

AGENDA

**Port Freeport
Finance Advisory Committee
Special Meeting
Wednesday, February 15, 2023, 3:00 pm - 4:00 pm
In Person & Videoconference - Administration Building - 1100 Cherry Street - Freeport**

This meeting agenda with the agenda packet is posted online at www.portfreeport.com

The meeting will be conducted pursuant to Section 551.127 of the Texas Government Code titled "Videoconference Call." A quorum of the Finance Advisory Committee, including the presiding officer, will be present at the Commissioner Meeting Room located at 1100 Cherry Street, Freeport, Texas. The public will be permitted to attend the meeting in person or by videoconference.

The videoconference is available online as follows:

Join Zoom Meeting

<https://us02web.zoom.us/j/89467086276?pwd=LzIwY0Yzd05wNEdZYM0c29PL2cxZz09>

Meeting ID: 894 6708 6276

Passcode: 752454

Dial by your location

1 346 248 7799 US (Houston)

Meeting ID: 894 6708 6276

Find your local number: <https://us02web.zoom.us/j/kcFfo4pLxZ>

1. Committee Members: Croft (Chairman), Pirtle, Giesecke
2. CONVENE OPEN SESSION in accordance with Texas Government Code Section 551.001, et. seq., to review and consider the following:
3. Roll Call.
4. Public Comment. (Public comment on any matter not on this Agenda will be limited to 3 minutes per participant and can be completed in person or by videoconference)
5. Public Testimony. (Public testimony on any item on this Agenda will be limited to 3 minutes per agenda item to be addressed per participant and can be completed in person or by videoconference. The participant shall identify in advance the specific agenda item or items to be addressed.
6. Discussion regarding property insurance coverage renewal.
7. Discussion regarding amendment to 2022 PIDP Grant Application for Cross-Dock Facility.
8. EXECUTIVE SESSION in accordance with Subchapter D of the Open Meetings Act, Texas Government Code Section 551.001, et. seq., to review and consider the following:
 - A Under authority of Section 551.072 (Deliberation of Real Property Matters) for discussion regarding:
 1. The potential purchase, exchange, lease or value of real property located at Port Freeport, including but not limited to the real property located at and contiguous to Berths 1, 2, 5, 7 and 8.
9. RECONVENE OPEN SESSION:
10. Adjourn.

The Committee does not anticipate going into a closed session under Chapter 551 of the Texas Government Code at this meeting for any other items on the agenda, however, if necessary, the Committee may go into a closed session as permitted by law regarding any item on the agenda.

A handwritten signature in cursive script, reading "Phyllis Saathoff".

Phyllis Saathoff, Executive Director/CEO

PORT FREEPORT

In compliance with the Americans with Disabilities Act, the District will provide for reasonable accommodations for persons attending its functions. Requests should be received at least 24 hours in advance.



Executive Summary

March 1, 2023-2024

Port Freeport

1100 Cherry Street
Freeport, TX 77541

Arthur J Gallagher Risk Management Services, Inc.

David Thomas Garcia, CPA | Broker Consultant
david_garcia@ajg.com | 713.540.1960
Stephen Whalley | Area Senior Vice President
stephen_whalley@ajg.com | 713.358.5744

Date of Meeting: February 15, 2023



Gallagher

Insurance | Risk Management | Consulting

ajg.com

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CORE360® Executive Summary Scorecard

Your **CORE360** Executive Summary Scorecard has been developed for you to get a quick snapshot of how we've impacted your total cost of risk for the policies detailed in this proposal.



