growth of 25 new positions for 2020
- \$232 million Capital Plan focused primarily on Container Terminals
- Liquidity projections show sufficient resources to fund Port Authority Capital Plans before consideration of construction funding requirements for the Houston Ship Channel (“HSC”) Widening/Deepening project

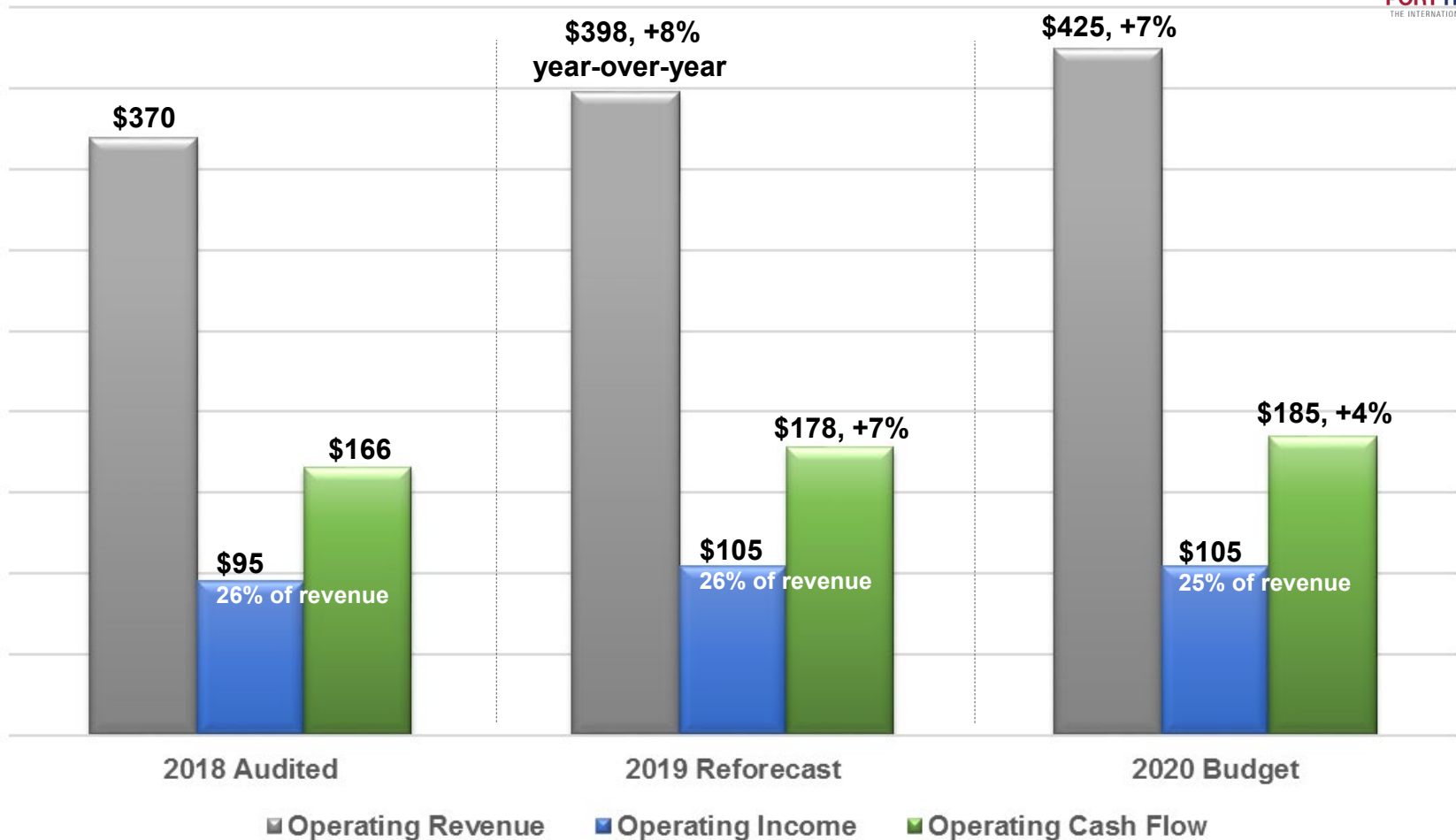
* Federal Reserve Bank “Survey of Professional Forecasters” and FOMC; State Comptroller’s Office

Projecting continued operational excellence

Income Statement summary, \$ in millions



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A stable growth plan into 2020, generating \$185 million in cash to support the Houston Ship Channel, Community and Port Houston improvement initiatives

Projecting continued operational excellence

Income Statement full view, \$ in thousands



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	<u>Audited 2018</u>	<u>Budget 2019</u>	<u>2019 Actual Sep YTD</u>	<u>Reforecast 2019</u>	<u>Budget 2020</u>
Operating Revenue	\$369,714	\$399,980	\$292,244	\$398,094	\$425,424
Operating Expense	224,968	245,192	178,989	242,847	259,149
Gross Margin	144,746	154,788	113,255	155,247	166,275
% of revenue	39.2%	38.7%	38.8%	39.0%	39.1%
General & Administrative Expense	49,601	56,292	37,056	50,320	61,412
% of revenue	13%	14%	13%	13%	14%
Operating Income	95,145	98,496	76,199	104,927	104,863
% of revenue	26%	25%	26%	26%	25%
Nonoperating items and Contributions	10,616	(1,513)	8,661	9,554	(1,641)
Net Income	\$105,761	\$96,983	\$84,860	\$114,481	\$103,222
Total Cash Flow (GAAP)	\$175,527	\$170,932	\$136,476	\$185,868	\$183,130
\$ of revenue	\$0.47	\$0.43	\$0.47	\$0.47	\$0.43

