

**PORT OF GALVESTON
REQUEST FOR DISCUSSION**

BUSINESS ITEM

SUBJECT: Discuss 2021 Budget

DISCUSSION: This item was placed on the agenda for Committee discussion.

Rap

From: Harry Maxwell <hmaxwell@hmmmpc.com>

Sent: Friday, February 26, 2021 9:18 AM

To: Jeff Patterson <JPatterson@portofgalveston.com>; Rodger Rees <rrees@portofgalveston.com>; Anthony Brown <apbrown@mapalaw.com>; Albert Shannon <apshannon@insurancejunction.com>; Angie Ramirez <aramirez@portofgalveston.com>

Subject: RE: Budget discussion at March meeting

Good Morning everyone,

Jeff sent me a couple of emails last night and I must have read them out of order. Below is my email to Jeff. Also, I asked Rodger to put it on the finance committee agenda to discuss on Tuesday.

Good Morning Jeff,

I would be happy to help in any way I can. I also received your request for a discussion on a budget amendment because of the uncertainty of cruise operations.

I would like to address the budget as it relates to cruise operations. I view budgets as something that once adopted shouldn't be changed except under unusual or extraordinary conditions. The pandemic and cruise certainly meet that definition. Having said that, I still think budget amendments should be kept to a minimum. We have budgeted zero revenue in the 1st quarter and 25%, 50%, and 75% in the 2nd, 3rd, and 4th quarter, respectively. The first quarter that will be affected by no cruise will be the second quarter. We will receive that information at our May meeting when we get the April financials. So, while we should be considering it and gathering information, I would recommend we don't amend the budget until the April 27th meeting. At that time, we should have more information relating to cruise operation. Mark has been instructed to bring us some budget scenarios reflecting no cruise operations in the 2nd quarter, etc. I know he is in the middle of the audit but will be working on this soon if he hasn't already. Again, my preference is to keep budget amendments to a minimum and to gather as much external data as we can before we do any amendments.

On the question related to cash flows, that might be better explained with visuals, but I will give you some background. The "Statement of Cash Flows" is a basic financial statement that is required by Generally Accepted Accounting Practices (GAAP). If you look at our CAFR you will find a Statement of Cash Flows. The same thing with Dow, look at the annual report and you will find a Statement of Cash Flows. Cash flow from operations is a component of the statement of cash flows. Generally speaking, you start with net income and add back non-cash items that are included in the calculation of net income. This includes depreciation and amortization. That number is what we call cash flow from operations. Mark takes it a step further and subtracts out legally obligated payments (principal on debt service). That's it. What is left is what we spend on CAPEX or bank. The one statement from 2018 that showed changes in A/R, A/P, etc. is not cash flow from operations, and I can't tell you why it was presented that way. That is more of a statement of cash flows. We are more interested in cash flows from operations. I can get into it further, but it would be better with visuals.

I hope this helps. Call me or email me anytime.

Harry

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