

Minutes of Port Commission Special Meeting
August 30, 2023
In Person & Videoconference

A Special Meeting of the Port Commission of Port Freeport was held August 30, 2023, beginning at 9:07 AM 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.

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Commissioners present in person:

Mr. Ravi Singhania, Chairman
Mr. Rob Giesecke, Vice Chairman
Ms. Barbara Fratila, Secretary
Mr. Kim Kincannon, Asst. Secretary
Mr. Rudy Santos, Commissioner

Commissioners present via videoconference:

Mr. Dan Croft, Commissioner

Staff Members Present:

Ms. Phyllis Saathoff, Executive Director/CEO
Mr. Rob Lowe, Director of Administration/CFO
Mr. Jason Hull, Director of Engineering
Mr. Al Durel, Director of Operations
Mr. Chris Hogan, Director of Protective Services
Mr. Jason Miura, Director of Business & Economic Development
Mr. Mike Wilson, Director of Economic Development & Freight Mobility
Mr. Brandon Robertson, Director of Information Technology
Ms. Missy Bevers, Executive Assistant
Ms. Mary Campus, Controller
Mr. Jesse Hibbetts, Operations Manager
Ms. Bailee Pavlovsky, Accounting Clerk

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 Singhania noted that Commissioner Croft was participating by videoconference and all other Commissioners were present in the Board Room.
3. Call to identify and discuss any conflicts of interest that may lead to a Commissioner abstaining from voting on any posted agenda item.

There were no conflicts noted by Commissioners.

4. Public Comment – There were no public comments.
5. Public Testimony – There was no public testimony.
6. Conduct workshop regarding Fiscal Year 2023/2024 Budget for Port Freeport.

Mr. Lowe began the workshop by stating the overall budget includes \$45.7 million in operating revenues and \$28.2 million in operating expenses which produces an operating profit of \$17.5 million for an operating margin of 38%. An increase in net assets of \$31.9 million is anticipated. Planned capital expenditures amount to \$51.6 million plus contributed to others of \$950 thousand for a total of \$52.6 million which will be funded through a combination of cash flows, debt and grants. Debt service interest expense on existing debt amounts to \$11.1 million. The graphs on the current slide are balanced and broken into source of funding and use of funding for a total of \$86.2 million. Mr. Lowe noted that for the final budget, the graphs will be updated to include a financial number and percentages. Revenues represent \$72,285,700 with 45% generated through harbor revenues, 19% in lease revenues, 5% in ad valorem, grant revenues of 26% and other at 5%. Total operating revenues is \$45,753,500 with a \$6 million or 23% harbor revenues increase from 2023 forecasted and an increase in ship calls for an estimated 18.8 million in tonnage and 495 ship calls. Volumes are up 58% over 2023 forecast due to the resumption of Freeport LNG operations. Lease revenues of \$13,463,600 has increased \$67 thousand over the current forecast. Commissioner Singhania inquired about the notation that Ro/Ro cargo is charged by unit, not tons, asking if Ro/Ro is included in the tonnage number. Mr. Hibbetts stated that staff invoices based off of a unit (rate per unit for vehicles), but they capture the tonnage in the tonnage report and is included in the tonnage number for the budget. With regard to the tax levy, the Port's tax appraisal roll is \$22.7 billion, and the debt service (associated with the GO Bonds) is \$3,637,373 which is the number after the Port encumbered \$1 million. This resulted in a debt service rate of .016007/100 of assessed value. For budget purposes, staff deducts the appraisal district and tax office fees of \$70,873 which gives a net ad valorem tax revenue budgeted at \$3,566,500. The tax levy projection graph represents two scales. The blue and orange bars represent rates while the gray line represents total dollars. With the previous slide showing the Port to be at .016, Mr. Lowe showed where it falls on the graph. For FY25-30, the orange depicts what the debt payment will be. Mr. Lowe noted the graph does not assume any further encumbrances in future years, it's only for graphic purposes for today's workshop, adding that each year the Commission will discuss, and any decisions made will be reflected in an updated graph. Regarding operating expenses, Mr. Lowe stated the largest expense on paper is depreciation at 43% while the largest ongoing expenses are port salaries, wages and benefits category at 23%, professional services at 11% and business insurance at 9%. Port salaries, wages and benefits is budgeted at \$6.3 million which is an increase of \$776 thousand or 14% over the current forecast. The budget includes a 5% increase in CPI/merit raises, filling three approved positions that are vacant. It also includes \$40,000 in available market adjustments. There is a 10% increase forecasted in group health insurance premiums and 6% in dental with renewal date of January 1. This puts the percent of group health premiums to total wages and benefits

