

Minutes of Port Commission Special Meeting
August 24, 2022
In Person & Videoconference

A Special Meeting of the Port Commission of Port Freeport was held August 11, 2022, beginning at 1:04 PM at the Administration Building, 1100 Cherry Street, Freeport, Texas.

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 Port Commission, 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/82396368018?pwd=L2Ira1ZhWWlsWjcw3RMNWx5djNDUT09>

Meeting ID: 823 9636 8018

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Commissioners present in person:

Mr. John Hoss, Chairman
Mr. Rudy Santos, Vice Chairman
Mr. Dan Croft, Secretary
Mr. Rob Giesecke, Asst. Secretary
Mr. Ravi Singhania, Commissioner
Mr. Shane Pirtle, Commissioner

Staff Members Present:

Mr. Peter Nemeth, Interim Legal Counsel
Ms. Phyllis Saathoff, Executive Director/CEO
Mr. Rob Lowe, Director of Administration/CFO
Mr. Al Durel, Director of Operations
Mr. Jason Hull, Director of Engineering
Mr. Chris Hogan, Director of Protective Services
Mr. Jason Miura, Director of Business & Economic Development
Ms. Missy Bevers, Executive Assistant
Ms. Mary Campus, Controller
Mr. Rico Arbolante, Help Desk Technician
Mr. Jesse Hibbetts, Operations Manager
Ms. Christine Lewis, Safety Coordinator

1. CONVENE OPEN SESSION in accordance with Texas Government Code Section 551.001, et. seq., to review and consider the following:
2. Roll Call – Commissioner Hoss noted that all Commissioners were present in the Board Room.

At this time, Commissioners and staff recited pledges to the U.S. Flag and Texas Flag.

3. Public Comment – There were no public comments.
4. Public Testimony – There was no public testimony.
5. Conduct workshop regarding Fiscal Year 2022/2023 Budget for Port Freeport.

Mr. Lowe began the workshop giving an overall budget summary stating staff anticipates \$41.6 million in operating revenues and \$25.6 million in operating expenses which would produce an operating net income of \$16 million. A decrease in net assets of \$22.4 million is anticipated due to contributions to the USACOE for the Freeport Harbor Channel Improvement Project. Planned capital expenditures amount to \$72 million plus contributed to others of \$60.9 (FHCIP) million for a total of \$132.9 million which will be funded through a combination of cash flows, debt and grants. Debt service interest expense on existing debt amounts to \$9 million. Staff anticipates an additional \$55.8 million issuance of General Obligation debt for the Freeport Harbor Channel Improvement Project with \$850 thousand in interest and bond issuance costs. 36% of revenues will be generated through harbor revenues with 17% in lease revenues, ad valorem 10%, grant revenues 34% and other at 3%. Total operating revenues is \$41.5 million an increase of the 2022 forecast of \$2 million. Mr. Lowe noted staff shows it to remain level with the business interruption insurance claim that is still outstanding. Staff anticipates 483 ships calls, tonnage of 14.707 million with volumes up 15% over 2022 forecast due to the resumption of Freeport LNG operations. Lease revenues of \$12.6 million has increased \$223 thousand over current forecast. For Ad Valorem taxes, the 2022 taxable value is \$19.4 billion which is an increase of 19.65% over 2021., The taxes were calculated at the voter approval tax rate of \$0.039852/100. Taxable value increased \$3.1 billion through new improvements, expiring tax abatements and existing property valuation growth which generated an additional \$1.2 million in tax revenue. Commissioner Singhanian inquired why the presentation does not show the no new revenue rate. Mr. Lowe stated that he had to have a point to start and both rates will be included in the presentation later regarding the tax rate proposal. In his position as CFO, he sets it at the highest rate which is the voter approval rate with the Commission to advise setting the rate at or below that rate. Ms. Saathoff added that the discussion among staff has been that when the voters approved the bond package in 2018, the Port committed to holding the tax rate steady. The voter approval rate is the closest to remaining steady. Staff has a presentation for the tax discussion later that will include both rates and both rates are also published on the agenda on the item to be considered. The tax levy projection shows FY2023 just below the 4-cent line at .39 (discussed previously). Mr. Lowe noted that eventually the nature of the statute caps the year over year no new revenue M&O. Combined with those factors as well as debt issuances and payments, it will be forced down from the statute. Based on discussions later today, Mr. Lowe will make any adjustments necessary.