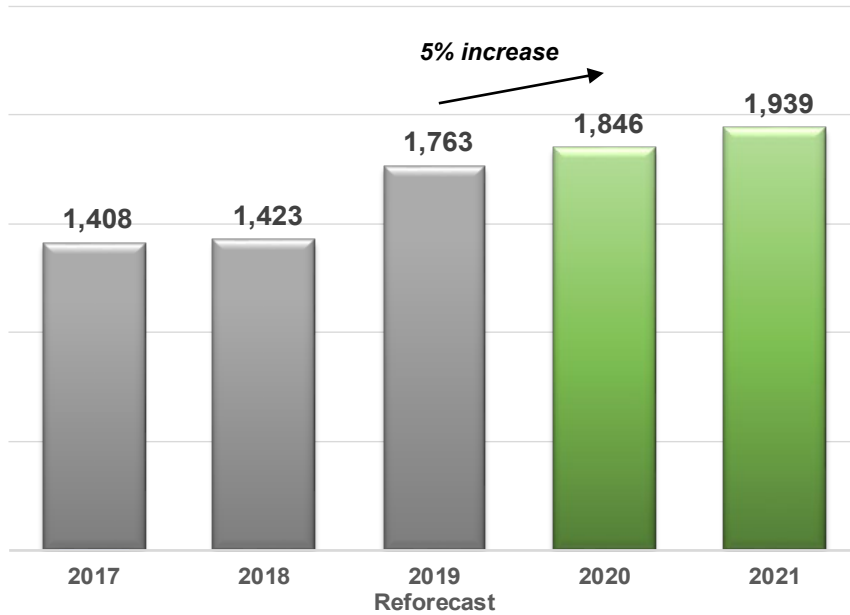
Container showing continued growth

Container Terminal units, Steel tonnage (000s)



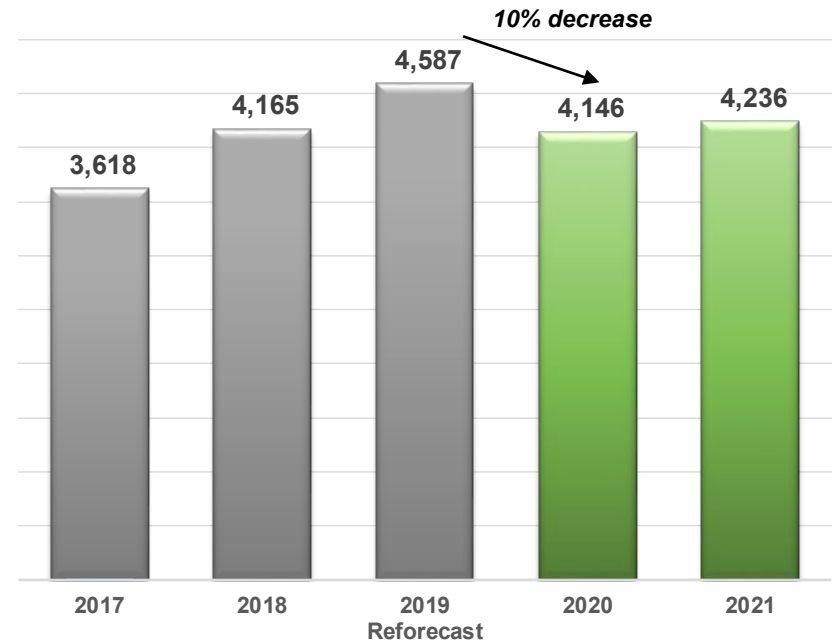
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Total Containers



Export loads up 8% as resin production ramps;
Import loads up 1%

Total Steel



Anticipating the current second-half 2019 run-rate for import steel continues into 2020

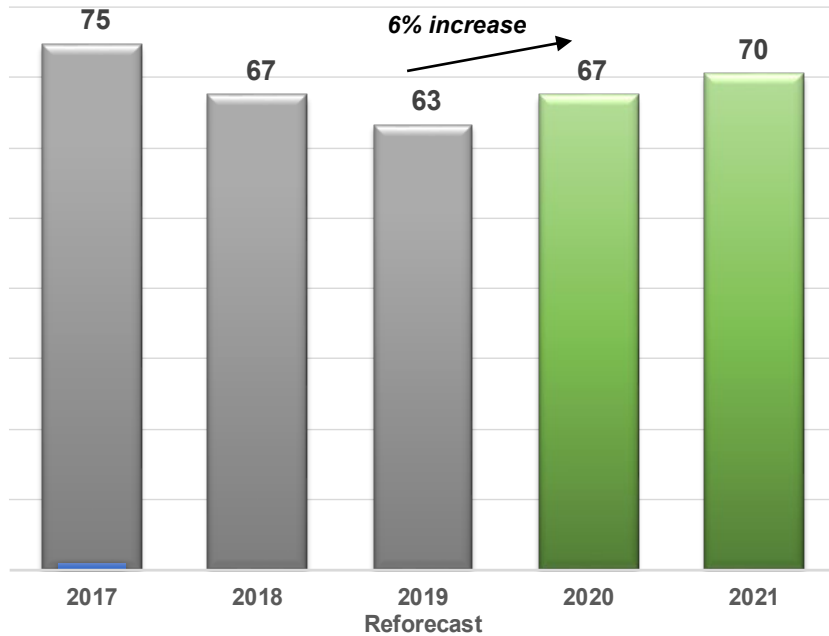
Autos and Other General Cargos

Auto Units, cargo tonnage (000s)