at 14.9% and assumes full participation in the retirement plan and the percent benefits to salaries and wages at 37%. Professional Services is budgeted at \$3.1 million which is a decrease from 2023 forecast of \$87 thousand or 3%. Security service fees takes up a majority of this category \$2.1 million which includes security personnel and K9 detection services. This category also includes surveying, environmental consulting, federal and state level government liaisons, port planning services, granted related assistance, building code review services and records management permanent archives. Training, Travel, and Promotional is budgeted at \$844 thousand which is an increase of \$325 thousand over 2023 forecasted. Mr. Lowe noted the largest item in this category is website redevelopment which is carried over from FY23. Commercial events participation included to continue to promote the Port's multi-modal facilities for containerized cargo, Roll On/Roll Off cargo, and breakbulk cargo. Also included is advertising in targeted publications, sales travel, government relations travel, community events that include four CAP meetings 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 is budgeted at \$964 thousand which is an increase of 20% or \$158 thousand. This includes an increase in the City of Freeport water and sewer rates by 12%. In addition, the current electricity contract will expire this year and an increase of 25% is anticipated. Business insurance has a budget of \$2.6 million which is an increase of \$685 thousand or 35% over the current forecast. Other services and charges is budgeted at \$555 thousand and is an increase of 13% over the current forecast. This category includes IT contracted services, AAPA dues, port-a-cans and hand wash stations as well as property lease expense (railroad). Ms. Saathoff explained the rail Cemex is using for the CO2 transloading is not owned by the Port, it is leased from UP. Mr. Lowe noted that this category also includes the maintenance for the NOAA Ports System that was previously funded by Freeport LNG for the last two years. Mr. Hibbetts explained that because of the busyness in the port, port-a-cans and hand wash stations are strategically placed throughout the port for truckers. Mr. Hull gave a brief explanation of the NOAA Ports System for Commissioner Fratila. Commissioner Croft inquired about cooling stations. Mr. Hibbetts explained that most of the stevedores provide tents, water kegs and Gatorade but they do not provide misting fans. Port safety does a good job of passing out water and Sqwinchers while monitoring everyone throughout the port. Maintenance and repair budget is \$1,437,200 which is an increase of 3% over 2023 forecasted. Special projects included under this item include a carryover of the Administration building repairs, crane trolley repairs which could be capitalized depending on final scope. Other significant items include terminal operations equipment (cranes), security equipment, cleaning and maintenance of office buildings, dust control product, road repairs and mowing. Mr. Hibbetts explained that the dust control product is a spray application used on the limestone to keep the dust down. Application is done annually but can be applied more often if needed. Depreciation expenses of \$12.2 million is an increase of \$3.3 million due to the addition of Berth 8 and the ro-ro ramp as well as future capital projects. Regarding debt interest and fees, the slide shows the General Obligation Bonds issued in 2019, 2021 and 2023 for a total of \$4.6 million in total principal and interest payments. With \$1 million encumbered, it brings the total down to \$3.6 million. The Senior Lien Revenue Bonds reflect about \$12.9 million for a total debt service of \$17,518,514. The Port's Capital Expansion Plan is broken into four strategic initiatives that include the Freeport Harbor Channel project at \$950 thousand, Buildout of the Port's Container Handling Facilities at \$37.1 million, development of warehousing and OEM distribution facilities at \$1.4 million and Port Infrastructure support of \$13.1 million, for a total of \$52.6 million. Mr. Lowe also shared a look at the projects by funding in a pie chart. Commissioner Singhanian noted the 1% capital improvement reserve is the \$18.1 million M&O money the Commission previously approved to be put into the reserve.

