

PORT OF GALVESTON SUPPLEMENTAL INFORMATION FOR THE 2017 APPROVED ANNUAL BUDGET

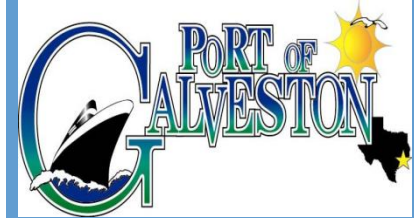


**Operating
Budget**

**Renewal and
Replacement
Budget**

**Capital
Improvement
Plan and 2017
Capital
Improvement
Budget**

Port of Galveston 2017 Annual Budget Overview of the 2017 Budget



The 2017 Budget is being presented utilizing the same format as the monthly forecasted results presented at the monthly Finance Committee and Board Meetings.

Port Staff used VERY CONSERVATIVE revenue projections and realistically estimated expenses to support the related budgeted levels of activity for 2017. Methodology for deriving anticipated Operating Revenues is detailed on the attached 2017 Budgeted Revenue detail sheet.

Major Events
Occurring in
2017:

Completion of
Expansion at
Pier 29 to
Accommodate
larger Cruise
Ships

Major Repairs /
Renovations to
Pier 35
Bulkhead

Port of Galveston 2017 Annual Budget Overview of the 2017 Budget



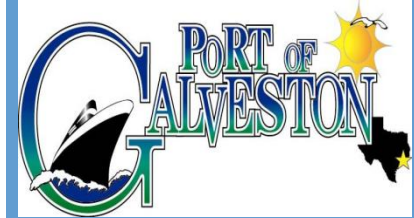
Compare Summary of 2016 Budget to 2017 Revised Proposed Budget

	2016 Budget	Revised Proposed 2017 Budget	Increase (Decrease)
Income From Operations – Total Revenue	33,532,577	38,570,894	5,038,317
Operating Expenses:			
Salaries, Contract Labor, and Benefits	8,901,268	9,097,363	196,095
Repairs and Maintenance	1,511,748	1,993,035	481,287
Other Operating Expenses	8,695,659	9,618,288	922,629
Contract Market Incentive Fee	2,463,503	4,214,825	1,751,322
Office and Sales	3,005,681	3,045,358	39,677
Total Operating Expenses	<u>24,577,859</u>	<u>27,968,869</u>	<u>3,391,010</u>
Net Income from Operations before Depreciation	<u>8,954,718</u>	<u>10,602,025</u>	<u>1,647,307</u>
Depreciation Expense	6,565,079	6,810,203	245,124
Net Operating Income	2,389,639	3,791,822	1,402,183
Non-Operating Income and (Expense) Net	(1,900,940)	(1,667,822)	233,118
Net Income before Grants, Contributions and Extraordinary Items	<u><u>488,699</u></u>	<u><u>2,124,000</u></u>	<u><u>1,635,301</u></u>

The purpose of this table is to compare the Approved 2016 Budget to the Proposed 2017 Budget

Each Category will be discussed in detail in the following slides

Port of Galveston 2017 Annual Budget Overview of the 2017 Budget



Compare Summary of 2016 9 & 3 Forecast & 2017 Proposed Budget

	2016 9 & 3 Forecast Presented to Board at October 17, 2016 Meeting	Proposed 2017 Budget	Increase (Decrease)
Income From Operations – Total Revenue	33,321,721	38,570,894	5,249,173
Operating Expenses:			
Salaries, Contract Labor, and Benefits	8,456,108	9,097,363	641,255
Repairs and Maintenance	1,502,165	1,993,035	490,870
Other Operating Expenses	8,223,718	9,618,288	1,394,570
Contract Market Incentive Fee	2,352,320	4,214,825	1,862,505
Office and Sales	3,179,283	3,045,358	(133,925)
Total Operating Expenses	<u>23,713,594</u>	<u>27,968,869</u>	<u>4,255,275</u>
Net Income from Operations before Depreciation	<u>9,608,127</u>	<u>10,602,025</u>	<u>993,898</u>
Depreciation Expense	6,498,762	6,810,203	311,441
Net Operating Income	3,109,365	3,791,822	682,457
Non-Operating Income and (Expense) Net	<u>(1,859,868)</u>	<u>(1,667,822)</u>	<u>192,046</u>
Net Income before Grants, Contributions and Extraordinary Items	<u>1,249,497</u>	<u>2,124,000</u>	<u>874,503</u>

The purpose of this table is to compare the 9&3 Forecast with the Proposed 2017 Budget

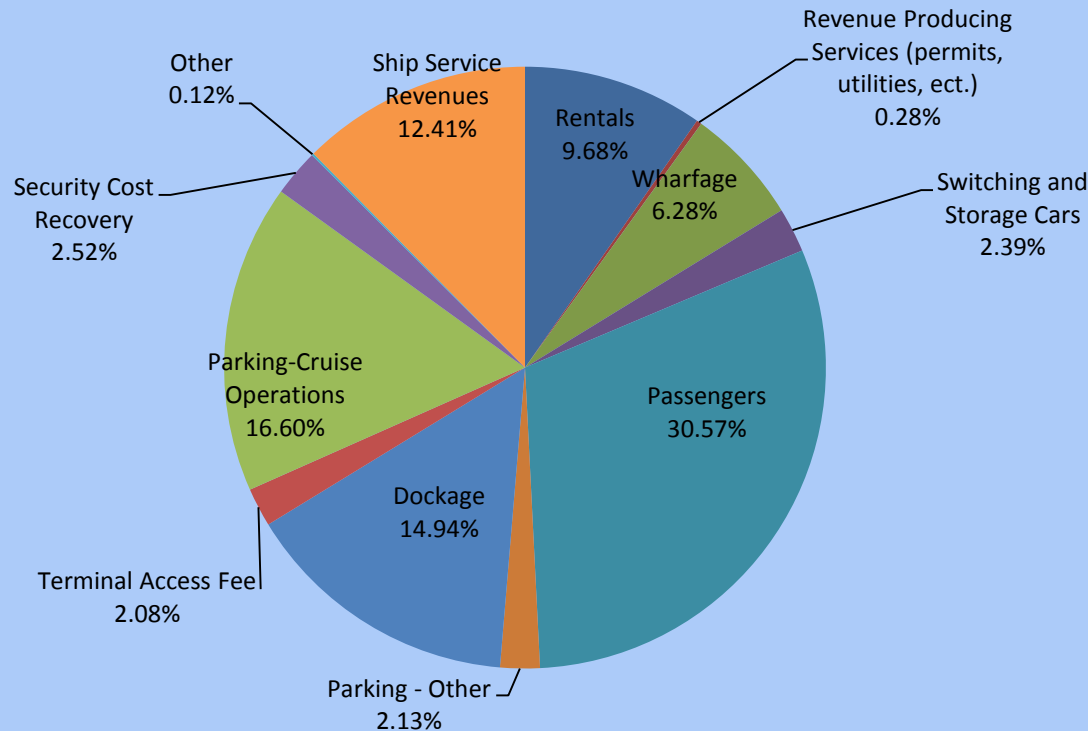
Each Category will be discussed in detail in the following slides