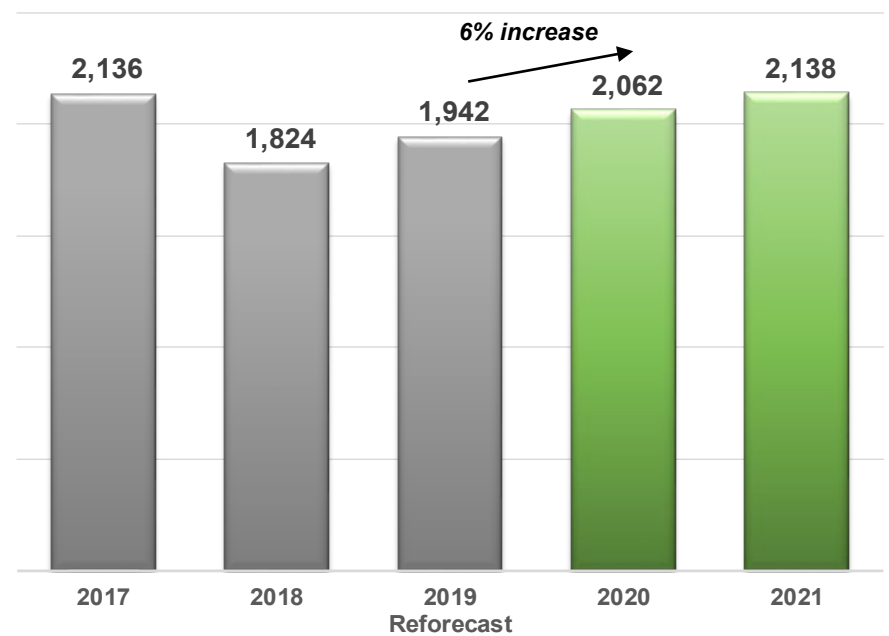
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Total Autos



Bayport Auto Terminal projecting 4% growth;
Turning Basin Auto projecting 7% growth

Other General Cargos



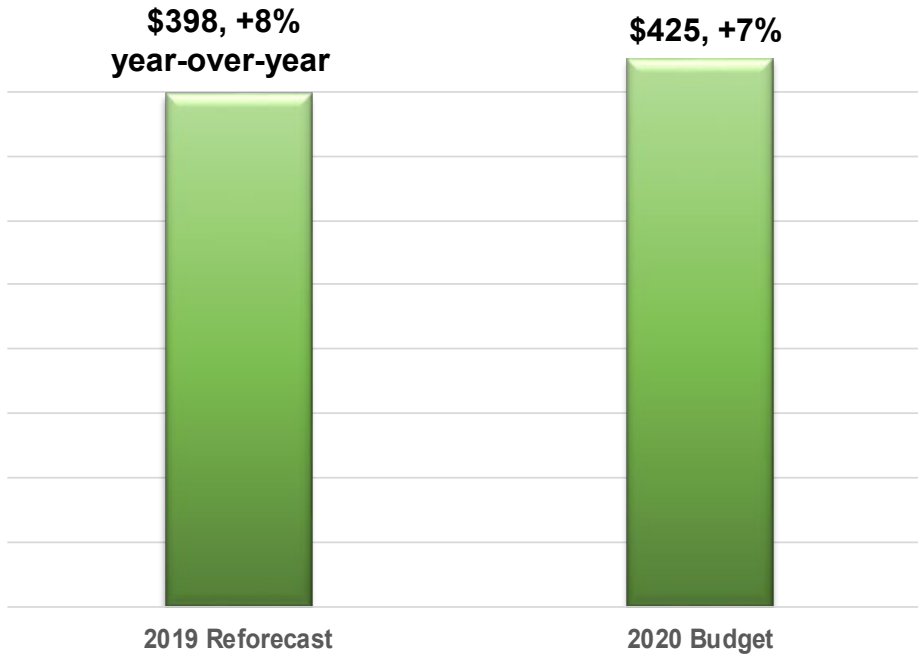
Other cargoes (cement, project cargo, grains, etc.)
showing growth into next year

2020 Operating Revenue analysis, key changes from 2019

\$ in millions



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2019 Reforecast – Operating Revenue	\$398
	<u>Change</u>
• Increase in Container revenue driven by volume growth	22
• Increase in Channel Development revenue streams due to Submerged Land lease revenues	2
• Increase in Turning Basin from cargo and lease revenues	3
Subtotal	27
2020 Budget – Operating Revenue	\$425

