Hon. Mayor Ashton Hayward – City of Pensacola, FL
222 W. Main St.
Pensacola, FL 32502

November 9, 2011

Mayoral Port Advisory Committee Findings and Recommendations

Committee Members:

Mr. John Myslak – chair
Mr. Blaise Adams
Mr. Bill Greenhut
Dr. Rick Harper
Ms. Debbie Calder

Pursuant to your commitment to increase the number of sustainable, high paying and green jobs, and to improve overall economic activity for the City of Pensacola, this committee endeavored to study and understand current Port operations, and make recommendations to maximize the Port property's benefit to the community. You asked the committee to focus on three areas:

1. Identify the Port's current financial condition and capital improvement needs.
2. Evaluate current market opportunities for the Port.
3. Identify the highest and best use for the Port and layout a course of action.

In developing our conclusions and recommendations we took the following approach:

1. Evaluated past studies from past boards and committees as well as the intermodal study conducted by the Haas Center at UWF.
2. Visited the Port and interviewed senior Port staff on multiple occasions.
3. Heard presentations for current Port tenants.
4. Heard presentation from Port staff on current operations.
5. Heard presentation from professional entertainment venue developer.
6. Heard and considered thoughtful public forum input.
7. Heard Dr. Harper's report from calls made to various respected economists around the state (Appendix).

Our findings are as follows:

Objective 1: Current Financial Status of the Port
In fiscal year 2010, the Port realized a pre-depreciation operating income of $150,656.00 on revenues of $1,855,444 and expenses of $1,704,788. We have enclosed a copy of the audited financials for your further review (Appendix A). FY 2011 numbers will be

known shortly, but suffice it to say that there is not expected to be any dramatic increase in Port revenue during the current period. Furthermore, with few exceptions, there is not likely much upside potential in the 3 year period looking forward, based on a review conducted by Dr. Rick Harper through his interviews of several respected Florida economists with knowledge of the maritime industry and the Port's business mode. (Appendix B).

Currently the Port of Pensacola operates largely as a tenant port offering leases to various private business that utilize Port infrastructure, primarily berthing capability and rail access.

Current Port tenants and lease terms are as follows:

HALCORP: 4.2 acres. Annual lease fee is $300,000. Lease term runs through June 30, 2011 with a 365 day cancellation notice. Tenant then has 6 months to vacate following lease termination date including removal of improvements. Tenant does retain some liability for environmental cleanup for up to 7 years following departure.

Martin Marietta: 5.4 acres. Annual lease fee is a minimum of $263,000 to a maximum of $400,000. They are currently at the minimum. Lease term runs through Nov. 30, 2022 with 5 year renewals. The next renewal date is November 30, 2012. Current renewal/non-renewal notice is not clearly specified, however past renewals have required 120 days advance notice. Tenant then has 60 days to vacate including removal of all improvements. Termination for convenience prior to the lease term requires 12 months notice and compensation of $200,000 per year remaining on lease term.

Cemex: 90,000 sqft terminal. Annual lease fee is a minimum of $326,000 to a maximum of $500,000. They are currently at the minimum. Lease term runs through Dec. 31, 2022 with 2 and 5 year renewals, solely at the discretion of the tenant. Current renewal runs through December 31, 2012. Should CEMEX decide to leave they must provide 120 days written notification. Based on reports from Port staff, Cemex has not had a ship in port for over 2 years, yet still commands a prime location at the Port. Further, most, if not all, of the materials currently stored in the Cemex warehouse at the Port arrive by rail.

NWF Cold Storage: 69,000 sqft freezer bldg. Annual lease fee is a minimum of $304,000 with a maximum of $500,000, and NWF Cold Storage is currently leasing at the minimum. Lease term runs through February 22, 2024 with 5 year incremental renewals. The next renewal date is February 22, 2014. Renewal requires 120 days advance notice. Tenant then has 3 months to vacate including removal of improvements.

Offshore Inland Marine: 36,000 sqft up to 72,000 sqft. Annual lease fee is $104,000 with a maximum of $400,000. The lease term runs through April 30, 2024 with 5 and 2 year renewal increments. The next renewal date is April 30, 2012. Lease automatically renews unless 180 day advance notice is provided. Tenant then has 90 days to vacate including removal of improvements.

Port Capital Improvement Needs

The Port currently generates approximately $1,900,000 per year in revenue, which is consumed largely by operating costs. The Port requires significant and regular maintenance to continue current operations and to satisfy lease requirements. These maintenance and capital improvement items are costly and the Port has three options for funding – state or federal grants or matching funds, port revenues, and city contributions.

As of today, the Port's immediate capital needs exceed capital reserves, and funding must be secured. The Governor has allocated $1.5 million dollars to the Port, but it has not been determined that the money can be used for all of the specific capital improvement needs. Current Port capital expenditure and maintenance needs are as follows:

Maintenance dredging (Mandatory)
Cost $650,000
FY2012 - FSTED contribution $256,000 and local contribution is $394,000 (paid for out of Port operating revenue).