Port of Galveston 2017 Revenues from Operations



Total 2017 Operating Revenue are \$38.6M

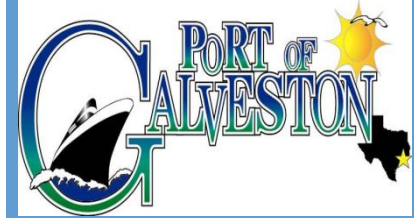
2017 Approved Budgeted Revenue



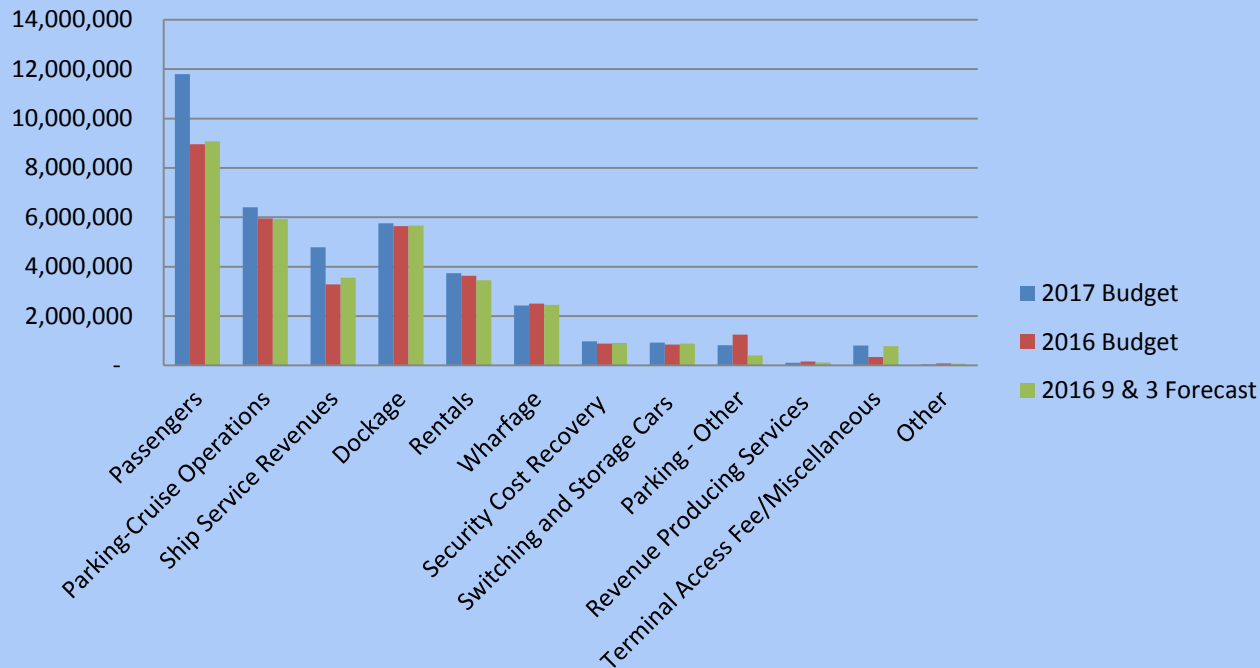
Revenues from Operations by Major Categories

- Passengers \$11.8M
- Parking - Cruise \$6.4M
- Dockage \$5.8M
- Rentals \$3.7M
- Ship Service Revenues \$4.8M
- Wharfage \$2.4M
- Parking - Other \$.8M
- Security Cost Recovery \$1M
- Rail & Switching \$0.9M
- Terminal Access Fees \$.8M
- All Other \$.2M

Port of Galveston 2017 Revenues from Operations



Compare 2017 Approved Budgeted Revenues to 2016 Budget and 2016 9 & 3 Forecast



Revenues from Operations by Major Categories

Compared to 2016
9&3 Forecast:

Increases In Revenues:

Ship Services **\$1.25M**

Passenger Revenue
\$2.7M

Cruise parking **\$473K**

Parking Other **\$420K**

Rentals **\$280K**

Dockage **\$89K**

Security Cost Recovery
\$62K

Switching **\$30K**

Terminal Access Fees
\$23K

Decreases In Revenues:

Wharfage **\$31K**

Other **\$45K**

**Total Revenue
Increase \$5.25M**

Port of Galveston 2017 Switching / Rail Revenues



Rail Revenue (Switching and Storage Cars - GRI)						
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u>	<u>2017</u>
Year					<u>Forecast</u>	<u>(Compared to</u>
						<u>9&3 Forecast)</u>
Revenue	629,707	496,996	763,624	1,067,920	891,736	922,222
Percentage Change		-21.08%	53.65%	39.85%	-16.50%	3.42%

Rail revenue is mainly grain, fertilizer and wind products in 2017.

Grain – based on movements required to meet minimum guaranteed grain related revenue. This is a very conservative approach to grain related revenue.

Fertilizer – remains unchanged from 2016 levels per CHS

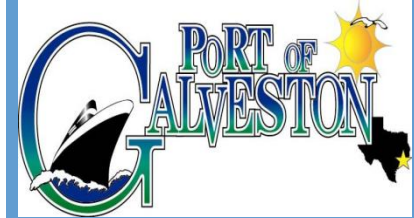
Wind Product - includes only cargo which importers gave high assurance of 2017 activity. The Port still used conservative estimates of the ranges provided. Wind clients who gave only general commitments with no indication of levels of activity were not included in the revenue estimate.

