

# Minutes of Port Commission Special Meeting

## February 17, 2022

### In Person & Videoconference

A Special Meeting of the Port Commission of Port Freeport was held February 17, 2022, beginning at 9:36 AM at the Administration Building, 1100 Cherry Street, Freeport, Texas.

Commissioner Hoss noted the following information that was included on the posted agenda.

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.

Public comment will be available at the beginning of the meeting during the agenda item devoted to public comment. Public comment may be communicated in person or by videoconference, but in either event public comment will be limited to 5 minutes per participant and must be communicated verbally. Following public comment, the public will not be permitted to communicate with the Port Commission.

This meeting agenda and agenda packet is posted online at [www.portfreeport.com](http://www.portfreeport.com)

The videoconference is available online as follows:

Join Zoom Meeting

<https://us02web.zoom.us/j/87287242797?pwd=TXFOY250Z1FYM0FCbjFIUnZudXJTdz09>

Meeting ID: 872 8724 2797

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Dial by your location

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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. Mike Wilson, Director of Economic Development  
Mr. Jason Miura, Director of Business & Economic Development

Ms. Missy Bevers, Executive Assistant  
Ms. Mary Campus, Controller  
Mr. Jesse Hibbetts, Operations Manager

Also, present:

Mr. Chris Moore, Texas Port Ministry  
Mr. Gary Basinger  
Ms. Barbara Fratila

1. CONVENE OPEN SESSION in accordance with Texas Government Code Section 551.001, et. seq., to review and consider the following:
2. Invocation – Mr. Chris Moore, Texas Port Ministry.

At this time, the pledge of allegiance to the U.S. Flag and Texas Flag was conducted.

3. Roll Call - Commissioner Hoss noted that all Commissioners were present in the board room.
4. Public Comment – There were no public comments.
5. Discussion and consideration of Port Commission Meeting frequency and form of agenda posting.

Mr. Nemeth began by stating that he recently became aware that in addition to sending the agenda to the County to post, staff is also sending the entire agenda packet and believes this may be the one of the reasons for delays by the County. Under the government code, Port Freeport is required to post a notice specifying the date, hour, place and the subject matter to be discussed but instead, is also providing the County sometimes hundreds of pages to be posted. The notice posted at the Administration Building is just the agenda, without the packet. The agenda packet is placed on the port's website for any interested parties to access. The agenda packet is not something that is required for posting by the government code in terms of posting of notices. Mr. Nemeth and staff has discussed whether or not to continue sending the agenda packet to the County for its posting with the agenda. Ms. Saathoff noted that the practice of including agenda packet started when the Governor issued the exemption to the Open Meetings Act allowing under the pandemic to conduct all government meetings virtually. This was a requirement of that exemption. Ms. Saathoff stated that moving forward, staff can make it clear on the agenda that all meeting materials are available at the Port's website and provide a link. Mr. Nemeth reiterated that the packet is not a requirement of the government code, but it is being provided on the Port's website. Commissioner Pirtle then inquired about the format of the agenda and what is recited at every meeting. Mr. Nemeth stated that the introduction is not necessary however, when adjourning into executive session, the Chairman does need to announce staff is adjourning into executive session and state the specific statute under which the executive session will be held. Ms. Saathoff then began the discussion regarding the frequency of meetings and whether or not the board continues with two meetings per month or move to one meeting per month. Commission and staff agreed to try to have less meetings and evaluate whether or not a meeting is needed the second Thursday of the month. A request was also made to have agenda materials available to commissioners sooner, if possible.

6. Update and discussion regarding the search for General Counsel and the Request for Proposals.

Commissioner Hoss stated that a draft of qualifications in the form of a Request for Proposals has been received, staff is reviewing and is very close to send out. A list of attorneys/firms has been compiled and the RFP will be sent to these referrals. The draft and current list will be sent to the Commission for one final review.

7. Conduct a Planning Workshop for Port Freeport regarding the following:
  - A. Global Economic and Trade Outlook.
  - B. Vessel Arrivals, Tonnage and Forecasts.
  - C. Port Freeport Strategic Initiatives and Capital Plan Update.
  - D. Financing Strategies, Cash Flow Forecast, Debt Capacity, Tax Valuation and Rate Forecast.

Ms. Saathoff stated that staff will begin the workshop from a global perspective and then move into what's happening locally, inside the Freeport Harbor Channel overall and with the public docks. Staff will then show where the Port is with the capital initiatives and how they relate to the strategic initiatives, the Port's financial position and financing strategies moving forward.