- 2023 Total Program Cost for Property, Boiler & Machinery, and Terrorism Coverage - \$2,168,860; an increase of 65% in year over year, of which Property is the largest component.
- The key metrics behind the Property increase are exposure and rate:
 - ✓ Exposures increased 16.51% from \$304M to \$355M in insurable values.
 - ✓ Rate increased 42.1% from \$0.41 to \$0.58 per 100.
- Current State of the Market reinsurance rate increases as of 1/1/2023:
 - ✓ "Catastrophe" loss free % change: +25% to +50%
 - ✓ "Catastrophe" loss hit % change: +45% to 100%
 - ✓ "Non Catastrophe" loss free % change: +15% to +25%
 - ✓ "Non Catastrophe" loss hit % change: +35% to 150%
- Four main drivers associated with the current "hard" insurance property market:
 - ✓ Property & Business Income Valuation
 - ✓ Increased Rates due Significant Property Losses
 - ✓ Deductible Structures Changes
 - ✓ Capital Deployment on Renewals



- Two major program changes:
 - ✓ Removal of \$4M capped maximum "Named Storm" deductible.
 - ✓ With the removal of the maximum, the largest deductible possible for 1.5% "Named Storm" deductible is \$4,926,707 based on a TIV of \$328,447,129.
 - ✓ 10% Continuity Credit "paused" until 2025, but not formally removed.
- Gallagher London is still exploring increased "Named Storm" deductible options.



- Gallagher negotiated to keep the "Contingent Business Interruption" coverage language that was triggered with the Freeport LNG claim.
- This is a very nice WIN, as this coverage is not sub-limited and provides full business interruption limits for losses that occur at your customer's locations.
- Originally, London underwriters wanted to remove this language due to the recent Freeport LNG loss, however, we were able to press the long term relationship to maintain this important cover.



- Freeport LNG "Contingent Business Interruption" Claim
 - ✓ \$\$8.42M to loss to date
 - ✓ \$4.5M paid
 - ✓ \$3.92M outstanding
- London Ports/Terminal Underwriting Meetings – Friday, April 28th 2023 at Port Freeport.
 - ✓ Over 11 London carriers will be in attendance to tour Port Freeport's facilities.

Strategic Results/State of the Market

While Hurricanes Harvey, Irma and Maria in 2017 created a hardened property insurance market following \$60bn-\$70bn of Insured losses, capacity in the sector had been relatively steady. Reinsurance capacity for catastrophe exposed property had been kept flexible in part due to low interest rates and low returns in other business sectors, but earnings had been eroded significantly. To correct their books from being loss making, insurers have been quoting rate increases on Property insurance year-on-year, and applied a broad-brush approach. The amount of reinsurance capacity had been relatively steady, meaning the availability of risk transfer on insurers' own balance sheets had been maintained. In January 2018, the first signs of capacity change began to surface in the Reinsurance markets.

In 2022, Hurricane Ian represented a much more significant event (estimated Insured losses pegged at \$100bn+). This combined with a macroeconomic environment inclusive of higher interest rates than before, the available capacity from Reinsurers and retro providers reduced. Reinsurance becomes a commodity play with Supply and Demand driving available capacity. By November 2022, the impact of Hurricane Ian in Florida caused Underwriters to retrench in the face of mounting losses, and the coming reinsurance renewal negotiations were looming with a backdrop of the largest single loss insured event in history. In January 2023, reinsurers imposed restrictive terms, increased retentions, increased rates, and reduced capacity for Gulf Coast states with windstorm exposures.

In January 2023, RIMS published their 2023 Property Insurance Rate forecast in their "Hindsight" publication, which is forecast at up to 50% for CAT property with minimal loss history. Given market pressures and less available reinsurance capacity than before, Insurers are being more selective when utilizing their company's aggregate capacity for Gulf Coast accounts, and are passing some of the higher costs on to Insureds.