**Rail Revenue
Projected \$922K
Allocation by
Revenue Stream**

Grain \$707K

**Wind, Fertilizer
and Other \$215K**

Port of Galveston 2017 Wharfage Revenue



Year	Wharfage						2017 (Compared to 9&3 Forecast)
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3 Forecast</u>	<u>2016 Original Budget</u>	
Revenue	2,927,094	2,304,942	2,659,003	2,577,208	2,454,828	2,509,447	2,423,920
Percentage Change		-21.25%	15.36%	-3.08%	-4.75%		-1.26%

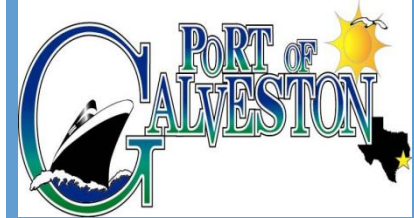
Ro-Ro/High and Heavy activity includes VPC center, other Pier 10 and West End Activity.

Lower 2017 Wharfage is primarily due to lower forecasted High and Heavy Ro-Ro activity offset by wind project cargo.

Wharfage is the fee charged for cargo passing over the docks

Primary sources of wharfage revenue are Ro-Ro/High & Heavy Cargo, Fruit & Produce, Fertilizer, Wind Products, and Liquid Bulk.

Port of Galveston 2017 Revenues From Cruise Operations Passenger Charges



2017 Cruise Terminal Revenue, which includes Passenger Revenue, Ship Services Revenue, Terminal Access Fees, Security Cost Recovery, Dockage, and Rentals, is \$18,496,238 an increase of 29.15% or \$4.175M over 2016 9&3 Forecast.

Compare to 2016 9&3 Forecast:

Passenger Revenue is projected to increase 29.8% or \$2.7M

Cruise Dockage increased 21% or \$149K

Cruise Security Cost Recovery increased \$48K

Ship Services Revenue increased 35% or \$1.24M.

Cruise Terminal Access Fees increased 3% or \$23K.

Other revenues increased by \$8K

The cruise ships calling Galveston their home port have capacity from 2,600 per cruise up to 4,800 per cruise with an average of 3,500 passengers per trip

Cruise Terminal 1 - Largest Single berth Cruise Terminal in the World

Port of Galveston 2017 Revenues From Cruise Operations Passenger Counts



Embarking Passengers							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9&3 Forecast</u>	<u>2016 Original Budget</u>	<u>2017 (Compared to 9&3 Forecast)</u>
Embarking Passengers	604,272	604,994	641,650	834,616	876,510	865,700	946,600
Percentage Change		0.12%	6.06%	30.07%	5.02%		8.00%

The number of Embarking Passengers is expected to increase 8% to 946,600 in 2017

Passenger Revenue							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3 Forecast</u>	<u>2016 Original Budget</u>	<u>2017 (Compared to 9&3 Forecast)</u>
Revenue	4,854,694	5,271,205	6,157,648	8,647,317	9,078,683	8,954,740	11,789,380
Percentage Change		8.58%	16.82%	40.43%	4.99%		29.86%

Passenger Revenues are projected to increase 29.86% to \$11,789,380 in 2017

Ship Services Revenue							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3 Forecast</u>	<u>2016 Original Budget</u>	<u>2017 (Compared to 9&3 Forecast)</u>
Revenue	2,471,125	2,892,874	3,449,474	3,195,913	3,549,748	3,282,196	4,786,404
Percentage Change		17.07%	19.24%	-7.35%	11.07%		34.84%

Ship Services Revenue are projected to increase 35% to \$4,786,404

Port of Galveston 2017 Parking Operations Vehicles Parked



Cruise Vehicles Parked							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3 Forecast</u>	<u>2016 Original Budget</u>	<u>2017 (Compared to 9&3 Forecast)</u>
Vehicles Parked	77,624	73,395	87,422	112,363	107,358	116,450	115,720
Percentage Change		-5.45%	19.11%	28.53%	-4.45%		7.79%

Parking Revenue - Cruise and Other							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3 Forecast</u>	<u>2016 Original Budget</u>	<u>2017 (Compared to 9&3 Forecast)</u>
Revenue	4,203,115	4,117,693	4,851,414	6,312,896	6,330,156	7,208,023	7,222,615
Percentage Change		-2.03%	17.82%	30.12%	0.27%		14.10%

Parking Revenues Net of Sales Tax include:

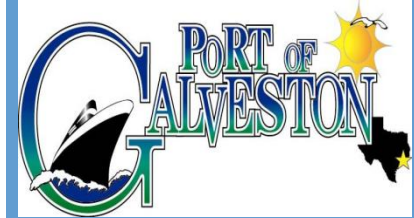
Cruise Parking	\$6.40M
SMP Garage	\$0.25M
Transit Center	\$0.51M
East End Parking	<u>\$0.06M</u>
Total	\$7.22M

Parking is a major source of revenue for the Port

Financial controls are validated on a regular basis to ensure the integrity of the parking revenue stream

2016 Budgeted Parking Revenue for the SMP Garage and Transit Terminal were budgeted to high. 2017 contains a more realistic goal.

Port of Galveston 2017 Dockage / Lay Dockage Revenues



Year	Dockage (Includes Lay Dockage)					<u>2016</u>	<u>2017</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u> <u>Forecast</u>	<u>Original</u> <u>Budget</u>	<u>(Compared</u> <u>to 9&3</u> <u>Forecast)</u>
Revenue	4,715,107	5,345,099	5,683,806	6,479,532	5,672,920	5,645,182	5,762,117
Percentage Change		13.36%	6.34%	14.00%	-12.45%		1.57%

Dockage is projected to decrease 1% in 2017

Dockage projected by product line:

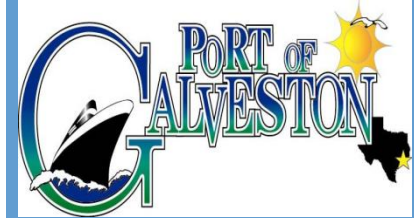
Grain	\$1.90M
Ro-Ro	\$0.80M
Research Vessels	\$0.50M
Cruise	\$0.81M
Liquid Bulk	\$0.48M
Fruit and Produce	\$0.23M
General Cargo	\$0.49M
Wind Cargo	\$0.39M
Fertilizer	\$0.06M
Pier 19-21 Area	<u>\$0.10M</u>
Total	\$5.62M

