

MINUTES

Board of Directors of the Houston Ship Channel Security District November 5, 2019

The annual meeting of the Board of Directors ("Board") of the Houston Ship Channel Security District ("District") was convened on November 5, 2019, open to the public, at the Pasadena Convention Center, 7902 Fairmont Parkway, Pasadena, Texas, in accordance with the duly posted Notice of Public Meeting. The roll was called of the officers and members of the Board as follows:

Niels Aalund
Eric Bass, Secretary
Brian Blanchard, Treasurer
Jimmy Burke
Carl Holley
Craig Nelson
Raymond Russell
Clayton Pace, Assistant Secretary
Gary Scheibe, Chair
Marcus Woodring, Vice Chair

and all said persons were present, except Directors Bass, Holley and Nelson, thus establishing a quorum. Also, present were Daniel Ringold and Diana Miller of Schwartz, Page & Harding, LLP ("SPH"), legal counsel for the District, and Bill Diehl and Al Cusick of the Greater Houston Port Bureau ("GHPB"), administrators for the District.

1. Call to Order

Chair Scheibe called the meeting to order at 10:36 AM.

2. Public Comments/Appearances

There were no appearances.

3. Approval of Minutes of October 15, 2019 Board of Directors Meeting

Chair Scheibe noted that the draft minutes of the October 15, 2019, Board of Directors meeting were distributed to the Board members in advance of today's meeting. Directors were asked if there were any comments or suggested revisions to the minutes. There being none, Director Burke moved to approve the minutes, as presented. Director Blanchard seconded the motion, which passed unanimously without further discussion.

4. Consider the Engagement of McCall Gibson Swedlund and Barfoot PLLC as Auditor for Fiscal Year 2019

Mr. Cusick advised the Board that Mr. Brian Toldan of McCall Gibson Swedlund and Barfoot PLLC ("MGSB") was unable to attend today's meeting; however, he submitted a proposed engagement letter for MGSB to perform the audit of the District records for fiscal year 2019 at the same projected fee as the FY2018 audit of \$10,500. Director Blanchard moved that the District accept the engagement of MGSB to perform the District's annual audit for fiscal year

ending December 31, 2019 in accordance with the proposed engagement letter. The motion was seconded by Director Russell, and passed unanimously.

5. Chairman's Annual Report

Chair Scheibe advised that he would present his report at the annual luncheon. A copy of the report is attached as **Exhibit "A"**. He noted the TWIC Reader Rule is still pending in Congress. He also advised the Board that the CFATS Reauthorization Bill is slowly moving through Congress.

6. Treasurer's Annual Report

Treasurer Blanchard provided some highlights from the Treasurer's report, which is attached as **Exhibit "B"**.

7. Consider Approval of the 2020 Operating Budget.

Treasurer Blanchard presented a proposed operating budget for the District's fiscal year ending December 31, 2020, commenting that the budget reflects the commitments of the District to support the security projects and services previously approved by the Board. He further noted that administrative expenses comprise less than 8% of the budget. Director Burke noted the assessment rate remained unchanged for the second year, down almost 75% from the original assessment rate in 2010. Treasurer Blanchard moved that the Board adopt the operating budget for fiscal year ending December 31, 2020, as presented. Director Nelson seconded the motion, which passed unanimously. A copy of the 2020 Operating Budget is attached as **Exhibit "C"**.

8. Consider Approval of October Invoices.

Treasurer Blanchard presented 2 checks requiring approval by the Board:

1. Greater Houston Port Bureau - \$16,306.48 for October administrative services; and
2. Harris County - \$69,602.98 for 2016, 2017, and 2018 PSGP local match funds.

Director Burke moved to pay the checks. Director Blanchard seconded the motion, which passed unanimously.

Chair Scheibe asked Mr. Ringold to address agenda items 9 thru 13 together and the Board would vote on them at one time when finished.

9. Consider Approval of Fourth Amended and Restated Agreement with the City of Baytown for 2019 Security Projects

Mr. Ringold noted that a copy of the proposed Fourth Amended and Restated Interlocal Agreement with the City of Baytown was provided to the Board members for review in advance of the meeting as part of their materials. He advised that this amendment and restatement of the agreement incorporates the terms and conditions of the previous agreement, extends the term of the agreement for one year, and adds provisions relative to the direct funding for Marine Firefighting and Small Boat Training approved by the Board.