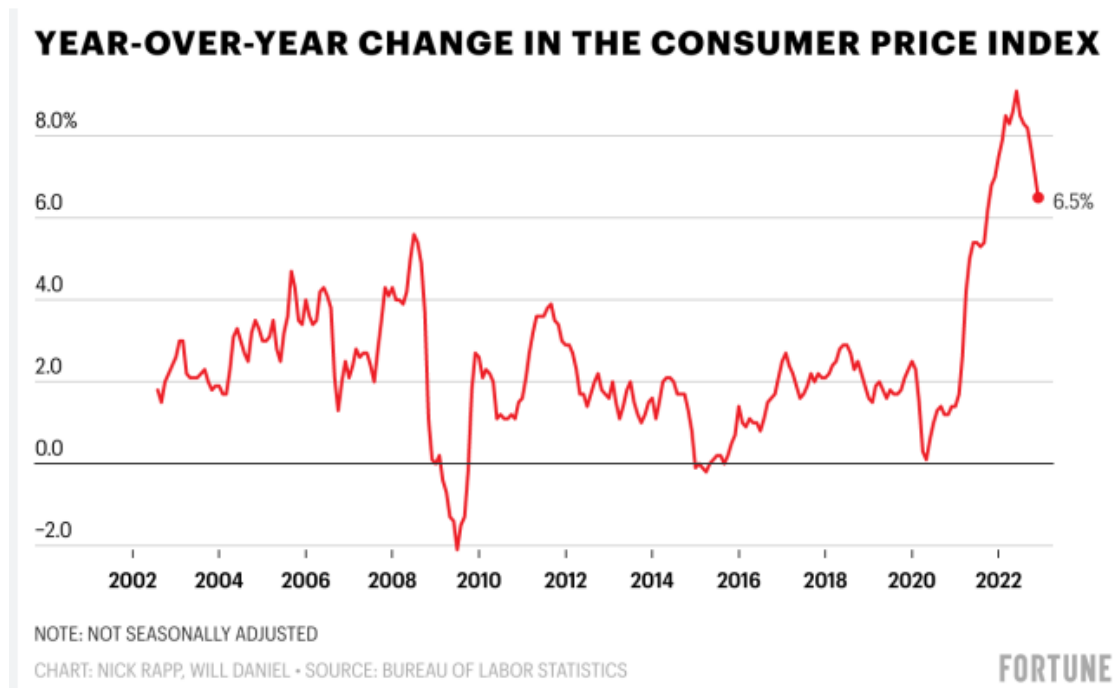
The following chart from Gallagher Re shows the property rate movements on reinsurance renewals effective 1/1/2023. *Note the last line related to the US which shows the impact to the insurers' portfolio on a Risk (Non-Catastrophe) book vs. Catastrophe book of business:*

Territory	Pro rata commission	Risk loss-free % change	Risk loss-hit % change	Catastrophe loss-free % change	Catastrophe loss-hit % change
Australia	-5.0% to -2.5%	+5% to +15%	+15% to +30%	+10% to +20%	+25% to +45%
Canada	-4% to -2%	+10% to +20%	+20% to +35%	+12% to +25%	+20% to +40%
Central & Eastern Europe	-1.5% to 0.0%	+5% to +20%	+20% to +35%	+10% to +30%	+20% to +50%
China	-4% to -1%	+15% to +30%	n/a	+20% to +30%	n/a
Europe	n/a	+20% to +30%	n/a	+25% to +40%	n/a
France, Belgium	n/a	+10% to +20%	+20% to +30%	n/a	+25 to +60%
Germany, Switzerland, and Austria	n/a	+25% to +60%	n/a	+25% to +60%	n/a
Italy	n/a	n/a	+5% to +25%	+7.5% to +20%	+10% to +35%
Indonesia	-2.5% to 0%	+5% to +20%	+30% to +40%	+5% to +20%	+30% to +40%
Korea	-10% to -5%	n/a	+50% to +100%	+15% to +20%	+50% to +100%
Latin America	-7% to 0%	0% to +12%	+10% to +25%	+7% to +35%	+10% to +45%
MENA, South Africa	-3% to 0%	+5% to +10%	+10% to +25%	+15% to +30%	+30% to +50%
Malaysia	-9%	+20% to +25%	+25% to +100%	+20% to +25%	+25% to +100%
Netherlands	-2% to 0%	+2.5% to +17.5%	+7.5% to +25%	+5% to +32.5%	+15% to +45%
Nordic Countries	n/a	+10% to +30%	+15% to +50%	+15% to +30%	+25% to +35%
Turkey	-5%	+20% to +50%	n/a	+20% to +50%	n/a
United Kingdom	n/a	+20 to +25%	+30% to +40%	+20 to +27.5%	n/a
United States	-6% to -3%	+15% to +25%	+35% to +150%	+25% to +50%	+45% to +100%

Note: Movements are risk-adjusted.
Source: Gallagher Re

In addition to the changes in the property insurance sector, the higher inflationary environment, driven largely by the cost of energy following the outbreak of war between the Ukraine and Russia, is contributing to higher construction costs.