Dockage consist of fees collected from ships docked at Port controlled Wharves and Piers

2017 contains Conservative Estimates of Grain and Wind Project Dockage

Rates charged are set by Tariff or may be negotiated for high traffic customers

Port of Galveston 2017 – Revenue Producing Services



Revenue Producing Services							<u>2017</u>
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u>	<u>2016 Original</u>	<u>(Compared to</u>
					<u>Forecast</u>	<u>Budget</u>	<u>9&3 Forecast)</u>
Revenue	124,191	119,137	114,505	120,388	125,389	156,888	107,200
Percentage Change		-4.07%	-3.89%	5.14%	4.15%		-14.51%

Revenue Producing Services include fees from providing water, permits, scrap sales and other miscellaneous items.

**2017 Revenue
Producing
Services**

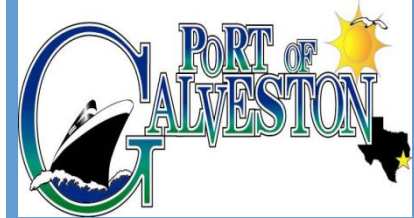
**Utilities
\$75,000**

FTZ \$16,000

**Scrap Sales
\$15,000**

**Permits & Fees
\$1,200**

Port of Galveston 2017 – Rental Revenue



Rental Revenue							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u>	<u>2016 Original</u>	<u>2017</u>
					<u>Forecast</u>	<u>Budget</u>	<u>(Compared to</u>
							<u>9&3 Forecast)</u>
Revenue	3,718,048	3,446,461	3,049,244	3,051,766	3,454,810	3,632,437	3,735,186
Percentage Change		-7.30%	-11.53%	0.08%	13.21%		8.12%

Rental Revenue - consists of a combination of fixed rate rents on upland facilities and percentage rent from tenants such as Gulf Copper and Del Monte.

Ground Rents - paid by GPFC to the Port for the Cruise Terminals are excluded.

Sources:

Ro-Ro/VPC	\$0.94M
Ship Yards	\$1.01M
Pier 19-21 Area	\$0.57M
Grain	\$0.29M
Fruit and Produce	\$0.24M
All Others	<u>\$0.69M</u>
Total	<u>\$3.74M</u>

Major Sources of Rental Income

Gulf Copper
Del Monte
WWL
ADM
Malin
MBP
T&T
Galveston RR
CHS

Port of Galveston 2017 Security Cost Recovery



Security Cost Recovery							
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u>	<u>2016 Original</u>	<u>2017</u>
Year					Forecast	Budget	(Compared to 9&3 Forecast)
Revenue	494,919	558,984	658,078	979,811	910,647	890,105	972,650
Percentage Change		12.94%	17.73%	48.89%	-7.06%		6.81%

Security Cost Recovery is a surcharge placed on Dockage and Cargo Tonnage per the published Tariff.

The purpose of this surcharge is to recover cost of implementing, administering, and maintaining Homeland Security mandates.

Sources:

Cruise	\$274,150
All Other	\$698,500

**Security Cost
Recovery Fees
are used for:**

**Control Access
to Facilities**

**Upgrade and
Maintenance of
Port Security
System**

**Increase Police
Presence**

Train Port Staff

Port of Galveston 2017 – Other Operating Income



Port Access Fees							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u> <u>Forecast</u>	<u>2016 Original</u> <u>Budget</u>	<u>2017</u>
							<u>(Compared to</u> <u>9&3 Forecast)</u>
Revenue	122,430	148,554	283,566	526,823	780,912	336,000	804,000
Percentage Change		21.34%	90.88%	85.78%	48.23%		2.96%

In October 2014, the Terminal Access Fees were standardized. Now the terminal access fee for shuttles, limos, and busses with seating capacity of less than 15 persons is \$20 per trip.

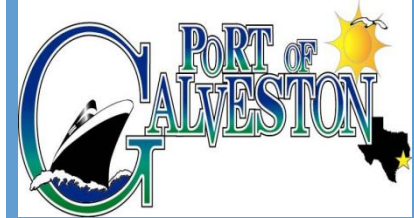
Other Income							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u> <u>Forecast</u>	<u>2016 Original</u> <u>Budget</u>	<u>2017</u>
							<u>(Compared to</u> <u>9&3 Forecast)</u>
Revenue	222,534	65,547	40,730	56,067	71,892	76,084	45,200
Percentage Change		-70.55%	-37.86%	37.66%	28.23%		-37.13%

Other Operating Income is comprised of stevedore licenses, permits and other miscellaneous fees and licenses. Increased revenue in 2012 is due to \$125K payments (1 - \$50K + 1 - \$75K) for Pelican Island Option from Texas-New Mexico Railroad.

**Terminal
Access Fees
are tariff based
fees**

**Other
miscellaneous
income is
budgeted based
on normal
recurring type
transactions**

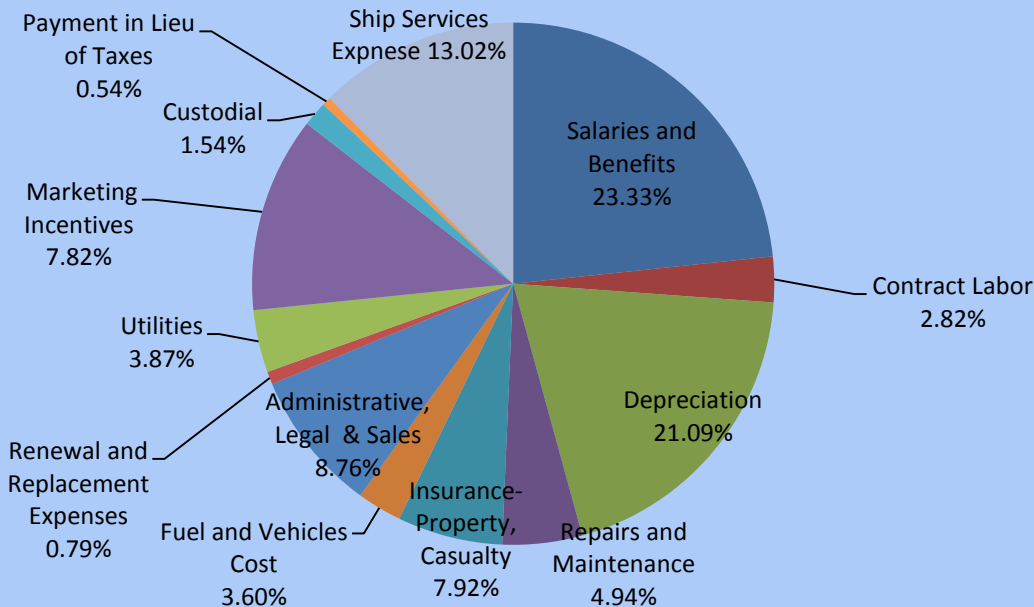
Port of Galveston 2017 –
Operating Expenses