Shoreside Utility Improvement: (Budgeted)
Cost $150,000
FY2011/2012 - FSTED contribution $75,000 and local contribution $75,000 (paid for by Port operating revenue).

Berth 6 Rehabilitation: (Mandatory)
Cost $2,600,000
FY2013 - FSTED application for $1,950,000 and proposed local contribution of $650,000 (based on projected FY 2012 revenues, local match is short $230,000 of this $650,000)

Complete Rail Rehabilitation: (Mandatory – future)
Cost estimate $3,100,000.
Funding TBD. All rail heads are utilized currently.

Future Optional Items:

- Berth 6 Fender Replacement: $1,500,000
- AMH Terminal: $6,500,000
- Container Crane: $3,750,000
- Trackmobile: $150,000
- Dredge and bulkhead Commendencia Slip $11,000,000

Summary of capital needs: For mandatory capital needs from FY2011 thru FY2016, the total funding requirement is $6,500,000. State and Federal commitments thus far are $331,000 with an additional $1,950,000 from FSTED for Berth 6 rehab, leaving a shortfall of $4,219,000 for mandatory capital projects. Part of these funds may in fact be available from state or federal sources, but as of this writing they are not secured. Based on past financial reports, it would seem unlikely that this shortfall could be met by future operating revenues.

Objective 2: Evaluate Current Market Opportunities for the Port

The Port sits on 50 acres of downtown waterfront property, with no immediate room for expansion. Intermodal facilities in the local area have been determined by experts, at UWF and elsewhere, to be non-viable (see Appendix B). Evaluating current market opportunities and growth potential for the Port is difficult, given the competitive marketplace and the dependence of the Port leases on current business tenant performance for revenue growth, with most lease terms containing minimal, if any, incentives for tenants to exceed minimum throughputs. Further, as many Port tenants themselves noted, market forces – both international and domestic – are huge impacts on many current tenant business models, and beyond the control of some tenants to influence.

For ship calls the Port has no sewer pump out capability, etc. Based on the statements of Port staff, "creating" more Port traffic is difficult given the current tenant configuration and lack of container handling equipment. Internal structural challenges put the Port in a competitive disadvantage as well, as many nearby Ports (Mobile, Jacksonville, Panama City) are able to quickly sign leases, or capitalize on business opportunities. Under current policies, the Port of Pensacola is unable to contract for services or lease agreements without approval of City Council, which hampers the ability of the Port to "close the deal" quickly with potential prospects.

Economic activity for the Port and its effect on the City of Pensacola are also somewhat difficult to determine. One would typically look at two broad aspects of economic activity when evaluating the Port. These aspects include employee payroll, and economic impact or benefit to local companies using the Port.

The central questions to the employee / jobs impact, would be, how many jobs are created at the Port and at what rate of pay? What are the full time equivalents? This information is totally dependent on the committee knowing and understanding how many people the current tenants employ and at what rate and for how many hours. The following information was provided by Port tenants to the committee at our October 19th meeting:

- Martin Marietta – 3 employees with approximately $175,000 in payroll
- Offshore Inland – approximately 200 part and full time employees throughout the year and approximately $1,050,000 per year in payroll. Major plans for expansion and growth. Niche port business with high tech and high paying jobs.
- City of Pensacola Employees – 10 with approximately $500,000 in payroll.
- Cemex – **Did not respond.**
- Halcorp – $225,000 in payroll, approximately 3 employees. Sister facility in Mobile, AL, and ability to transport their product over 100 miles to market

- NWF Cold Storage – currently operating at 30% capacity with no major prospects for rapid improvement. Payroll of $915,000 per year and local supplier purchases of approximately $1.2 million. Intermittent work with approximately 1 ship every 6 weeks.
- Pate Stevedoring – provides stevedoring services for current Port tenants as well as local companies such as GE that export product through the Port. Current annual payroll of $550,000 and local purchases of goods and services of approximately $1.6 million. Employment based on need; intermittent.

The second component to overall economic activity would be how many businesses in the area either bring in their raw materials, which are then converted and shipped to markets using local labor, and how many companies use the Port as a point of shipment for products that are locally produced.

To the committee's knowledge there are NO companies based in the city that utilize the Port directly. Moving out to the larger two county area, there are some construction companies and concrete plants that do in fact utilize the products and services of Martin Marietta, Cemex and Halcorp. GE also utilizes the Port sporadically to ship some products. The question would then become, if the Port did not exist, would local industry be negatively affected in terms of economic activity and or jobs?