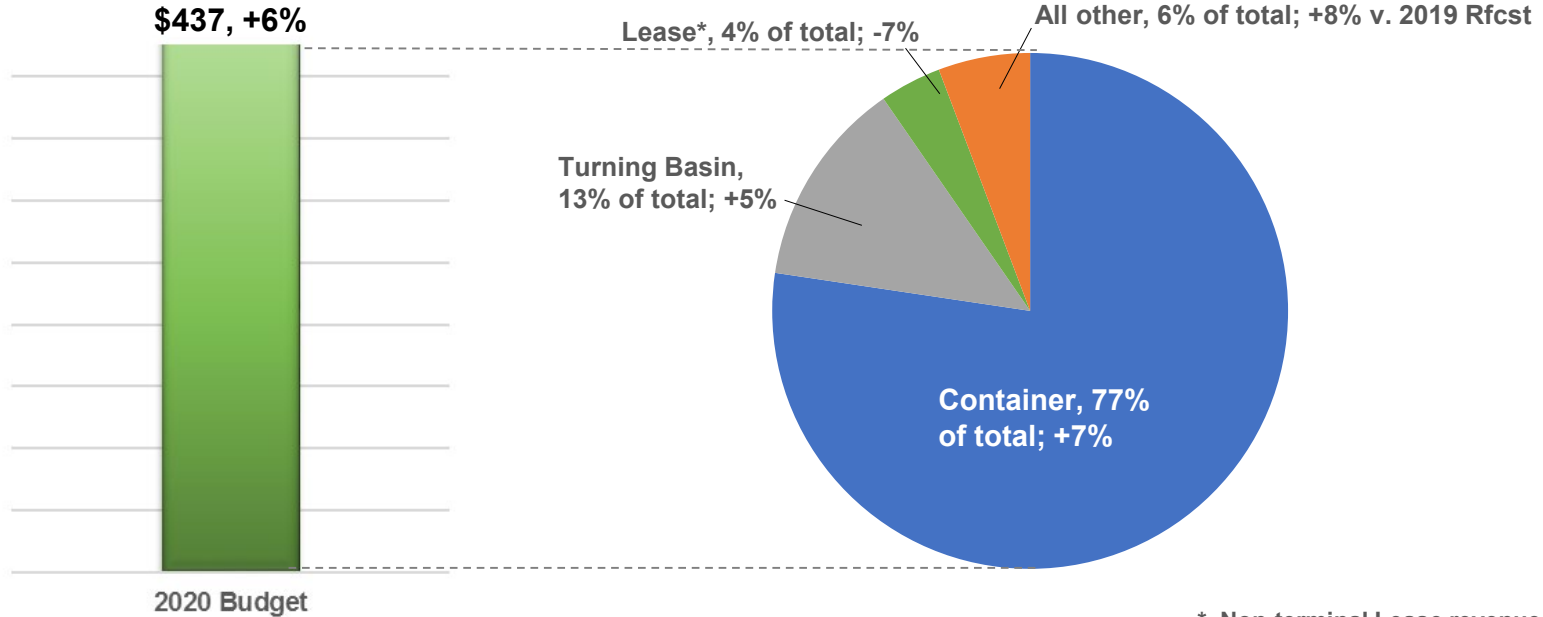
Revenue growth driven by Container Terminals

Total Revenues, in \$ millions (mix and year-over-year growth)



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Mix of business – 2020 Budget



* Non-terminal Lease revenues only

- Container Terminals revenue growth on a 5% increase in units; Bayport up 5%, BCT up 4.5%
- Turning Basin Terminals offsetting a moderating steel market with growth in new leases and customers
- Lease* decline of 7% relates to the transfer of submerged land leases to Channel Development
- All other up 8% primarily from submerged land lease revenue

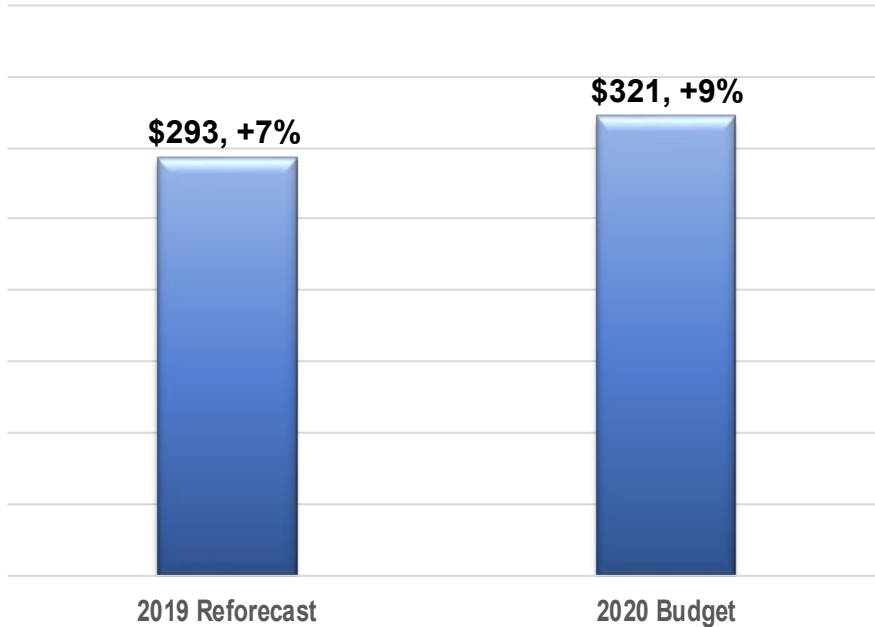
2020 Expense analysis, key changes from 2019

\$ in millions



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2019 Reforecast – Operating and G&A Expense \$293



Change

Changes in Operating and infrastructure-related:

- PHA and ILA salaries and benefits 11
- Depreciation & amortization 7
- Wharf maintenance (Splash Zone painting) 2

Changes in General and administrative:

- PHA salaries and benefits 2
- PHA incentive program 2
- Consulting fees (Next Generation ERP, Environmental Projects, Cyber security, etc.) 3
- Other expenses 1