Operating Expenses consist of those costs incurred in the normal course of business and the general operations of the Port including Administrative & Sales cost in addition to the cost of Personnel, Facility and General Maintenance, Equipment Maintenance, General Liability, Property and Casualty Insurance, Utilities, Fuel and other services as required.

Port of Galveston 2017 – Operating Expenses including Depreciation

2017 Approved Budget Operating Expense with Depreciation



**2017 Budgeted Operating Expenses are
\$34.8M**

**Total Operating
Expenses are
\$34.8M**

**Salaries and
Benefits and
\$8.11M**

**Contract Labor
\$0.98M**

**Depreciation
\$6.81M**

**General and
Administrative
\$3.05M**

**Insurance
\$2.26M**

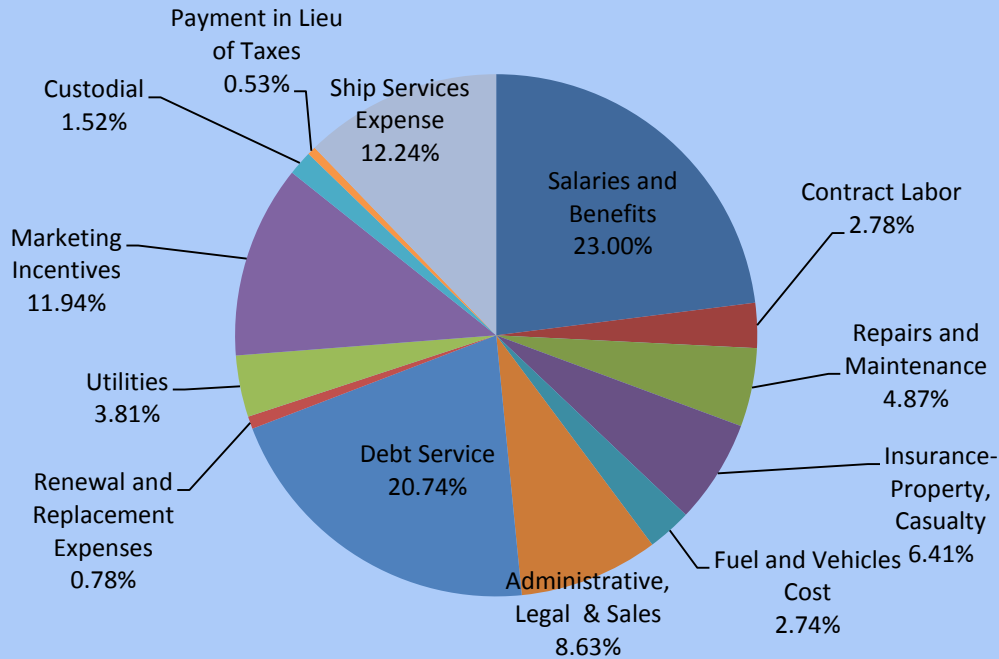
**Repairs and
Maintenance
\$1.72M**

**Other Expenses
\$11.84M**

Port of Galveston 2017 – Operating Expenses – Without Depreciation Add Debt Service (both Interest and Principal)



2017 Approved Budget Operating Expense with Debt Service (Annual Principal & Interest Payments)

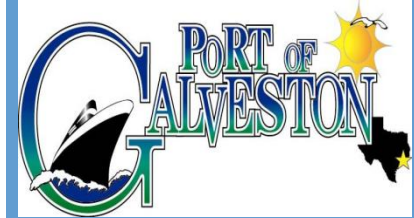


**Total Operating
Expenses before
Depreciation with
2017 Debt Service
\$35.28M**

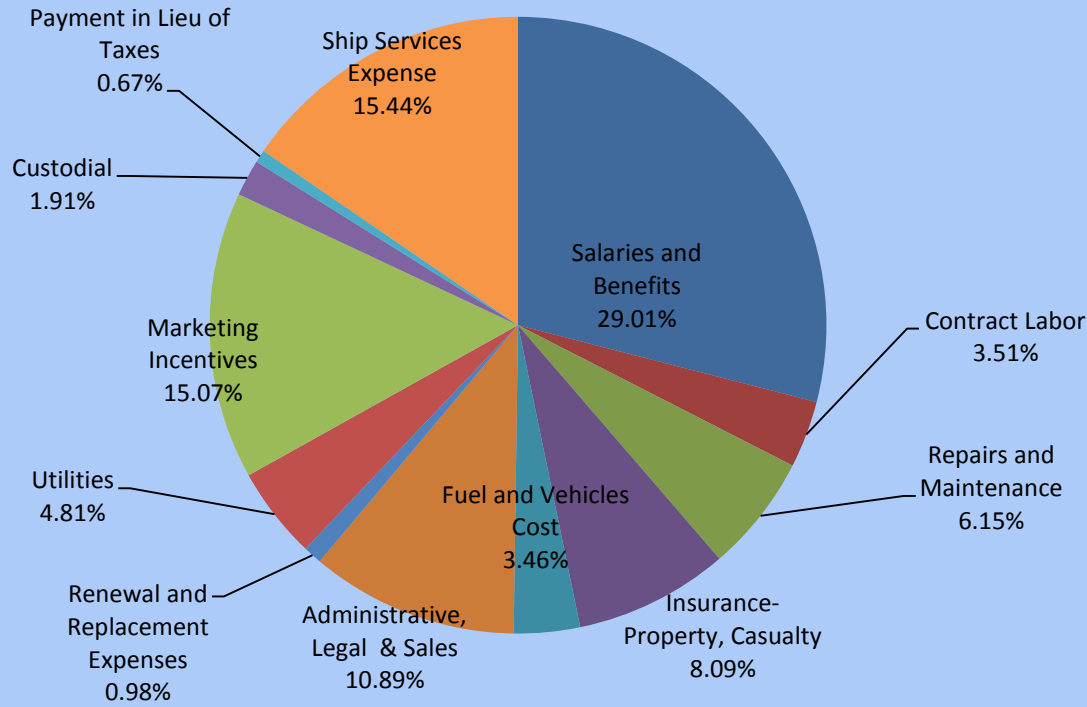
**Salaries and Benefits
\$8.11M
Contract Labor
\$0.98M
General and
Administrative
\$3.05M
Insurance
\$2.26M
Repairs and
Maintenance \$1.72M
Other Expenses
\$11.86M**