At this time, Commissioner Singhania requested a recess at 10:17 a.m.

The Commission reconvened at 10:30 a.m. Commissioner Singhania noted that five Commissioners were present in the Board Room, and one via videoconference.

Mr. Lowe presented the cash flow worksheet noting the bottom portion has been updated. The cash flow starts with a net income of \$13.8 million, adding back in depreciation and interest expense of \$23.3 million which then takes you to cash flow from operations, taxes and investments of \$37.1 million. Debt service payments of \$17.5 million gets you to net cash flow before capital expenditures of \$19.6 million. The capital projects previously discussed total \$52.6 million with \$19.1 million coming in from the grants, leaves the Port in a cash (from) reserves of \$13.9 million for FY2024. Mr. Lowe noted changes made to the bottom portion of the worksheet to capture payments recently made. The net asset balance would begin at \$30.6 million with a reserve for capital improvements of \$17.4 million. Additionally, funds include restricted for debt service which are moved over monthly, the 2021 GO Project remaining and restricted for capital improvements (Corps). When you take these balances and incorporate the numbers from above, you see unrestricted net assets for FY2024 of \$16.6 million, capital reserve left flat, restricted for debt service of \$14.1, GO fund of \$42.9 and restricted for capital improvements \$11,770. The funds recently pulled out of the unrestricted funds was the payment to the City of Freeport. Mr. Lowe then looked at a traditional financial view of the statement of revenues, expenses and changes in fund net assets showing total operating revenues of \$45.7 million, expenses of \$28.2 and \$17.5 in operating income. He pointed out the two figures for investment income and ad valorem income as well as the interest on debt of \$11.1 million which results in a net income of \$13.8. After adding in the contributed from others and taking out the port's possible contribution to the Corps results in net assets of \$31,962,000. Finally, Mr. Lowe went over the capital expansion projects which include \$950,00 for the Freeport Harbor Channel, buildout of the Port's Container Handling Facilities which is primarily backland development, the development of warehousing and OEM distribution facilities and the Port infrastructure support. Commissioner Giesecke noted the Buildout of the Port's Container Handling Facilities funding sources should include grants. He also congratulated the finance staff on a great job for the preparation of the budget and details, as it's an improvement over prior year. He then inquired about the capital plan for the gantry cranes assuming staff is going with capital lease asking how the port will work with the lender on the payment process. Mr. Lowe explained that depending on the timing, if it dictates the entire amount is borrowed, he would not anticipate going with multiple transactions, either with bonds or lending institution. If the Port is in a position to pay the initial down payment from available cash, the delta will be financed, and staff will track individualized accounts making progress payments to the vendor. With no further questions, Mr. Lowe stated that staff will make the necessary updates noted today and would appreciate the Commission's support for approval September 14. Commissioner Croft asked where the Port's funds from the Harbor Maintenance Trust Funds are shown in the budget. Ms. Saathoff explained that the federal government receives those funds which are then redirected through the U.S. Army Corps of Engineers appropriations package. Commissioner Fratila inquired about a line item for capital expansion projects for FY2024, noting an item for land acquisition with the purpose to purchase property adjacent to Velasco Terminal Entrance. Ms. Saathoff explained there is nothing left to acquire, the line item is for the final payment to the City of Freeport, staff used the descriptor from prior years and will tweak to reflect final payment to be made. Commissioner Giesecke inquired on the City of Freeport's water meter issue. Ms. Campus stated the last update she received two weeks ago is the City received the replacement meter and has installed it, however we are still working off of estimated water bills. The new meter didn't resolve the City's problem with the billing issue. The Port pays an estimated bill