Subtotal 28

2020 Budget – Operating and G&A Expense \$321

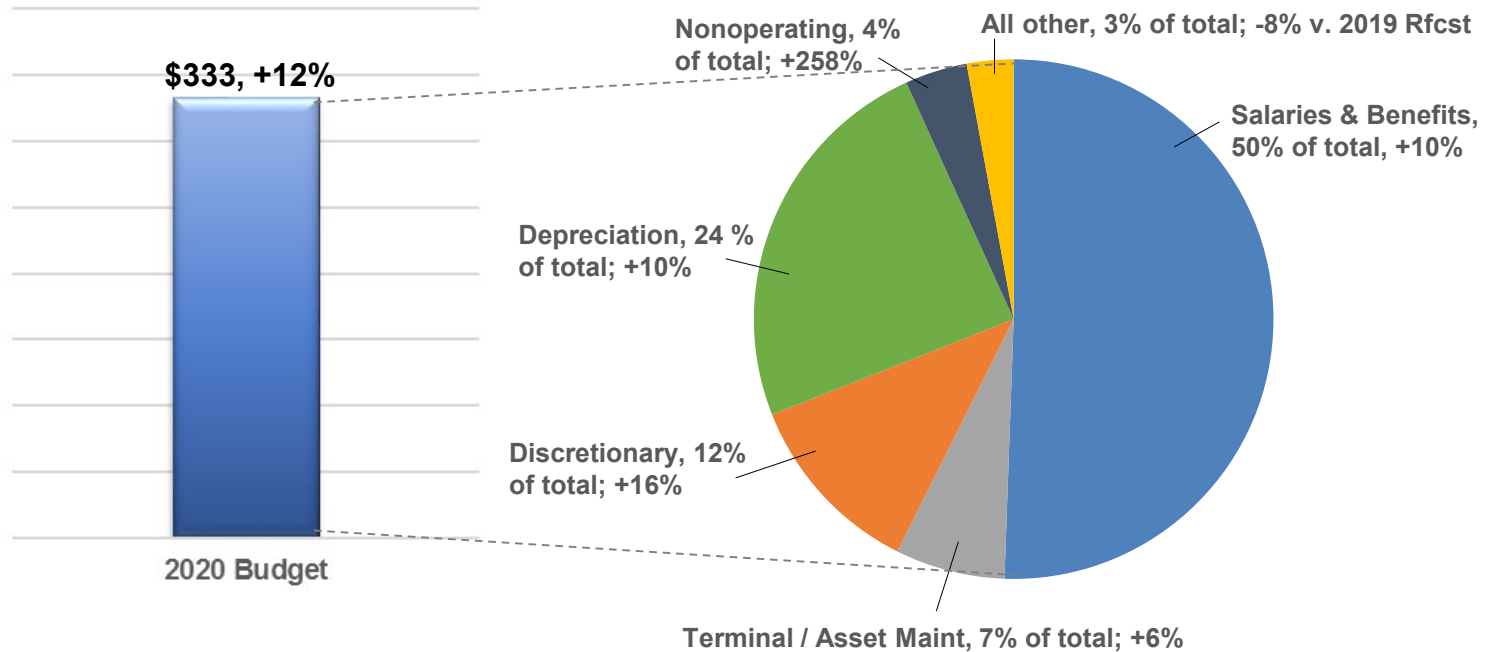
Expenses driven by volume growth and other initiatives

Total Expenses, in \$ millions (mix and year-over-year growth)



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Mix of expense – 2020 Budget



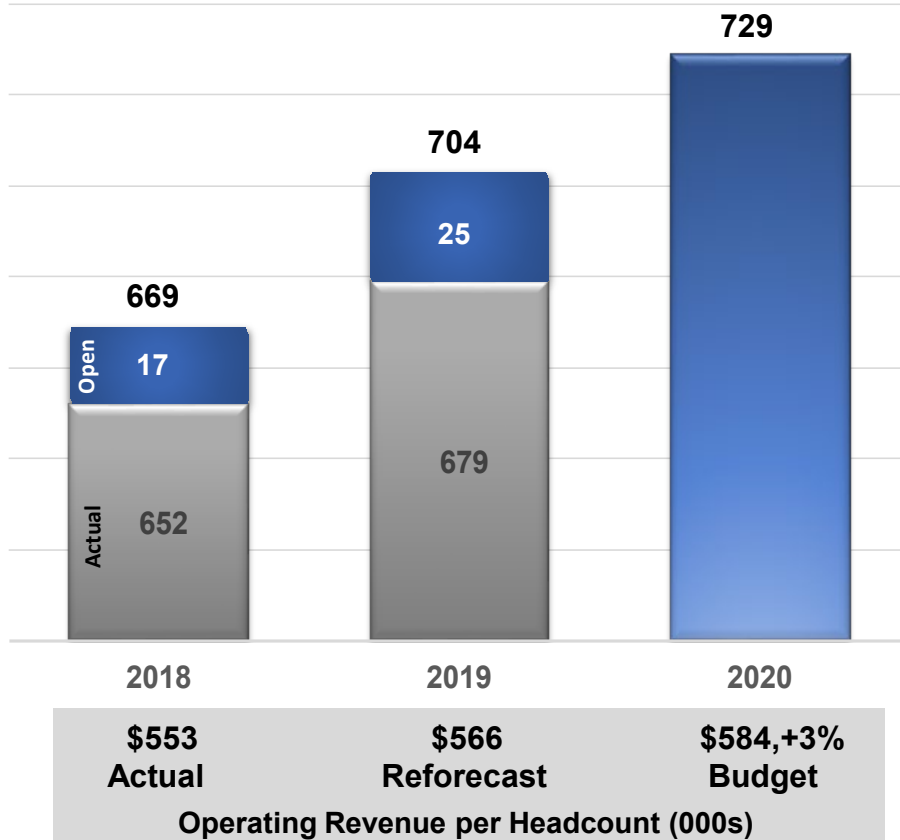
- Salaries & Benefits, including ILA labor, growing on new headcount and employee reward programs
- Terminal/Asset Maintenance increasing with volumes, Splash Zone painting, Executive Office building renovation
- Discretionary includes Consulting Fees for Next Generation ERP, Environmental projects, Cyber security and other strategic initiatives
- Depreciation expense reflects capacity additions, recapitalization and maintenance dredge