**Debt Service
Total \$7.3M
Interest \$1.8M
Principal \$5.5M**

Port of Galveston 2017 – Operating Expenses – Without Depreciation



2017 Approved Budget Operating Expense Before Depreciation



Total Operating Expenses before Depreciation and Debt Service \$28M

Salaries and Benefits and \$8.11M
Contract Labor \$0.98M
General and Administrative \$3.05M
Insurance \$2.26M
Repairs and Maintenance with R&R Expense \$1.72M
Other Expenses \$11.84M

Port of Galveston 2017 – Labor and Related Cost

Salaries & Benefits with Contract Labor							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u> <u>Forecast</u>	<u>2016</u> <u>Original</u> <u>Budget</u>	<u>2017</u> <u>(Compared to</u> <u>9&3 Forecast)</u>
Expense	8,469,353	8,217,185	8,481,581	8,891,976	8,456,108	8,901,268	9,097,363
Percentage Change		-2.98%	3.22%	4.84%	-4.90%		7.58%

The 2017 Budget includes 104 full time and 7 part time employees

In 2016 an additional 5 positions for parking garage complex staffing and security were added. Also added to the 2016 budget was a Port Engineer and a Public Relations / Multi-Media Marketing position. Neither position was filled in 2016 but remain in the 2017 budget.

Salaries, pension, health care, and employer taxes are the major components of Salaries and Benefits

This category includes Contract Labor of \$982,378. Contract Labor includes cost of contract cruise parking lot personnel along with police and security related to cruise terminal activity.

OUR EMPLOYEES ARE OUR GREATEST ASSETS

2017 Employees

**Police and Security
Employees**
(Includes 5 parking
garage complex staff)
45FT 3PT
48

**Maintenance
Employees**
22FT
22

Engineering
7FT 2PT
9

**Operations and Cruise
Terminal**
7FT

**General and
Administrative,
Marketing, Public
Relations, & Harbor
Master**
23FT 2PT
25

**Port of Galveston 2017 –
Labor and Related Cost**

Proposed Increases:

2017 proposed pay increase of \$101,567 is equal to 2.0% of current employees base pay. The Port Director's has an additional discretionary fund of \$40,000 which may be used for Employee Retention, Promotions and stipends. The Port continues to utilize updated pay band rates provided by PayScale. The Port received updated pay bands prior to preparing the 2017 budget.

Projected overtime costs, the majority of which are related to cruise activity, were adjusted to better match expected overtime.

**OUR
EMPLOYEES
ARE OUR
GREATEST
ASSETS**

**Base Salaries
\$5.76M**

**Overtime
\$434K**

**Health Benefits
\$752K**

**Pension
Defined Benefit
\$576K**

**Defined
Contribution
\$148K**

**Employer Paid
Employment Taxes
with Social
Security
Replacement Plan
\$529K**

**Total Salaries and
Benefits \$8.2M**

**Contract Labor
\$1.03M**

**Port of Galveston 2017 –
Labor and Related Cost**

Proposed Distribution of Increases:

The proposed distribution of the \$141,567 pay increase pool is based on a graduated adjustment to pay driven by employee’s annual base pay. Under this method all but \$20K of the Port Director’s Discretionary Fund will be utilized.

<u>Current Pay Threshold</u>	<u>Proposed Increase</u>
Less than \$30,000	5% Annual Increase
\$30,001-\$39,999	4% Annual Increase
\$40,000-\$59,999	3% Annual Increase
\$60,000-\$89,999	2% Annual Increase
Over \$90,000	1% Annual Increase

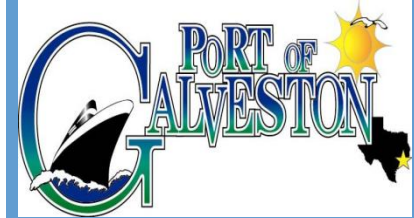
**OUR
EMPLOYEES
ARE OUR
GREATEST
ASSETS**

The Proposed
Pay increase by
Category

%	Emp	\$\$\$
5%	- 15	\$17.6K
4%	- 21	\$29.2K
3%	- 38	\$52.0K
2%	- 9	\$13.2K
1%	- 9	\$9.7K
Total 92		\$121.7K

Less Available:
Base \$101.6K
Discretionary
Fund \$40.0K
Unused \$19.9K

Port of Galveston 2017 – Repairs and Maintenance



Repairs and Maintenance							
					<u>2016 9/3</u>	<u>2016 Original</u>	<u>2017</u> (Compared to
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Forecast</u>	<u>Budget</u>	<u>9&3 Forecast</u>)
Expense	1,194,322	1,192,328	1,405,989	1,506,444	1,502,165	1,511,748	1,993,365
Percentage Change		-0.17%	17.92%	7.14%	-0.28%		32.68%

Repairs and Maintenance includes allowances for both planned and unplanned maintenance. Due to the nature of maintenance (needing to make unplanned repairs as issues occur) actual results vary year to year.

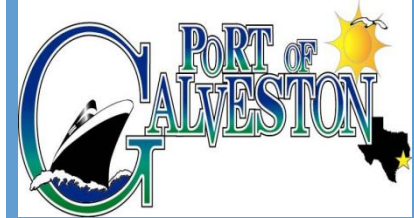
The 2017 budget includes \$273,500 of Discretionary Renewal, Replacement and Repair expense items shown in the R&R budget.