Regarding operating expenses, Ms. Campus noted that with new assets coming on board, depreciation is the majority of the budget at \$11.1 million projected. As reported to the Personnel Advisory Committee, staff has increased the salaries, wages and benefits category from the 2022 forecasted of \$1.3 million or 27% with a total budget \$6.244 million. The budget includes a 6.6% increase in CPI/merit raises, filling six approved positions that are vacant, the addition of one new position and a request to change a current part-time position to a full-time position. Also included is \$40,000 available in market adjustments. There is a 10% increase forecasted in group health insurance premiums and 5% in dental with renewal date of January 1. This puts the percent of group health premiums to total wages and benefits at 16.5% and assumes full participation in the retirement plan and the percent benefits to salaries and wages at 39%. Professional Services is budgeted at \$2.9 million which is an increase over the 2022 forecast of \$513 thousand or 21%. Security service fees takes up a majority of this category which includes K9 detection services. Also included is surveying, environmental consulting, federal and state level government liaisons, port planning services, granted related assistance, election service fees and compensation consulting. Training, Travel, and Promotional budgeted \$879,900 which is an increase from 2022 forecasted \$364 thousand for 70%. Ms. Campus noted that fiscal year 2022 continued to reflect reduced travel due to COVID but staff anticipates travel will resume to normal levels but will continue to monitor. Commercial events continue participation to promote the Port's multi-modal facilities for Roll On Roll Off cargo, containerized cargo and breakbulk cargo. The website redevelopment was carried over from fiscal year 2022, advertising and targeting publication, especially with foreign-trade zone. Also included is sales travel, government relations with state and federal interaction, community events that include four CAP meeting and technical training that focuses on professional development. Electrical ZPMC training, engineering certifications, emergency management and safety programs are also included in this category. Utilities will increase \$115 thousand or 15% to \$854,900 over 2022. Ms. Campus noted the utilities are calculated using an average of the previous year and includes the increase in the City of Freeport water and sewer rates of 9%. Business insurance has a budget of \$1,672,300 which is an increase of \$141 thousand or 9% over 2022 forecasted. Property renewal saw a 6.68% increase March 1, 2021, and the July 1, 2021, liability package renewal experienced an 11.53% increase. Staff has programmed in a 15% increase in premiums for 2023 based on additional assets and market pressures. Other services and charges decreased \$144 thousand or 22% to \$503,600. This area not only includes dues, services and memberships but IT contracted services, port-a-cans and hand wash stations as well. Maintenance and repair budget is \$1,225,400 which is a decrease of 27% over 2022 forecasted. Special projects included under this item include a carryover of the Administration building repairs and maintenance of \$150,000. Crane trolley repairs have also been added however it could be capitalized depending on final scope. The truck scale line replacement, fire diesel pump repairs are also included. Other significant items include maintaining equipment such as the ZPMC cranes, security equipment, cleaning and maintenance of office buildings, dust control product, road repairs and mowing. Depreciation expenses of \$11.1 million is an increase of \$3.2 million due to the addition of the levee stabilization project, berth 8 and ro-ro ramp. Regarding debt interest and fees, as mentioned previously, staff plans a \$55.8 million General Obligation Bonds issuance the first or second quarter fiscal year 2023 with a total of \$16.1 million in principal and interest budgeted for all bonds. A look at the Port's Capital Expansion Plan which is broken into four strategic initiatives that include the Freeport Harbor Channel project at \$60.9 million, buildout of the Port's Container Handling Facilities at \$55.3 million, development of warehousing and OEM distribution facilities at \$11 million and Port Infrastructure support of

\$5.6 million, for a total of \$132.9 million. Ms. Campus noted that the budget for planned \$24.7 million in grants, noting many of these projects are still in the grant application stage. The Port was notified after publication that the Port Freeport did not receive funding for the 2022 Port Security Grant, therefore, \$679,000 of that budget will not be funded as anticipated. Staff will evaluate and discuss with the OSS Advisory Committee the priority of these projects. Finally, the Port's capital funding by source shows 46% coming from general obligation debt, 30% by grant programs, cash flow reserve of 7% and 17% is for items identified by business structure and opportunities that could be advanced with revenue debt. Commissioner Singhania commented on the increase in training, travel and promotional, noting that it appears extraordinary in the form presented. Ms. Campus stated when you compare budget to budget, the increase is about 10%. She further clarified that the slide presentation compares budget to forecasted and the written document compares budget to budget. Commissioner Giesecke asked for an estimate on the operation cash flow for the budget. Ms. Campus stated that staff expects to use \$33.7 million from reserves which will draw the unrestricted assets from July 2022, which is \$44.6 million down to \$14.7 million, anticipated by September 30. Commissioner Giesecke clarified he meant the free cash flow from operations which Ms. Campus stated was \$18.5 million. Discussion then began as to whether or not this number considers the revised schedule Freeport LNG recently released regarding the resumption of operations as well as the pending business interruption claim. Commissioner Giesecke added to Commissioner Singhania's previous comment about the increase under training, travel and promotional stating that in 2019 (the last normal year) was \$519,000 and the budget now is \$879,000 so it's a 70% increase since the last normal year. Mr. Lowe agreed and explained that \$150,000 of the increase was the website redevelopment. Commissioner Giesecke also expressed his heartburn with Commissioners' travel for conventions being categorized as technical training stating that he doesn't agree that its training. After discussing with staff, it was agreed the description would be changed to training and education. He also asked about the amortized premiums for the bonds and whether or not they are amortized over the full life and if they are callable. Staff confirmed prior issued refunding bonds are not callable, but they will have to check the newest GO issued bonds. He also expressed concern about the amortized premium rates for the GO bonds stating that the Port told the taxpayers we would borrow \$130 million in bonds and levy a tax on them to pay them back but now paying an above market interest. Mr. Lowe stated they pay premium up front but not above what the taxpayers authorized. He also offered to have Drew Masterson come in at the next meeting to give an overview on this.