Staffing growth will support Operations and strategic initiatives

Headcount analysis, Number of Employees*



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2020 Budgeted Staffing	
Exempt	241
Nonexempt	438
Total Actual Headcount, 9/30/2019	679
Approved, existing open reqs	25
- 4 new from 2019, 21 replacements	
New in 2020 **	25
Total Budgeted Positions	729
2020 Budget – Headcount	729

* Does not include Casual Labor

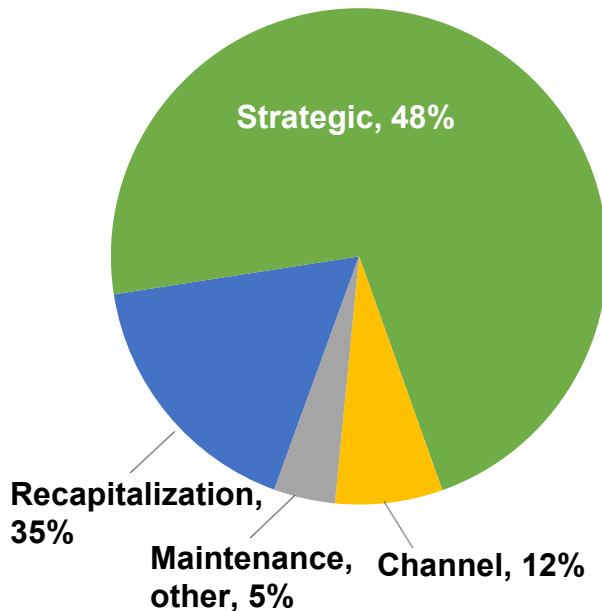
****25 new in 2020: 19 Operations (16-Ops, 3-PSEO); 6 G&A (3-Infrastructure, 2-Technology, 1-Legal)**

Operating cash flow will fund the 2020 Capital budget of \$232 million



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2020 Capital Improvement Program



- Strategic projects = \$112 million
 - *These investments support new growth opportunities*
- Recapitalization projects = \$81 million
 - *Investments required to sustain high service levels and/or enhance productivity*
- Channel projects = \$29 million
 - *Development at container terminals and DAMP areas plus Channel project placement area preparation*
- Remaining projects = \$10 million
 - *Includes maintenance equipment and other replacements*

Liquidity planning projections, 2020 Operating & Capital Budget

Funds available for Commission award

\$ in thousands



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PORT OF HOUSTON AUTHORITY	2019	2020	2021
Funds Available, Beginning of Period	\$ 427,746	\$ 89,223	\$ 40,851
Debt Service, Contingency, & Other	(87,480)	-	-
Outstanding PO's and Commitments	(143,467)	-	-
	<u>196,799</u>	<u>89,223</u>	<u>40,851</u>
Sources:			
Total Cash Flow	174,735	183,130	192,209
Available Resources	<u>371,534</u>	<u>272,353</u>	<u>233,060</u>
Uses:			
New Capital Investment			
Bayport Terminal	40,033	83,831	129,482
Barbours Cut	170,082	51,680	290
Channel Development	40,289	28,813	16,704
Turning Basin Terminals	9,268	24,490	12,975
Real Estate	8,124	21,445	14,185
Maintenance	4,961	10,997	9,630
Bayport Rail	1,358	4,600	-
Other	8,196	5,646	10,806
Net Uses	<u>282,311</u>	<u>231,502</u>	<u>194,072</u>
Funds Available, End of Period	<u>\$ 89,223</u>	<u>\$ 40,851</u>	<u>\$ 38,988</u>

HOUSTON SHIP CHANNEL

Houston Ship Channel Project *	\$ 29,928	\$ 9,500	\$ 283,300
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* Based on a 50:50 project cost share with industry partners; 2019 and 2020 expenditures are funded by Authority cash flow (initially) while 2021 construction is debt financed, with debt service paid by cash flow.