#### ***Global Economic and Trade Outlook***

Mr. Wilson gave a presentation on global economic and trade overview covering container trade from percentage of merchandise traded, current recession and annual energy outlook. He shared graphs depicting global liquid fuel consumption and projections. He noted the U.S. continues to be a globally significant producer of crude oil and refined liquids. U.S. crude oil production in the lower 48 states show that west Texas and New Mexico account for a tremendous amount of production. Moving along to petroleum and other liquids, Mr. Wilson showed what the U.S. is producing and consuming and how it matches up to green energy. Natural gas production and consumption shows an upward trend through 2050 in the reference case and high oil and gas supply. Energy outlook and projections depict electricity generating capacity increases 52% to 84% across Annual Energy Outlook (AEO) cases with additions mostly from solar, wind and natural gas. Energy and electric power drive most of the increases in U.S. energy consumption in the reference case. Automotive and Ro/Ro show annual worldwide car sales in 2021 were better than 2020 but lower than any other year since 2013. The global chip market will continue to be impacted with IHS estimating the shortage of chips could exceed 10.5 million. Chip production capacity will increase as existing production stabilizes and new capacity begins to come online however, chip demand will increase resulting in continued restraint throughout 2022. Mr. Wilson also looked at the state of production and how alternative vehicles (ICE=Internal Combustion Engine, Hybrid, BEV=Battery Energy Vehicles) will fit in. Global Container Trade TEU for 2021 was 158 million TEU. North America became the second largest trading partner globally (this year) with Intra Asia beating out the U.S. by only 2 million TEU a year. Mr. Wilson briefly discussed the carrier alliances and the supply chain disruption and then shared carrier revenue growth over the last two years with average revenue of 96%, operating profit at 498%, operating margin of 15.8% in 2020 and 48.3% in 2021 and total net profit increase

average of 1235%. In 2020, Port Freeport became the 11<sup>th</sup> largest port in the nation in total foreign waterborne tonnage and in foreign & domestic total tonnage, 16<sup>th</sup>. Mr. Wilson then shared a snapshot of Port Freeport's growth by tonnage and how it ranked in imports and by value as of September 2021. Port Freeport continues to grow in both size and importance.

### ***Vessel Arrivals, Tonnage and Forecasts***

Mr. Durel gave a presentation regarding port-wide vessel arrivals which included vessel and barge movement activity for 2021 as well as future projections through 2024. Future projections indicate a 55% increase in vessel activity (from 2017) by 2024. Tug and barge moves remain flat. The Port inner harbor alone has seen a 26% increase since 2017 and is expected to increase to 56% by 2024 with an added weekly container service anticipated. Mr. Miura presented an overview of total tonnage for Port Freeport's public facilities for FY 2017-2021. Import volumes fell short due to the pandemic while export volumes increased significantly. Per the U.S. Census Bureau data, the port-wide total foreign waterborne tonnage was \$38.3 million tons in 2021 (27% increase). Mr. Miura shared charts covering total tonnage in various cargo groups handled by the public facilities. This includes bananas, pineapples, melons and plantains. Dry bulk commodities include limestone by ship and rail with 2020 and 2021 including 30,787 tons and 163,679 tons by rail. Liquid bulk tons include LNG, CO2 and reverse lightering. Total tons for general cargo include containerized dry cargo and non-steel breakbulk cargo which saw an increase in 2019 and 2020 but slowed in 2021 due to the pandemic. With regard to project cargo, 2017 and 2018 were better years for project cargo with many large-scale projects in the area were winding down import of their project pieces for their plant construction and expansion in 2019. 2020 picked back up with fabrication activity taking place on the Port property for liquefaction facility in Louisiana. Port Freeport has received 176,029 tons of steel by ship, barge and rail the first 3 months of FY 2022. Mr. Miura noted that should this pace continue, 2022 will be a record year for steel. Ro/Ro cargo includes new and used vehicles, high and heavy equipment and breakbulk cargo. When looking at Ro/Ro by vehicle units, FY2021 was a milestone year handling over \$106,000 units. OEM imports began exceeding OEM exports in FY2020. Overall, an upward trend continues in both OEM exports and imports. Container units has a good balance of imports and exports seeing 2019 and 2020 very positive with resin export slowing in 2021 due to pandemic and supply chain crisis however an upward trend is taking place.

### ***Port Freeport Strategic Initiatives and Capital Plan Update***

Ms. Saathoff stated that staff has been working under the Port's strategic initiatives, making investments in the Port that continue to support and grow the business with the Freeport Harbor Channel deepening and partial widening project, buildout of the Port's Container Handling Facilities, development of Parcel 14 for rail-served warehousing, processing and distribution facilities as well as support development of efficient transportation corridor to regional markets and beyond. She also discussed the FY 2022 capital budget for these projects which total \$86,833,600 and shared a breakdown of funds for the various capital projects.

