PORT ISSUES

The U.S. public port industry is faced with many complex issues. Today's port organizations must address issues ranging from financing current operations and future terminal development to complying with environmental laws and regulations, which impact most port activities. Reliable and secure funding sources are necessary to finance the development programs required to meet future trade growth. To be able to maintain and improve channels and to dispose of contaminated dredged material, ports need a predictable, timely, and efficient dredging process. Our Nation's growing dependence on intermodal transportation requires that landside access to marine terminals be improved and that ports become more involved in the local transportation planning. The port industry's ability to resolve these issues is crucial to both the industry and the Nation, due to the key role ports play in our intermodal transportation system and national defense.

PORT DEVELOPMENT FINANCING AND REVENUES

Financing capital development programs and generating sufficient revenue streams remain two key issues for public ports. With foreign trade expected to double by the year 2010, ports must continue to expand terminal facilities and related infrastructure to accommodate this projected growth. The public port industry's ability to fund the required development programs remains in question. The fiscal sentiment of many local port communities makes raising revenues through increased taxes or appropriations unrealistic. State and local governments, with their own budgetary concerns, continue to focus on their ports becoming more financially self-sufficient.

Financing Capital Expenditures

The importance of funding for facility development can be seen by examining the expenditure levels for the leading ports based on actual and projected expenditures shown in Appendix F. For 1996, the range of annual investments for the ten largest capital programs showed that one port exceeded $407 million with the remaining nine ports ranging from $180 million down to $28 million. In looking at 5-year projections (1997-2001), estimated capital expenditures exceed $1 billion at one port with the other nine ports ranging from a high of $866 million to $222 million. Given the magnitude of these capital programs, the issue of funding is and will continue to be critical to the public port industry's ability to handle the projected growth in waterborne trade.

Ports seeking financial assistance from their governing body or state/local community will face stiff competition for scarce public funds. Ports must be able to demonstrate the economic benefits of their capital programs to local communities. This task is difficult as many of the economic benefits resulting from port investments extend beyond the local community or region to distant communities where exports are produced and imports consumed. Further, these benefits may be difficult to measure and quantify. Appendix G describes several examples of state-level port development programs that offer financial assistance to ports in the areas of marketing and infrastructure improvements.

The changes in the port industry's funding pattern for capital programs observed in 1994 did not hold true in 1996. The 1996 funding pattern reverted to the more traditional pattern of port revenues and revenue bonds. With the exception of 1994, these two funding sources have been the top two methods of financing port expenditures for the last 20 years. Their combined usage was 74.3 percent in 1996. In 1994, however, this funding pattern changed to port revenues and "other", which includes state transportation trust funds, state and local appropriations, property/sales taxes, and lease revenues, with a combined share of 56 percent. The 1994 funding pattern seems to have been an anomaly. The use of revenue bonds has risen sharply from a low of 14.9 percent in 1994 to the leading funding method in 1996 with 42.6 percent.

Looking at projected funding pattern for 1997-2001, the funding sources are virtually identical in order and magnitude to those used to finance the 1996 expenditures. For this period, the top three funding sources are: revenue bonds (43.5%), port revenues (31.1%), and GO bonds (12.1%). The order of the final three places shift slightly with grants and “other” trading places. If projections are correct and port revenues and revenue bonds continue as the primary funding sources, the crucial question is whether ports can generate sufficient income to support this type of financing.

Prior reports described a unique financial arrangement in California, whereby, state legislation permitted local municipalities to require payments from their local port. The following summarizes the status and impact of this legislation:

- California enacted legislation in 1991 allowing five cities to require payments from their local port's reserves to offset the loss of funds formerly provided by the state.

- During fiscal years 1991-92 and 1992-93, the Ports of Los Angeles and Long Beach gave their cities $69 million and $21 million, respectively.

- In June 1995, the City of Los Angeles released a city commissioned study, which found that the city could charge its port for municipal services, such as police and fire protection, and not violate state laws. Thus, for municipal services rendered during the previous 18 years, the city charged the port almost $90 million.