Five Year Plan

Port of Houston Authority
November 12, 2019

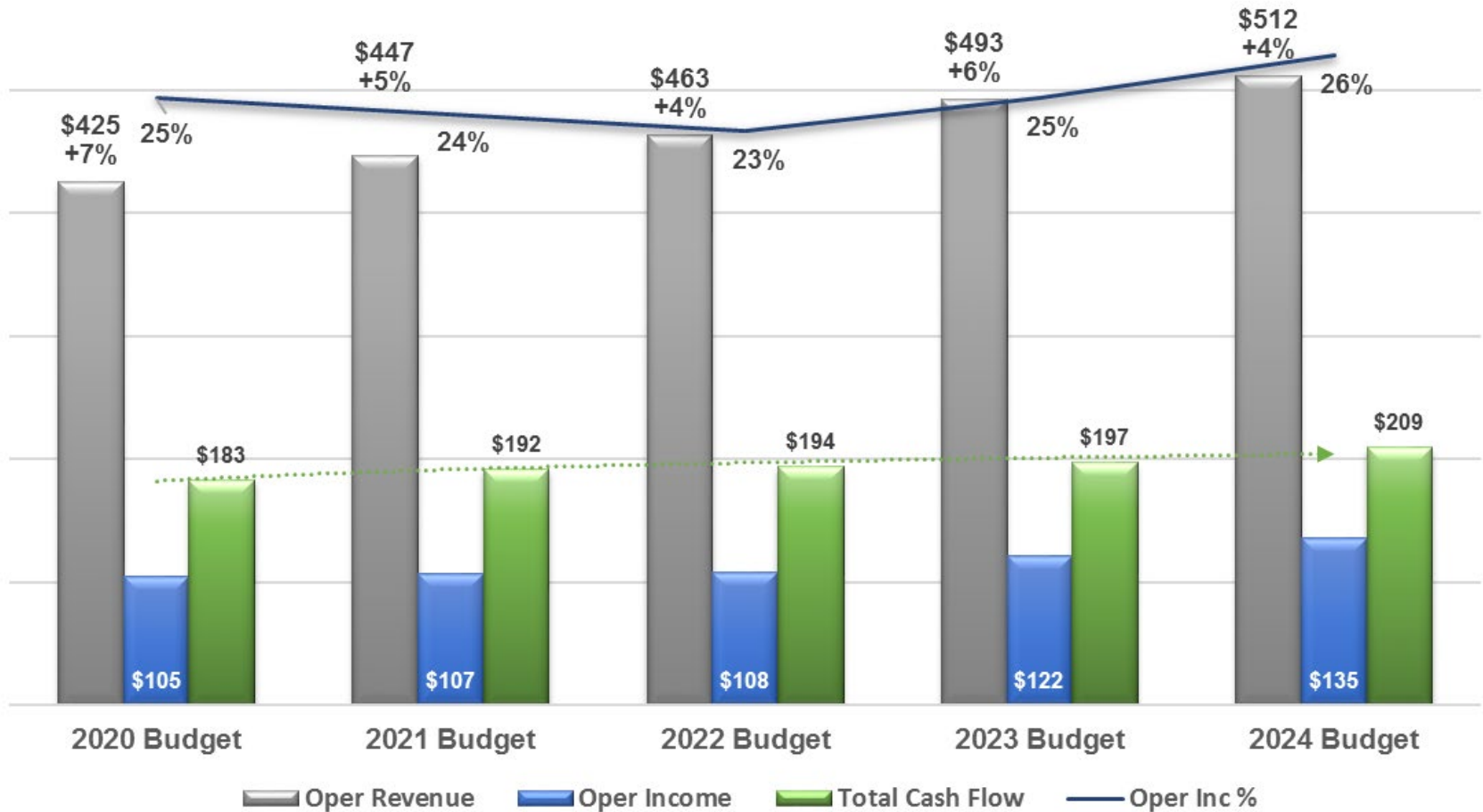


5-year Income Statement summary - Operating

\$ in millions



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- Operating revenues reflect a 5% compound annual growth rate (“CAGR”) across this 5-year Plan
- Total Cash Flow includes debt service tied to 50:50 cost share with industry for the HSC project

2020 – 2024 Budget Income Statement (000's)



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	<u>2020 Budget</u>	<u>2021 Budget</u>	<u>2022 Budget</u>	<u>2023 Budget</u>	<u>2024 Budget</u>
Operating Revenue*	\$425,424	\$447,401	\$463,339	\$493,146	\$512,779
Less: Operating Expense	259,149	278,350	293,443	306,376	309,799
Gross Margin	166,275	169,051	169,896	186,770	202,980
% of revenue	39%	38%	37%	38%	40%
Less: General & Administrative Expenses	61,412	61,756	61,751	65,074	67,680
% of revenue	14%	14%	13%	13%	13%
Operating Income	104,863	107,295	108,145	121,696	135,300
% of revenue	25%	24%	23%	25%	26%
Non-Operating Revenue (Expense)	2,030	(7,844)	(17,944)	(28,294)	(27,944)
Income before Contributions & Transfers	106,893	99,451	90,201	93,402	107,357
Contributions (to)/from Federal/State Agencies	(3,672)	(2,650)	1,440	(\$503)	(1,510)
Net Income	<u>\$103,222</u>	<u>\$96,801</u>	<u>\$91,641</u>	<u>\$92,899</u>	<u>\$105,847</u>
Total Cash Flow (GAAP)	\$183,130	\$192,209	\$193,788	\$196,860	\$209,408
\$ of revenue	\$0.43	\$0.43	\$0.42	\$0.40	\$0.41

*Includes G&A Revenues; in addition, a Tariff increase of 1.8% is included in the 2020 Budget