10. Consider Approval of Agreement with City of Houston for 2019 PSGP Projects and 2020 Security Services

Mr. Ringold advised the Board the previous Interlocal Agreement with the City of Houston allowed for up to five (5) annual letter agreements to amend the projects covered by and extend

the term of that Agreement. He further advised that, as the Agreement is six years old, a new Interlocal Agreement is required this year. He advised that a draft of the proposed replacement agreement is include in the Board's members meeting materials and that said agreement incorporates the prior and ongoing security projects and services provided by the City of Houston, as well as the parties' obligations relative to the acquisition, funding, implementation and use of the City's FY 2019 PSGP projects approved by the Board. Mr. Ringold noted that it also includes provisions relative to the procurement of a replacement mobile collaborative platform and radios for the B.E.S.T. Unit. Mr. Ringold noted that Mr. Rick Retz has advised that newer model radios, other than those identified in the original request, may be purchased at no additional cost to the District, and that the draft agreement would be revised to so reflect.

11. Consider Approval Eighth Amendment to the Agreement with Harris County for 2019 PSGP Projects and 2020 Security Services

Mr. Ringold advised the Board that the proposed Eight Amendment to the agreement with Harris County adds the FY 2019 PSGP projects matching funds and the 2020 security services previously approved by the Board to the existing agreement and extends the term of the agreement for one year. Mr. Ringold noted that the County has recently received the draft of the Amendment and has not yet has the opportunity to provide comments thereto, and asked that the agreement, if approved, be subject to the Chairman's approval of any comments from Harris County and negotiations with the District's attorney.

12. Consider Approval of Forth Amendment to Interlocal Agreement with Texas Parks and Wildlife Department for 2020 Security Services

Mr. Ringold advised the Board this amendment was provided to the Board as part of their materials and extends the term of the existing agreement and states the reimbursement rates for the 2020 Security Services.

13. Consider the Approval of an Agreement with the Port of Houston Authority for a Port Security Donation of \$42,900

Mr. Ringold advised the Board that the Port of Houston Authority, although operating facilities within the District, is not subject to assessment by the District. However, the Port Authority has voluntarily donated funds to the District in each prior fiscal year and wishes to do so again this year. He noted that a draft of the agreement is included in the Board's meeting materials and is in the same form as what the Board has approved in prior years.

After discussion of the various proposed agreements and amendments, Director Burke moved that each of the agreements and amendments covered under items 9 thru 13, above, be approved as presented, and that the Eighth Amendment to the Agreement with Harris County be subject to the Chair's approval of the County's comments, as negotiated by the District's attorney. Director Woodring seconded the motion, which passed unanimously. Mr. Ringold noted that any materials changes to the proposed Eighth Amendment to the Agreement with Harris County would be brought back to the Board for consideration of approval.

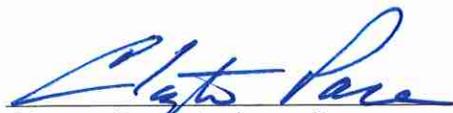
14. Adjourn

Chair Scheibe adjourned the meeting at 10:55 AM with a motion by Director Blanchard, seconded by Director Russell, which passed unanimously.

Next Meeting – December 10, 2019

The next regular meeting of the Board is scheduled for December 10, 2019 at 2:00 PM.

The above is a correct copy of the Minutes of the November 5, 2019, annual meeting of the Board of Directors of the Houston Ship Channel Security District.



Clayton Pace, Assistant Secretary

LIST OF EXHIBITS

- A. Chairman's Annual Report
- B. Treasurer's Annual Report
- C. 2020 Operating Budget

Exhibit 'A'

**Chairman's Annual Report
November 5, 2019**

What is the Houston Ship Channel Security District? It is a unique public-private partnership dedicated to improving the security of the region's waterside and landside supply chain. This is accomplished by

1. Providing the local matching share funds for federal grants for security projects
2. Providing funding assistance to state and local law enforcement agencies for security monitoring and patrols, and
3. Providing security training classes for personnel employed by the facilities of the District

Yearly Highlights

Some of the successes and accomplishments of 2019 are as follow.