6. Discussion and adoption of a Resolution to increase the Over 65 and Disability Tax Exemption.

Mr. Lowe stated that the Port currently has an Age 65 or older or disabled exemption of \$175,00 that exempts 8,419 accounts from paying any tax to Port Freeport. Mr. Lowe has created a table at various levels to see how many additional accounts would come in, percentage of accounts would be for Port property owners who are qualified in the age 65 or older or disabled category. Ms. Saathoff noted that at the time of the last increase, it covered approximately 10,800 accounts. Commissioner Croft asked for clarification from counsel whether or not he should abstain from voting for the exemption since he and others will benefit from the increase. Mr. Nemeth stated that because there are three commissioners who qualify for the benefit, it automatically becomes open for a vote. Furthermore, the exemption is a general benefit that is accruing to the public benefits and not targeted to any commissioner, therefore, he and other do not have to abstain.

A motion was made by Commissioner Pirtle to increase the exemption to \$250,000. The motion was seconded by Commissioner Santos with all Commissioners present voting in favor of the motion.

7. Discuss and consider adoption of a Resolution to propose the 2022 tax rate, to be adopted at a future meeting.

(The 2021 tax rate is \$0.040000; the 2022 No New Revenue Rate is \$0.035909; the 2022 Voter Approval Tax Rate is \$0.039852)

A motion was made by Commissioner Santos to propose the no new revenue rate to be \$.035. Mr. Lowe corrected Commissioner Santos that he would be proposing the Port Freeport tax rate to be \$.035, not the no new revenue rate. The motion was seconded by Commissioner Croft.

Commissioner Giesecke made a motion to amend the motion and amend the tax rate to zero out the M&O rate and adopt the I&S at \$0.16856. Commissioner Singhania seconded the motion for discussion.

Mr. Nemeth clarified that as a matter of protocol, once a motion is made and seconded, its up to the person who made the motion to amend the motion. If there is to be a second motion after the first one is considered, that can be done separately. Commissioner Santos stated he did not want to amend this motion.

Commissioner Singhania stated it is still a goal to see a zero M&O rate and feels the Port can be there today with the funds accumulated in the channel reserves but will feel more comfortable doing that once the bonds are issued. He will support Commissioner Santos' motion of \$.035 but stated that once the bonds are issued, he would like the Commission to reevaluate the M&O rate. Commissioner Pirtle stated that the Port has a responsibility to the harbor and surrounding navigation areas, and maintenance and operations has to be covered in some way. There is no other way to capture some income from all the major industry that uses the harbor and the local navigation areas. While he would like to have more fees put on industry and not residents, two-thirds majority is based on industry that is the only way the Port can collect any income from local users and feels the current commission would really hamstring future commissions if the M&O rate went away or have some sort of tax to be able to do capital investment projects. Commissioner Singhania stated that he would like to have some dialogue later in the year regarding this. Commissioner Hoss stated that he is comfortable at three and a half cents and the return the Port gives to the community. Not comfortable defunding government at this time and have made commitments as a governing body to maintain the San Bernard River, regardless of its status. He feels the commission is being very sensitive to the taxpayers in raising exemptions to those who are age 65 or older or disabled adding the Port is sensitive to the taxpayer and getting the taxpayers money's worth into the community. Commissioner Giesecke pointed out that the Port is unique among taxing entities in having another revenue stream. The ad valorem taxes are 10% of total revenue for 2023. Operating revenues from 2016– 2021 have gone up 82.9% and in that period of time, the taxpayers have not seen any real relief. Tax rate was \$.0401 in 2016, last year was \$.04 and will now be slightly under the no new revenue tax rate. When taking into account the years it was above the effective rate and above the no new revenue rate, we're

still levying a greater tax than we were in 2016 in the face of an 83% increase in operating revenue. Commissioner Giesecke feels that everything is a priority in the budget except the taxpayers and he will not vote for treading water and staying where we are. After further discussion, Commissioner Hoss called the vote with five Commissioners voting in favor of the motion and Commissioner Giesecke voting no. The motion passed.

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 551.074 (Deliberation of Personnel Matters):
 1. Deliberation regarding the appointment, employment, evaluation, reassignment, duties of a public officer or employee, including but not limited to: Executive Director/CEO, Chief Financial Officer, Director of Operations, Director of Engineering, Director of Protective Services, Director of Economic Development and Director of Business & Economic Development.
9. RECONVENE OPEN SESSION:
10. Adjourn.

With no further business before the Commission, the meeting adjourned at 3:09 PM