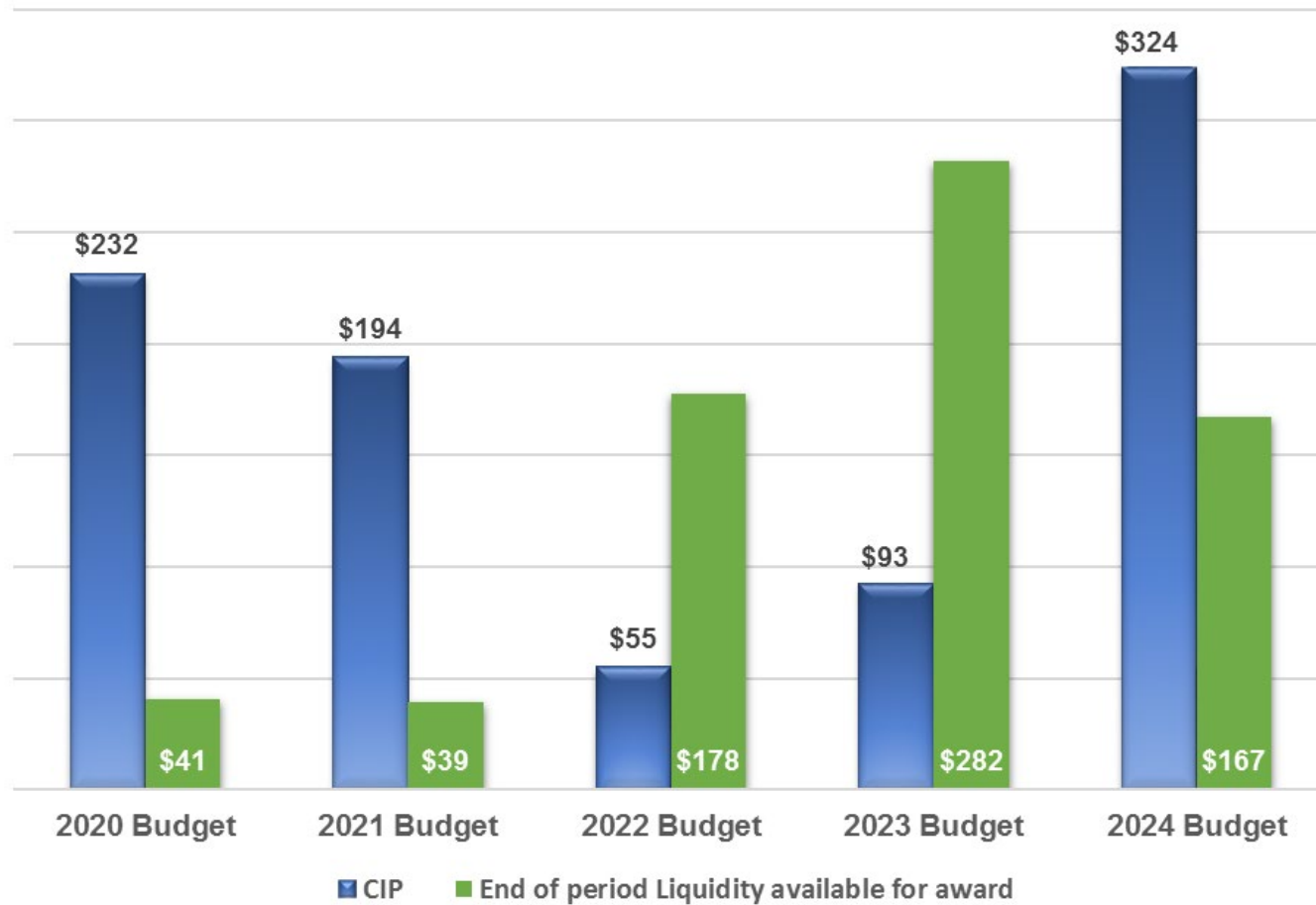
Note - includes debt service estimates based on 50:50 industry share of an accelerated HSC project

5-year Capital Budget summary

\$ in millions



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- Excludes construction cost estimates for HSC widening and deepening
- 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
- Reconfiguration (timing, prioritization) of projects past 2020 will 'smooth' this volatility, if needed

2020 – 2024 Budget Capital & Liquidity (000's)



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PORT OF HOUSTON AUTHORITY

	2019	2020	2021	2022	2023	2024
Funds Available, Beginning of Period	\$ 427,746	\$ 89,223	\$ 40,851	\$ 38,988	\$ 177,691	\$ 281,963
Debt Service, Contingency, & Other	(87,480)	-	-	-	-	-
Outstanding PO's and Commitments	(143,467)	-	-	-	-	-
	<u>196,799</u>	<u>89,223</u>	<u>40,851</u>	<u>38,988</u>	<u>177,691</u>	<u>281,963</u>
Sources:						
Total Cash Flow	<u>174,735</u>	<u>183,130</u>	<u>192,209</u>	<u>193,788</u>	<u>196,860</u>	<u>209,408</u>
Available Resources	<u>371,534</u>	<u>272,353</u>	<u>233,060</u>	<u>232,776</u>	<u>374,551</u>	<u>491,371</u>
Uses:						
New Capital Investment						
Bayport Terminal	40,033	83,831	129,482	300	8,378	156,533
Barbours Cut	170,082	51,680	290	21,250	26,012	102,101
Channel Development	40,292	28,813	16,704	7,782	10,213	19,756
Turning Basin Terminals	9,268	24,490	12,975	7,300	12,010	13,525
Real Estate	8,124	21,445	14,185	5,000	17,000	5,036
Maintenance	4,961	10,997	9,630	2,983	4,495	16,705
Bayport Rail	1,358	4,600	-	-	-	-
Other	8,193	5,646	10,806	10,470	14,480	10,354
Net Uses	<u>282,311</u>	<u>231,502</u>	<u>194,072</u>	<u>55,085</u>	<u>92,587</u>	<u>324,010</u>
Funds Available, End of Period	<u>\$ 89,223</u>	<u>\$ 40,851</u>	<u>\$ 38,988</u>	<u>\$ 177,691</u>	<u>\$ 281,963</u>	<u>\$ 167,361</u>

HOUSTON SHIP CHANNEL

Houston Ship Channel Project *	\$ 29,928	\$ 9,500	\$ 283,300	\$ -	\$ 140,200	\$ -
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