Kroll (formerly Duff & Phelps) shared with Gallagher their latest Construction Cost Index, which has figures supplied from FM Global, RS Means, and Marshall & Swift - of note was that FM Global are seeing an average trend of +24.1% increase in construction costs in Texas. While just average indicators of change, such figures do reflect the need for Insureds to accurately review their valuations. This has been a key element for underwriters, focusing on valuations, which in turn have driven premium increases compared with previous years.



Port Freeport's situation on the Gulf Coast puts them firmly within the windstorm exposed insurance market. Given the changes in the property insurance market explained above, Gallagher estimate underwriters would have applied a rate increase of +25%, with a clean Loss Record. Your Team at Gallagher are confident that given the longstanding relationships we would have achieved +20%. This would have equated a gross premium at renewal of USD 1,728,610, which considers that overall insured values have been increased from last year by +16.5% to account for inflation on construction.

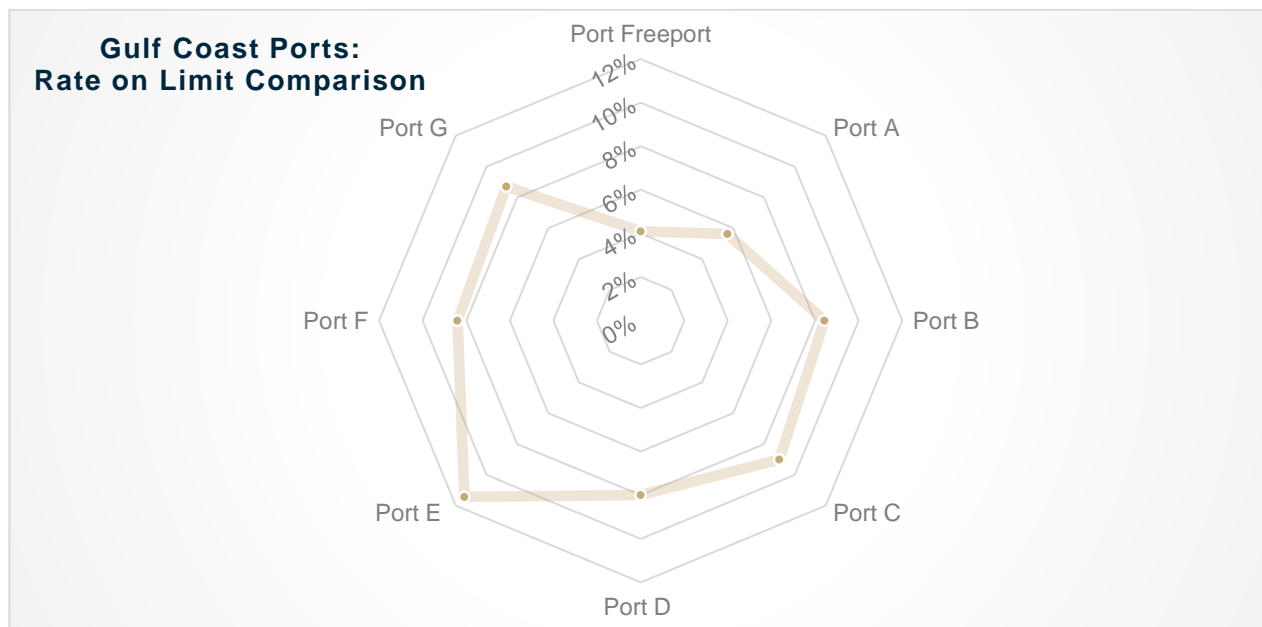
Port Freeport	TIV	Gross Premium
2022	304,991,358	1,236,350
2023 without 2022 BI loss*	355,354,525	1,728,610
2023 with 2022 BI loss	355,354,525	2,046,935
% Change	+16.5%	+18.4%
Difference	50,363,167	318,325