monthly and is not in arrears. Commissioner Giesecke commented that he also has notes related to the state and federal liaisons, asking if they wanted to discuss now or when their contracts come up for renewal. Commissioner Singhania suggested they discuss when the contracts are up for renewal hoping to reduce their fees. He also noted an unspecified amount of \$150,000 in the budget to use, if necessary, for items related to ES&G. Commissioner Giesecke also asked about the port planning services and what that will entail. Ms. Saathoff stated that it's a placeholder in the budget for items that may come up such as a market analysis. It's not tied to any specific item. Other minor tweaks Commissioner Giesecke pointed out were under community events. He also requested staff update the Commission on the MAG numbers at the next meeting. Commissioner Singhania inquired about the summary on training, travel and promotional business development budget confirming that staff adjusts its focus to containers vs. Ro/Ro, which is supported by market study that determines investment priority. Under commercial events, Commissioner Singhania confirmed again that staff will shift its focus towards container-type events, scaling back on other events that aren't container focused. He then inquired about the \$150,000 budgeted for website redevelopment, asking what staff is visualizing. Mr. Miura stated that it will be a complete redevelopment and redesign of the website, adding that the current website was rolled out in 2016 but needs to be redeveloped to stay current with industry search engine optimization. The port has changed in a tremendous way since then and the website needs to reflect changes. Staff has added many different modules and items to the website that are exceeding its capacity of what it was intended for. The website needs a lot of work and it's not something that can be done in house. Staff reached out to different providers with indications of cost from \$100,000-\$150,000. Legal counsel has indicated an RFP needs to be sent out as it's not a professional service. With approval of the budget, staff will proceed with the RFP. Mr. Miura added that the website is more than just a redevelopment, it also ties into the ad development which also needs a refresh to stay relevant. Commissioner Fratila commented that as part of the website redevelopment, suggesting receiving input when it comes to being user friendly for members of the public who might want to access or request information, specifically adding a component for public information act requests. Commissioner Giesecke inquired how much support is received from the website for business development vs. networking at conferences and events. Mr. Miura stated that staff receives regular leads through the website staff responds to as well as requests for additional information on services the Port provides. The website is both a tool and a way to communicate to industry and community. Ms. Saathoff added that all of the cost is under business development's budget because they will take the lead on the redevelopment, but the website is equally important for business development, operations, safety/security, communication during emergency events as well as a communication to the community. There are also financial and administrative documents required to be posted on the website.

With no further discussion on the budget workshop, Commissioner Singhania recessed the meeting at 11:20 a.m.

7. 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 551.071 (Consultation with Attorney) for discussion regarding:
 1. Consultation with attorney under Government Code Section 551.071(1) (to seek or receive attorney's advice on pending or contemplated litigation).
 2. Consultation with attorney under Government Code Section 551.071(2) (to seek or receive attorney's advice on legal matters that are not related to litigation).

- B. Under authority of Section 551.072 (Deliberation Concerning Real Property Matters) for discussion regarding:
1. Discussion regarding the potential exchange, lease, or value of real property located in Freeport, Texas, including but not limited to the are known as the East End of Freeport and bordered by or adjacent to the following streets: FM1495; East 2nd Street; Terminal Street and East 8th Street in Freeport, Texas.
 2. 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.
 3. The potential exchange, lease, or value of real property located at Port Freeport, including but not limited to Parcels 12, 13, 14, 19, 27, 34 and property on Quintana Island.
- C. Under authority of Section 551.074 (Deliberation of Personnel Matters) for discussion regarding:
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, Director of Business & Economic Development and Director of Information Technology.
- D. Under authority of Section 551.076 (Deliberation of Security Matters) for discussion regarding:
1. Discussion regarding issues related to the deployment, or specific occasions for implementation of security personnel or devices or security audit and services.

8. RECONVENE OPEN SESSION:

9. Adjourn.

With no further business before the Commission, the meeting adjourned at 12:17 PM.

Ravi K. Singhania, Chairman

Rob Giesecke, Vice Chairman

Barbara Fratila, Secretary

Kim Kincannon, Asst. Secretary

Dan Croft, Commissioner

Rudy Santos, Commissioner