- Over three fiscal years ('94-95, '95-96, & '96-97), the Port of Los Angeles paid the city $94.1 million. Of that amount $56.7 million was partial payment of the $90 million bill above, and $37.4 million was for current charges incurred since 1995. Prior to the 1995 study, the port paid the city $10 to $12 million annually for city expenditures benefitting the port. The California State Lands Commission is challenging these municipal payments in court and has sued the city to return the payments.

The impact of this legislation continues to affect development plans, cause some uncertainty in credit markets, and upset port users. This situation exists to a lesser degree in other states where port funds have been utilized to finance non-maritime projects.

In another development, six California ports created a joint financing authority in November 1995 to issue bonds on behalf of individual ports. The California Maritime Infrastructure Authority provides ports with conduit financing for issuing bonds when municipal restrictions prevent or delay port plans to float bond issues on their own. The Authority will work with a maritime infrastructure bank created in 1993 (see next paragraph) as a conduit for Federal and state funds to be loaned for port projects. The Authority currently has no debt rating of its own, and member ports are not responsible for the debts of other ports. To date, the Authority funded one airport project and one port project, which financed the local share of the construction cost for a Federal navigation project. State legislation is pending which will use the Authority to channel $17 million in state financial support for Federal navigation projects statewide.

The maritime infrastructure bank mentioned above is called the California Maritime Infrastructure Bank. Its purpose is to promote the growth of international trade flowing through California's port system, as well as state economic growth. Envisioned as a type of credit union for ports, the bank was to finance both public and private port projects. The bank serves as the operating arm of the Authority, but is currently inactive pending capitalization.

Revenue Generation

Two key factors which influence a port's ability to generate revenue are strong national and international competition and excess capacity. Acting together, the two tend to exert downward pressures on both rates charged for port services and, ultimately, port revenue. In addition, port revenues are tied closely to the condition of regional and national economies. Today, there is strong competition among U.S. ports, both in terms of maintaining their existing cargo base and in attracting new business. The introduction of global alliances increases the leverage of carriers in negotiating port leases and services.

The data exhibited in Tables 30 to 32 and Figure 4 summarize the port industry's 1996 net income. These figures show that 77 percent (40 ports) of those surveyed reported net profits, and 23 percent (12 ports) had losses. Although 42 percent of the profitable ports had net incomes above $5 million in 1996 (showing considerable growth in the port industry's profitability compared to 1994), profit margins are still considered low.

The industry's low profit margins are a result, in part, of how public ports view their economic role. This view translates itself into the pricing practices used by public ports for their services, facilities, and equipment. There are two main philosophies on the role of public ports. The majority view is that ports are to promote regional economic development and to create jobs. The minority belief holds that public ports are to be profit-making enterprises. While emphasizing economic development, most ports attempt to combine these two philosophies, with mixed results. Thus, while many ports advocate a pricing policy that both covers their costs and provides an adequate return on investment, very few achieve it.

Focusing on economic development tends to depress price levels and increase service competition, because public ports rely on price and service competition to attract and hold business. Price competition lowers revenue while service competition may increase costs by requiring additional investments in facilities and equipment. One consequence of price/service competition is that many ports rely on state and local subsidies to cover financial shortfalls.

The economic costs of following price/service competition ultimately may force the port industry to reexamine these practices. Six east coast ports[14] are exploring the potential benefits of regional cooperation within the context of the antitrust immunity under the Shipping Act of 1984. The ports have agreed to share information on rates, charges, rules, and conditions of service information, but not to set rates collectively. The Atlantic Coast Public Marine Terminal Agreement, as it is known, is subject to Federal Maritime Commission approval. The agreement may be an attempt by the ports to offset the increasing bargaining strength of shipping lines resulting from the global alliances. With better information, ports will be able to make more informed decisions with respect to retaining existing business and competing for new business.

14 The six ports are New York-New Jersey, Baltimore, Hampton Roads, Wilmington (NC), Charleston, and Savannah.