*Gallagher estimate that a +25% rate increase would have been applied in lieu of the \$8.42m Freeport LNG business interruption loss

Underwriters have quoted Port Freeport's 2023 renewal at USD 2,046,935, which represents a difference of USD 318,325 compared with the estimate based on NIL claims. This is a result of the Freeport LNG business interruption loss, which the latest adjuster report states is totaling an insurance claim of USD 8,420,000. Of this amount, insurers have paid USD 4,500,000 so far. **The difference of \$318,325 in isolation represents a payback period of over +25 years against the quantum of the Insurance claim.** Insurers have agreed at this payback period given the uniqueness of the fire loss at the LNG terminal.

How Port Freeport Compare to Other Gulf Coast Ports in 2023

Gulf Coast Port	Total Insured Values (incl. approximates)	Insurance Limit	Rate on Insurance Limit	Rate on Total Insured Values
Port Freeport	355,354,525	50,000,000	4.1%	0.576%
Port A	400,000,000 – 450,000,000	50,000,000	5%-6%	0.70% - 0.75%
Port B	500,000,000 - 550,000,000	50,000,000	8%-9%	0.75% - 0.80%
Port C	50,000,000 - 60,000,000	10,000,000	9%-10%	1.50% - 1.60%
Port D	600,000,000 – 800,000,000	25,000,000	8%-9%	0.30% - 0.40%
Port E	1,000,000 - 1,400,000,000	70,000,000	11%-12%	0.55% - 0.575%
Port F	500,000,000 – 600,000,000	100,000,000	8%-9%	1.60% - 1.75%
Port G	100,000,000 – 130,000,000	10,000,000	8%-9%	0.675% - 0.75%



Compared with similar Ports in the Gulf of Mexico, the "Rate on Insurance Limit" paid by Port Freeport, being the premium divided by the Policy Limit, remains competitive. Insurers are aware of this, but consider Port Freeport unique given the characteristics of its Insured Assets and the long-term relationship with them

Competitor Market Outlook for 2023

USI - 2023 PROPERTY OUTLOOK

Key areas the market is focusing on for all clients include the following:

- **Property and Business Income**

Valuation: The cost to rebuild has gone up significantly year over year, and carriers are closely scrutinizing submitted replacement cost valuations.

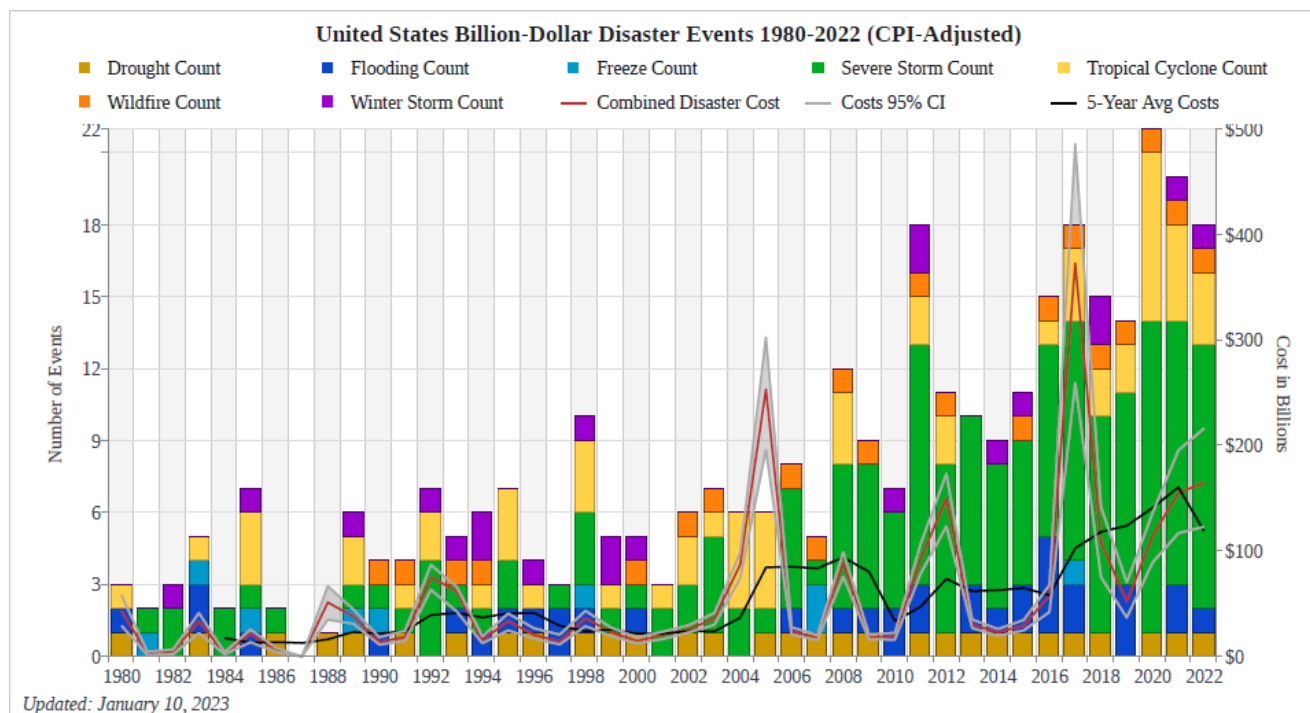
- **Increased Rates:** For assets located in high risk areas (earthquake, wildfire and wind), the property market has hardened further and these asset classes are seeing higher rate increases.