LE Partner Patrols

- Since October of last year, the City of Houston Police Department, Harris County Sheriff's Office, and Texas Parks and Wildlife Division completed **over 5,000 air and marine patrols** of the Houston Ship Channel and local waterways.
 - City of Houston/HPD: 206 airborne hours and 705 waterborne hours
 - Harris County Sheriff's Office: 197 waterside, 3,968 landside, and 135 aerial patrols
 - Texas Parks and Wildlife Division: 271 waterside patrol hours

Port Security Grant Program

- Through industry's 25% cost matching support for Port Security Grants, our partners are able to obtain almost **\$8 million** for Security Projects in 2019. Put another way, for 25 cents our members receive a dollars' worth of services to ensure our cargo keeps moving in the Port area.
- The HSCSD Board approved matching requests for port security grants for:
 - **City of Houston over \$2.75 million** for projects to improve rotary and fixed wing air support capabilities; add 2 new Safe Boats with CBRNE detection equipment, and; Build a new Marine Tactical Operations Center.
 - **Harris County CTS over \$1.33 million** for upgrades to 43 sites including 100+ Pan/Tilt/Zoom thermal cameras.
 - **HCSO over \$2.25 million** for improvements to air and marine units' response capabilities, including a new Safe Boat; new fixed wing aircraft; and upgrades to the existing marine unit boats and equipment.
- The Security District also helped fund **\$1.65 million** in operations and maintenance of equipment and assets purchased with current and previous PSGP awards.

Training

- The Security District hosted 14 certification and refresher training courses, compliance workshops, and other training events for a total of **3,550 student hours** at no cost to participants.
 - Recurring trainings include 2 MTSA FSO certification courses, 2 CFATS FSO training courses, 3 MTSA FSO refresher courses, 3 CFATS compliance workshops.
 - This year we are sponsoring 3 new classes entitled Cyber Security for the FSO, developed and taught by ABS Group.
 - The District is also funding a FAA Part 107 Drone Knowledge and Examination Training Course which is being held this week.
- Plans are underway for a workshop on the TWIC reader rule once the final rule clears congress.

Initiatives

- The HSCSD continued the **funding of \$215,180** for the continued support of two maritime intelligence analyst positions within Texas DPS to focus on maritime security threats. One position is based in Austin at the State Fusion Center and one is based in Houston with DPS's intelligence center, to include work at locations within the Security District. WE are very pleased with the work we have seen produced by them so far this year.

Closing

- What makes the HSCSD work is that it's a public-private partnership, created by industry for industry. Our success is owed to you as great partners.
- We're constantly engaging to make sure we're being good stewards, and if you have any comments, questions, or concerns, please contact me directly or your zone representative.
- This only works if you continue to see the benefit of supporting this partnership.

Treasurer's Annual Report

I am happy to report that the District remains in a strong financial position while supporting all existing Security Projects and Services, as well as continuing to evaluate and facilitate additional projects and services that provide benefit to our member facilities. The District began the current fiscal year with \$10,403,292.99 in funds on-hand and is projected to end the current fiscal year with \$10,500,000.00 in the bank. This is generally in line with the budget for the current year. The District has collected approximately 5% of the current year assessments. All District funds remain continuously secured, either through insured bank deposits or pledged collateral securing the portions of those deposits above FDIC insurance limits. Both Mr. Cusick and I remain current with required Investment Officer training requirements. A copy of the written report is included in your Board materials for today's meeting.

Approval of the 2020 Annual Operating Budget

Included in your Board Book materials for today's meeting is the proposed annual operating budget for the District's fiscal year ending December 31, 2020. The proposed budget reflects anticipated income of \$1,886,400.00 against anticipated expenses of \$4,637,987. The difference between income and expenses will be covered with surplus funds on hand from prior years' revenues.

Projected income consists of:

\$1,651,500 in assessment revenue; and
\$42,600 in contract revenue received from the Port Authority.
\$192,000 in Interest Income accounts for the remainder.

Projected expenses consist of:

\$2,465,838.00 in grant matching funds;
\$105,475 in direct funding for capital projects by law enforcement partner agencies;
\$1,427,836.00 in funding to law enforcement partner agencies for enhanced security services within the District;
\$66,000.00 for training available to District facility employees and law enforcement personnel;
\$215,180.00 in funding for the State security analysts; and
\$357,658 in general operating and administrative expenses of the District.

Several highlights of the proposed budget are:

- The assessment rate remains unchanged from the last 2-years.