Annual Maintenance Dredging Allowance increased from \$900K to \$1.2M or \$300K in the 2017 Budget.

**Construction &
Maintenance
(C&M)**
department is
responsible for
the facilities
and equipment
maintenance
programs

Under this
program they
address both
planned and
unplanned
maintenance
issues

Port of Galveston 2017 – Insurance – Property & Casualty – Worker’s Comp



Property, General Liability, Workers Comp and Other Insurance

Year					2017		
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3 Forecast</u>	<u>2016 Original Budget</u>	<u>(Compared to 9&3 Forecast)</u>
Expense	2,568,885	2,560,112	2,397,923	2,095,555	2,160,044	2,273,935	2,246,605
Percentage Change		-0.34%	-6.34%	-12.61%	3.08%		4.01%

In 2015 cost of worker’s comp before a refund of \$49,883, is \$107,601. Net of refund (dividend) 2015 projected worker’s comp cost was \$57,718. 2017 worker’s comp budget is \$180,000. The Port does not budget for annual refunds or dividends from workers comp.

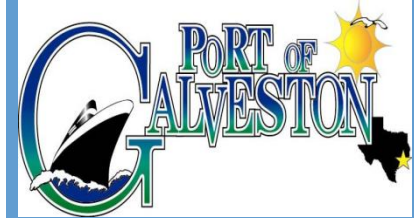
2017 Property and Casualty insurance rates are projected to remain flat to slightly lower while General liability and other coverage are expected to increase up to 10% at renewal.

In 2013 the Port added fiduciary coverage

In 2014 cyber security coverage was added

In 2017, the Port property insurance coverage is anticipated to remain at \$75M

Port of Galveston 2017 – Payment in Lieu of Taxes (PILOT)



Payment in Lieu of Taxes (PILOT)							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u> <u>Forecast</u>	<u>2016 Original</u> <u>Budget</u>	<u>2017</u>
							<u>(Compared to</u> <u>9&3 Forecast)</u>
Expense	187,302	187,302	187,302	188,077	188,466	188,180	188,600
Percentage Change		0.00%	0.00%	0.41%	0.21%		0.07%

Under previous agreements, the Port made annual payments to the City of Galveston of \$182,000 to offset loss of property tax on Port property listed as nontaxable property per the City tax rolls.

With the acquisition of the SMP Garage complex the PILOT payment increased approximately \$6,600.

Per agreement with the City the Port makes a Payment in Lieu of Property Taxes

**West Side
\$160,000**

**Old Navy Dock
\$10,000**

**Pelican Island
Other
\$12,000**

**SMP Garage
\$6,600**

Port of Galveston 2017 – Depreciation

Depreciation							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u>	<u>2016 Original</u>	<u>2017</u> <u>(Compared to</u>
					<u>Forecast</u>	<u>Budget</u>	<u>9&3 Forecast)</u>
Expense	4,999,707	5,640,606	5,837,829	6,005,247	6,498,762	6,565,079	6,810,203
Percentage Change		12.82%	3.50%	2.87%	8.22%		4.79%

The Port continues to make improvements to the Property and Facilities resulting in increased Depreciation.

The increase in depreciation includes assets funded by Grants, Insurance, FEMA, debt and operations.

Since 2001 (17 Years) the net book value of Property and Facilities has increased **221%.**



Increase in Net Property and Facilities 2001 - 2017

2001-\$49,318,000
2002-\$50,326,000
2003-\$60,959,000
2004-\$69,748,000
2005-\$75,578,000
2006-\$78,079,000
2007-\$84,020,000
2008-\$92,136,000
2009-\$100,546,000
2010-\$101,418,000
2011-\$118,050,000
2012-\$127,240,000
2013-\$137,639,000
2014-\$136,548,000
2015-\$142,778,000
2016-\$152,513,794
2017-\$158,400,000

Port of Galveston 2017 – Office and Sales Expense



Office and Sales Expense

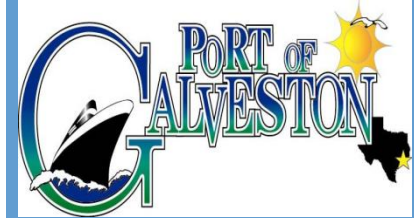
Year	2012	2013	2014	2015	2016 9/3 Forecast	2016 Original Budget	2017
							(Compared to 9&3 Forecast)
Expense	2,151,992	2,273,410	2,640,438	3,743,577	3,179,283	3,005,681	3,045,358
Percentage Change		5.64%	16.14%	41.78%	-15.07%		-4.09%

Office and Sales Cost Include:

	2017 Budget	2016 9&3	Increase / (Decrease) Dollars	Increase / (Decrease) %
Sales and Marketing	371,120	426,948	(55,828)	-13%
Professional Services	711,000	659,157	51,843	8%
Rent Expense	1,376,035	1,549,286	(173,251)	-11%
Office Supplies and Other	256,460	257,258	(798)	0%
Credit Card Fees	126,000	129,999	(3,999)	-3%
Dues, Licenses, Training	112,001	110,083	5,938	5%
Travel	92,742	46,555	46,187	99%
Total	3,045,358	3,179,286	(129,908)	-4%

**This table is a comparison of actual 2016 results for 9 months plus
forecasted 4th quarter 2016 compared to proposed 2017 budget**

Port of Galveston 2017 – Office and Sales Expense



2017 Budget compared to 2016 9&3 Forecast Increase in Office and Sales Expense

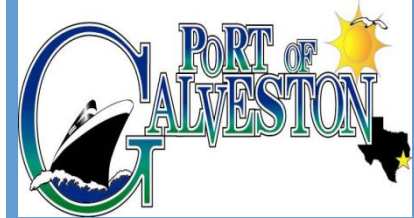
Direct Sales and Marketing Expense is forecasted to exceed the 2016 budget of \$371K by \$55.8K. The 2017 budget remains at \$371K, unchanged from the 2016 budget.

Professional Services increased \$52K.

Rent Expense decreased by \$173K. 2016 included rental on temporary tents at CT2 (\$210K). After the 2016 budget was approved, the Board approved a lease purchase agreement for the Market Street Parking lot (264K annual). Other property rent expense includes an increase in annual rate for the Sealy – Smith property leased for the VPC, and an annual increase in the rent on the UP property.