- **Deductible Structures:** Carriers are increasing their deductible structures to include percentage-based wind/hail deductibles and water damage deductibles of \$100,000 or more.

- **Capital Deployment on Renewals:** Reinsurers are facing significant losses from Ian and many have reduced capacity.

Product Line	Year-End 2022	Forecast 2023 (First Half)
Non-CAT Property w/ Minimal Loss History and Good Risk Quality	Up 5% to 10%	Up 5% to 10%
CAT Property w/Minimal Loss History and Good Risk Quality	Up 15% to 50%	Up 15% to 50%
CAT or Non-CAT Property w/Poor Loss History or Poor Risk Quality	Up 25% to 150%	Up 25% to 150%

1980 to 2022 Billion Dollar Disaster Events





2023 Insurance Premiums

Option 1: 1.5% Catastrophic Deductible			
Property	2022	2023	Change
Premium	\$1,236,350	\$2,046,935	65.56%
Taxes & Fees	\$60,890	\$100,914	65.73%
Property Values including Piers, Wharves and BI	\$304,991,358	\$355,354,525	16.51%
Policy Limit	\$50,000,000	\$50,000,000	0.00%
Rate per Hundred	\$0.41	\$0.58	42.10%
All Other Peril Deductible	\$100,000	\$100,000.00	0.00%
Business Interruption - Waiting Period	10 days	10 days	0.00%
Named Storm Deductible - Waiting Period	21 days	21 days	0.00%
Named Storm Deductible - Percentage	1.50%	1.50%	0.00%
Named Storm Deductible - Maximum	\$4,000,000	\$4,926,707	23.17%
Boiler and Machinery	2022	2023	Change
Premium	\$6,780	\$8,420	24.19%
Total Insurable Values	\$148,348,038	\$178,010,774	20.00%
Policy Limit	\$150,000,000	\$150,000,000	0.00%
Rate per Thousand	\$0.05	\$0.05	3.49%
Stand Alone Terrorism	2022	2023	Change
Premium	\$10,000	\$12,000	20.00%
Taxes and Fees	\$493	\$592	20.12%
Limit	\$50,000,000	\$50,000,000	0.00%
Rate per Million	\$200	\$240	20.00%
Total Cost	2022	2023	Change
Total Premium including Taxes and Fees	\$1,314,513	\$2,168,860	64.99%
	Change	\$854,348	



2023 Underwriting Meetings

PORTS AND TERMINAL UNDERWRITING VISITS TO THE UNITED STATES

Gallagher UK – Ports & Terminal division has scheduled a U.S. tour with various carriers in late April. There will be 8 different clients visited with Port Freeport being the last scheduled stop with over 11 different underwriters from London.