The answer appears to be no. Aggregate, cement and asphalt are commodities and communities without port facilities regularly find supplies of these products easily. By example, El Paso, Texas – a city with no port access anywhere nearby - sells redi-mix concrete for construction at prices at or below current sellers in the Pensacola market. While Pensacola roadbuilders are unlikely to buy concrete from El Paso, Texas, the illustration is clear. Anecdotal evidence (based on conversations with local contractors) indicates that these buyers prefer to purchase Cemex products at the Olive Rd rail terminal, as access to the Port is frustrating due to homeland security measures. Furthermore, many area contractors have indicated that they can actually go to the wholesale yard in Theodore, AL and buy cement cheaper, even when including the extra truck freight. From the perspective of asphalt supply, Halcorp has facilities in Mobile that can easily support the Pensacola market, based on the transportability of that product.

It should be noted that the Offshore Inland Marine operation is an exception. Offshore Inland currently services the oil exploration industry and sub-sea support vessels. While in port, these vessels typically spend an average of $25,000-$50,000 or more per day, based on numbers provided by Offshore Inland staff. These expenditures include but are not limited to fuel, food re-supply, hotel rooms for crews and visitors, flights at the airport, purchases of hardware and local supplies at local businesses such as Pensacola Hardware, etc.

Based on the statements of the Offshore Inland representatives, the Port of Pensacola actually has a competitive advantage over other home ports for Offshore Inland's customers, as we have paved dockside areas, versus red clay and mud in other locations.

In addition, the Pensacola Port's location relative to the majority of the offshore oil and gas exploration, as well as the ease of navigation and short distance to the sea buoy.

Given the tenant nature of the Port and having no Port authority, the potential to develop these kinds of high tech niche port businesses is very realistic. The vessels that Offshore works on are some of the most high tech oil field support vessels in the world and the teams that work on them are typically well trained and well paid, meeting both criteria of the economic impact evaluation.

It is worth noting that Ms. Nancy Fetterman is heading up a group that is supporting development of a Maritime Museum and restaurant, and also made a presentation to the committee. While this in fact could be a nice addition to, or near, the Port property, the City would have to confirm that the funds are in place not only for construction of a high quality facility, but that funds are in place for long term operation of the facility, and that the facility would meet the stated desire of the Mayor to ensure the highest and best use of the Port property.

The picture being painted of current Port activity is one of lagging economic performance given the size and location of the land area. One could expect 50 acres of prime waterfront land to employ hundreds of individuals and generate well north of $15 million of payroll and millions more in local economic activity with local businesses as suppliers, customer, etc. This leads the committee to conclude that the Port of Pensacola, in its current configuration, is underperforming in economic impact to the community.

Given this conclusion the next logical question is what to do? How do we move the Port or the property forward to the benefit of the citizens of Pensacola? This committee feels that the answer lies ultimately in substantial re-development and marketing of the Port property combined with the growth of high tech niche port marine service businesses.

Objective 3: Identify Port Property Highest and Best Use, and Recommendations for Achieving It

This committee respectfully recommends the following plan, based on the information we have been provided by Port staff and tenants, as well as citizens and economic experts:

- Negotiate with Cemex to terminate their current lease and move their operations.
- Work with existing tenants to transition leases to accommodate new opportunities for the city should they arise.
- Direct Port staff to work in partnership with existing Port tenants and explore all options for creating additional economic value.
- Support the expansion of high-tech, offshore service industry tenants, such as Offshore Inland. With Offshore Inland rapidly expanding, and working to secure "home porting" for large support vessels, this poses a unique opportunity for a new niche Port model.

- Preserve a small section of working dock in case of emergency that might require a ship call in the city's time of need, as well as continue the Port designation that enables the City to secure numerous grant and appropriations funds for economic development and infrastructure.
- Engage a seasoned port consultant/expert to work with the Mayor and Port Director to promote best practices, marketing strategies, access to federal/state grants and long term opportunities for growth.
- Begin identifying alternative revenues for infrastructure funding from State and Federal sources, such as the Economic Development Administration, to access available funds for economic development stemming from the Deepwater Horizon oil spill in the Gulf of Mexico. These funds could assist in supporting the new offshore-service industry target.
- Adopt policies to allow Port staff to negotiate and execute port tariffs, contracts and lease agreements with Mayoral approval.
- Instruct staff to equally consider overall community benefit, enhanced quality of life issues, historical and tourism significance, and revenue spin-off and multipliers when considering future leases at the port.
- Engage dedicated grant writing expertise.

The result of these recommendations, we believe, could be the development of a new niche Port business model, bustling with clean, high-tech, sustainable jobs; leading, rather than lagging, the global marketplace; and putting Pensacola at the forefront of the growing energy discussion, while elevating and improving the economic impact to our community from these 50 acres of waterfront property.

We respectfully submit this report, on this 9th day of November 2011. Thank you for the opportunity to serve our community in this capacity.

Respectfully,

John Myslak
Rick Harper
Blaise Adams
Debbie Calder
Bill Greenhut