Office Supply and Other costs decreased by \$4K. These cost are actually Office and Administration cost – not just office supplies. Included in these cost are fees for copiers, other office equipment, payroll and HR services provided by ADP .

Port of Galveston 2017 – Office and Sales Expense



2017 Budget compared to 2016 9&3 Forecast Increase in Office and Sales Expense

Office (Con't)

Credit Card Fees projected to decrease \$4K due to more favorable credit card processing fees.

Dues Publications and Memberships are budgeted to increase \$2K.

Travel increased \$46K when compared to the 2016 9&3 Forecast. The 2017 budget is slightly higher than the 2016 budget. Port management reviews travel during the year minimizing travel when ever possible. Travel also includes costs incurred when attending training classes. Port staff will continue to strive to keep travel cost to a minimum.

Port of Galveston 2017 – Other Income – Non-Operating



Year	Other Income				<u>2016 9/3</u> Forecast	<u>2016 Original</u> Budget	<u>2017</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>			(Compared to 9&3 Forecast)
Revenues	59,866	37,637	10,371	24,198	47,034	18,396	46,500
Percentage Change		-37.13%	-72.44%	133.32%	94.37%		-1.14%

Included in the 2017 Other Income is Interest Income and finance, and bank fees.

As the Port continues to implement the current capital improvement program cash reserves are being reduced so funds generating interest income are declining

Interest rates have increased slightly and are budgeted to remain at current rates.

Port of Galveston 2017 – Interest and Other Expense – Non-Operating

Interest and Other Expenses							
Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u>	<u>2016 Original</u>	<u>2017</u> <u>(Compared to</u>
Expense	2,817,262	2,175,653	1,925,894	2,064,313	Forecast 1,906,902	Budget 1,919,336	<u>9&3 Forecast)</u> 1,714,322
Percentage Change		-22.77%	-11.48%	7.19%	-7.63%		-10.10%

Interest and Other Expenses consist of interest on debt (net of amortization of premiums, discounts and deferred gains on refunding) and gain/loss on retirement of assets. As outstanding debt balances declines, interest expense also declines.

Outstanding Debt as of December 31, 2016 consists of:

- 2011 Series Revenue Bonds**
- 2013 Series Subordinate Lien Certificates of Obligation (Refunded 2004 Series)**
- 2014 Series Parity Subordinate Lien Notes**
- 2004 Series Zero Coupon Bonds**
- FMT capital lease on Cruise Terminal 1 Gangway**
- Community Disaster Loan**



Debt service payments on 2011, 2013 and 2014 Series occur on February 1st (6 months interest plus annual principal payment for period ending January 31) and August 1 (6 months interest only for period ending July 31)

Port of Galveston 2017 – Debt Service

Debt Service Payments -- Revenue Bonds, Certificate of Obligations, FMT, CDL

Year	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 9/3</u> <u>Forecast</u>	<u>2016 Original</u> <u>Budget</u>	<u>2017</u>
							<u>(Compared to</u> <u>9&3 Forecast)</u>
Debt Service Payments	8,484,378	1,596,388	5,870,354	6,807,296	7,075,495	6,898,555	7,883,755
Percentage Change		-81.18%	267.73%	15.96%	3.94%		11.42%

2012 debt service increased and 2013 debt service decreased due to scheduled February 1, 2013 payment occurring in December 2012 as part of a refinancing .

2015, 2016, and 2017 include interest payments on the Series 2014 Revenue Notes.

Beginning in 2016 an additional accrual for the final payment on the FMT Note is being accrued. Additional accrual in 2016 is \$267K and in 2017 \$\$1.068M. Final payment on the FMT note is March 2018.

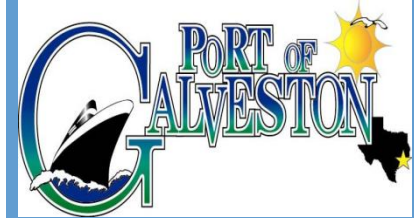


Outstanding Debt

**On December
31, 2016
Principal on
Outstanding
Debt will Total
\$44,635,300.**

**This includes
Series 2004
Zero Coupon
Bond, Series
2011, 2013
and 2014 along
with CDL and
FMT Capital
Lease**

Port of Galveston 2017 – Annual Renewal and Replacement Schedule



Annual Renewal and Replacement items are normally smaller cost capital items. The budgeted cost related to these items expires at the end of the budget year unless they are specifically requested to be carried forward to the next calendar year.

Once approved, each of these 2017 requests will be assigned a specific project identification number for tracking purposes while identified on the master project sheet collectively.

2017 R&R request total \$1,484,100 comprised of Capital projects totaling \$1,210,600 and Expense projects totaling \$273,500.

All Renewal and Replacement items are reviewed and prioritized based on availability of funds.

Items are scheduled for replacement or refurbishment on an annual basis.

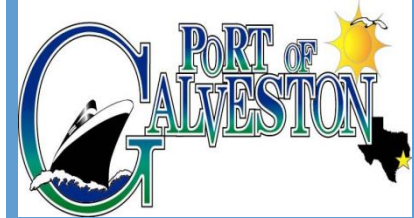
These items are normally capital in nature but include selected items totaling \$273.5K which are expense in nature.

Port of Galveston 2017 – Annual Renewal and Replacement Schedule

2017 R&R request total \$1,484,100

Major Category	
Safety Projects - Expense	\$15,000
Environmental - Expense	\$5,000
Utility Projects - Expense	\$8,000
Equipment Acquisition	\$181,000
Other Projects - Capital	\$867,000
Other Projects – Expense	\$245,500
Financial, Payroll and HR System Upgrades	
Computer Hardware and Operating System Upgrades	<u>\$113,600</u>
Total	<u>\$1,435,100</u>

All R&R projects are prioritized by Port Management and completed based on availability of funds



Items are scheduled for replacement or refurbishment on an annual basis.

These items are normally capital in nature but may include selected items which will be expensed.

Port of Galveston 2017 – Capital Improvement Plan

2017 Capital Improvement Plan

2017 Capital Improvement Plan and Capital Improvement Budget is presented as a separate document in the 2017 Proposed Budget Book.