Port Freeport Visit Dates - Friday, April 28th

Gallagher Team:

- David Garcia, CPA, Broker Consultant – Houston, TX
- Stephen Whalley, AC II, Area Senior Vice President – Houston, TX
- James Richardson BA (hons), ACII, Executive Director, Ports and Terminals – Gallagher U.K.
- Peter Blyth Dip CII, Divisional Director, Ports and Terminals – Gallagher U.K.

Carriers in Attendance:

- QBE (Lead Carrier)
- Liberty
- Markel
- NAVIUM
- Beazley
- Munich RE
- Inigo
- AIG
- TT Club
- Axis
- Allianz

Your Team

Your Gallagher team is a true partner. We have the expertise to understand your business and we're here to service and stay alongside you, every step of the way.

Name/Title	Phone	Email	Role
Primary Service Team			
Stephen Whalley	713.358.5744 office 832.419.005 mobile	stephen_whalley@ajg.com	Area Senior Vice President
David Garcia, CPA	713.722.1615 office 713.540.1960 cell	david_garcia@ajg.com	Broker Consultant
James Richardson, BA, ACII	44 (0) 7887 775 427 cell	James_Richardson1@ajg.com	London Executive Director – Ports & Terminals
Peter Blyth	44 (0) 7729 071040 cell	Peter_Blyth@ajg.com	Divisional Director – Ports & Terminals
Leannette Serna	713. 722.1651 office 931.378.2233 mobile	leannette_serna@ajg.com	Senior Client Manager
Claims & Loss Control			
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Patrick Mikel	972.663.6118 office	patrick_mikel@ajg.com	Property Claim Specialist
Troy Guidry	281.655.6770 mobile	troy_guidry@ajg.com	Loss Control Specialist
Ed Zabinski	630.694.5486 mobile	ed_zabinski@ajg.com	Loss Control Managing Director

Thank You for Your Business

We have enjoyed our partnership and appreciate the continued time, support and confidence you have placed in us as your risk management team. This past year has been successful as evidenced by your scorecard. Your total cost of risk is being impacted favorably and our strategy for this upcoming renewal continues to focus on ways to improve this positive impact on your profitability. Thank you.



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TO: Executive Director/CEO
Port Commissioners
Legal Counsel

FROM: Director of Economic Development and Mobility

DATE: February 15, 2023

SUBJECT: 2023 Port Infrastructure Development Program

On February 08, 2023, the U.S. Department of Transportation's Maritime Administration (MARAD) announced a Notice of Funding Opportunity (NOFO) making available more than \$662 million in Federal Fiscal Year (FY) 2023 funding for MARAD's Port Infrastructure Development Program (PIDP).

In 2022, Port Freeport submitted a PIDP Grant Application for the Velasco Terminal Sustainable Expansion Project with project components 1) Refrigerated Cross Dock, 2) Security Gate 12.

Staff recommends submitting a 2023 application with the same or similar project components. The application must consider the new statutory requirements per the NOFO, and requirements outlined by the administration. The cost estimates for the project components will also have to be updated due to inflation.

Staff requested a proposal from the Goodman Corporation (TGC) to prepare Port Freeport's 2023 PIDP Grant application. The proposal cost is \$25,850.

TGC is familiar with this project and its components and has jointly attended the debrief meetings between Port Freeport and MARAD. Staff recommends proceeding with TGC to prepare the application and seeks the Finance Advisory Committee's support. Staff would like to recommend the agreement with TGC to the Port Commission on February 23, 2023.

[PORT COMMISSION](#)

JOHN HOSS, CHAIRMAN; RUDY SANTOS, VICE CHAIRMAN; DAN CROFT, SECRETARY; ROB GIESECKE, ASST. SECRETARY.
RAVI K. SINGHANIA, COMMISSIONER; SHANE PIRTLE, COMMISSIONER; PHYLLIS SAATHOFF, EXECUTIVE DIRECTOR/CEO