- The District has committed to provide \$2.0 Million in support of security projects in the upcoming year, compared to \$2.51 Million 2019. The vast majority of that Two and a Half Million Dollars is in grant matching funds, meaning the District is getting a 3 to 1 return on that investment. That means the District is facilitating approximately \$10 Million in benefit to our member facilities in the upcoming year.
- The District has committed to provide \$1.4 Million in support of enhanced security services within the District for 2020, which remains unchanged from the current year. There are no material reductions in the proposed scope of enhanced services being provided by our law enforcement partners, despite rising operating costs. In fact, in several areas, there are additional services being provided. Again, this is at no additional cost to our member facilities, as we have held assessment rates firm in the recently adopted Plan of Assessment.
- Budgeted General Operating expenses remain steady from last year. Further, operating expenses represent less than 8% of the overall budgeted expenditures. That means we are putting more than 92 cents of every dollar received by the District to work towards security projects and services, with much of that returning a 4x multiple on actual security investment through leveraging federal grant funding.
- In short, we continue to focus on providing the greatest benefit to our member facilities in the way of keeping the channel and surrounding areas secure to minimize threats to persons and property and disruptions to business operating conditions, all the while being fiscally responsible with the funds with which we have been entrusted.

**Houston Ship Channel Security District
Operating Budget
Jan 1, 2020 to Dec 31, 2020**

Exhibit 10'

Account ID	Account Description	YTD Total		
4000	Assessments	1,651,500.00		
4002	Assessment Reduced on Appeal	0.00		
4100	Interest Income	192,000.00		
4350	Contract Revenue	42,900.00		
6425	Postage & Delivery	2,400.00		
6450	Office Supplies Expense	1,800.00		
6460	Administrative Services	240,000.00		
6470	Legal Fees	60,000.00		
6475	Audit Fees	15,000.00		
6480	Education & Training	66,000.00		
6500	Telephone Expense	408.00		
6550	Other Office Expense	2,400.00		
6575	News Letter	2,000.00		
6600	Advertising Expense	500.00		
6700	Meeting Expense	9,550.00		
6725	Travel	10,000.00		
6741	Collection Agency Fees	0.00		
6750	Meals & Entertainment	1,200.00		
6850	Service Charge Expense	2,400.00		
6950	Insurance Expense	10,000.00	423,658.00	7.71%
7000	County Grant Matching Funds			
7000.171	CTS Port Security Servillance	121,898.00		
7000.175	Marine Unit Standardization	35,305.00		
7000.181	CTS Security System Upgrade &	252,190.00		
7000.182	35' SAFE Interceptor Boar	246,278.00		
7000.183	HCSO Air & SWAT Response Capab	93,224.00		
7000.184	HCSO Dive Unit ROV & Training	94,812.00		
7000.185	HCSO Bomp Unit Robot & Line	44,251.00		
7001	City Grant Matching Funds			
7001.171	COH Law Enforce Aviation Monit	248,000.00		
7001.172	COH Air Supp Enhan, Maint, Mon	57,586.00		
7001.173	COH Specialized Team Water Ops	68,727.00		
7001.174	COH Secur Patrol Boat Sustain	18,364.00		
7001.175	COH Hazmat Enhancement	213,250.00		
7001.181	COH Air Support & Maint.	152,827.00		
7001.182	COH Wide Area Surveillance	205,316.00		
7001.183	COH 33'SAFE Boat & Upgrades	213,914.00		
7001.184	COH Interagency Operation Cent	280,984.00		
7001.185	COH Speciali Team & UAS aircra	31,412.00		
7002	Baytown Grant Match			
7002.179	COB Bomb/Dive Squad Equipment	36,875.00		
7002.181	COB 32' CBRNE Boat	87,500.00		
7003	Capital Projects			
7003.199	BEST Radios	68,600.00	2,571,313.00	
7010	Grant Operation & Maintenance			
7011	HCSO O&M Marine Fuel & Maint	171,096.00		
7011.003	HCSO Veichle Fuel & Maintenance	155,700.00		
7012	HC-Universal Services O&M	598,000.00		
7013	HC-Engineering O&M	62,000.00		
7014	HCSO Air Assets Support	56,440.00		
7030	HPD Helicopter Fuel Agreement	87,600.00		
7031	HPD Boat Fuel Agreement	180,000.00		
7041	TPW Warden Marine Support	117,000.00		
7101	Fusion Center Support	215,180.00	1,643,016.00	
	Revenue	1,886,400.00		
	- Expenses	-4,637,987.00		
	Net Income	-2,751,587.00		