Mr. Hull began his presentation on the Freeport Harbor Channel Improvement Project by stating the purpose of the project is to deepen the channel from current depth of 46 feet to a combination of 26, 51 and 56 feet to be the deepest port in Texas. He shared the various Reaches and their anticipated costs and completion dates noting Reach 3 was completed last year with Reach 2 widening and GRR portion scheduled to be complete by the end of this

year. Mr. Hull also discussed additional opportunities for funding for the project. Thus far, the Port was awarded \$19 million in 2020 and \$24.9 million in 2021 with four more opportunities to fund to completion. Ms. Saathoff noted that the Corps is working on a second Spend Plan associated with the unallocated IJA funds. Release date is expected next month. Mr. Hull stated that the Berth 8 Construction project continues with the last pile driven in September 2022, topping slab completed in December 2022 with crane power and crane rail completed early next year. Regarding the Parcel 14 Phase II Rail/CRISI (Consolidated Rail Infrastructure and Safety Improvements) Grant, Mr. Hull shared a drawing that shows the grant includes four tracks which is expected to begin soon. He noted that the Port has been awarded the grant and must accept it. Mr. Hull then discussed the numerous TxDOT Projects, bid and construction dates as well as a timeline showing how projects may overlap depending on when permits are obtained.

### ***Financing Strategies, Cash Flow Forecast and Debt Capacity***

Mr. Lowe reminded the Board where the Port stands in outstanding debt with both revenue and general obligation bonds as well as the capital lease for the gantry cranes. As of September 30, 2021, the total combined outstanding balance was \$258 million. He also shared the purposes for each of the current outstanding revenue debt issuances. Mr. Lowe anticipates issuing an additional \$25 million in revenue bonds to complete the Berth 8 activities (Nov-Dec 2022) and \$55.80 million in GO Bonds. Mr. Lowe stated that Standard & Poors issued a debt rating of A+/Stable for outstanding revenue bonds and further explained how that rating is based. The revenue bond 2021 modeling includes a future \$25 million issuance to complete Berth 8 Ro/Ro project, would maintain an A+ rating. Guidance suggests maintaining a 1.80 debt service coverage and with current projections, this would allow an additional \$75-\$100 million in borrowing capacity. The current debt service coverage is 2.47, and the debt service covenant requires a 1.25 debt service coverage. Mr. Lowe shared a view of the 5-year capital plan which shows completion of Berth 8 in 2022 and 2023 and continuing with the FHCIP. Areas 5 & 6 and potential cranes encompass 2024 and 2025. Mr. Lowe shared a total revenue projection through 2026 which includes a new customer for Berth 8 as well as current customer mix. Debt coverage projections chart shows where the Port would land with the revenue of a new service at Berth 8, 2.53-2.63 over the next five years. Mr. Lowe also shared the same scenario without a weekly service at Berth 8, which lowers the debt service coverage to 2.39. The Projected Project Cash Flow (FY22-FY23) table shows the Port's balances as of January 25, 2022, with over \$63 million available cash for the projects which include liquid cash, liquid investment and some of the revenue bond funds. Staff anticipates just under \$20 million for additional operating cash flow, anticipates under \$35 million going out into payments for Berth 8. \$8.4 million in debt payments will be due as well as \$4.1 crane payoff with an ending cash balance of \$35.7 million. Looking ahead to 2023, Mr. Lowe noted that if the revenue bond issuance of \$25 million was not included, the year-end balance would be \$8 million instead of \$33.1 million. Moving into 2024 with \$33.1 million, with the approved capital for next two years and the modeled cash flow, FY25 would end at \$10 million. This includes 2 gantry cranes, Velasco Terminal Areas 5 & 6 combined for \$55 million. Mr. Lowe showed a breakdown of the Berth 8 financing, using funds from bonds and capital reserve. Total project (Ro/Ro, engineering and design) is at \$145.9 million with \$33.4 million financed with Port Operating Income. Mr. Lowe also shared a graph depicting projected net revenue vs debt service and then discussed the tax rate projections through 2026 and how it will factor into the payments on the GO side. Lastly, he reviewed the FHCIP cash flow balance as of 1/31/2022.

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 551.071 (Consultation with Attorney):
    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 of Real Property) for discussion regarding:
    1. The potential exchange, lease, or value of real property located at Port Freeport, including but not limited to Parcel 14.
    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 and 7.
    3. Discussion regarding the potential exchange, lease or value of real property located in Freeport, Texas, including but not limited to the area known as the East End of Freeport and bordered by or adjacent to the following streets: FM 1495; East 2<sup>nd</sup> Street; Terminal Street and East 8<sup>th</sup> Street in Freeport, Texas.
    4. The potential exchange, lease, or value of real property located at Port Freeport, including but not limited to Parcels 4, 5, 6, 9, 19, 27, 31, 34, 35 and 38.
    5. The potential exchange, lease, or value of real property located at Port Freeport, including but not limited to Parcels 7, 8, 10, 26 and 37.
  - C. Under authority of Section 551.076 (Deliberation of Security Matters) for discussion regarding:
    1. Issues related to the deployment or specific occasions for implementation of security personnel or devices or security audit and services.
9. RECONVENE OPEN SESSION:
10. Adjourn.

With no further business before the Commission, the meeting adjourned at 5:03 PM.