Port of Pensacola
Business Strategic Analysis

Prepared for the Port of Pensacola

September 2004

By BST Associates

18414 103rd Ave NE, Suite A
Bothell, WA 98011
425-486-7722 voice
425-486-2977 fax
bstassoc@seanet.com

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EXECUTIVE SUMMARY

The Port of Pensacola has been operated by the City of Pensacola for decades as an industrial maritime operation focused primarily on domestic and international waterborne cargo. During the past ten years, the Port has been unable to consistently generate sufficient revenues to cover its operating and maintenance costs, annual debt service payments and on-going capital requirements. This situation has occurred for several reasons, including:

- Lack of stability in key cargo segments (bagged agricultural products),
- Competition from other ports in the Gulf Coast,
- Lack of an approved Energy Bill,
- A decision not to accept certain cargoes that are deemed "unacceptable or unpalatable" to the community (woodchips, ores and other cargoes), and
- Delays in enacting recent leases.

At the same time, the nature of the physical environment surrounding the Port has changed from a struggling/blighted business area to a thriving business center that includes retail shops and restaurants, entertainment facilities, residential housing, and academic and research facilities associated with the University of West Florida. The transformation of the Pensacola waterfront from industrial to mixed use is similar to the evolution occurring at numerous maritime communities across the U.S.

These positive developments create a condition that demands that the Port be evermore aware of its neighbors and that the business activities of the Port be balanced so that the dual objectives of operating a financially sound seaport enterprise and being a positive asset to the development and redevelopment of the downtown and waterfront can be achieved.

The purpose of this strategic business plan is to evaluate a wider spectrum of potential opportunities at the Port of Pensacola within the context of improving port financial performance and enhancing the Port's compatibility with the downtown community.

An advisory committee was formed to oversee the study effort, and consisted of the following individuals (in alphabetical order):

- Mr. Blaise Adams, President, Citizens & Peoples Bank; Vice Chair, Small Business, Pensacola Area Chamber of Commerce; Downtown Improvement Board.
- Mr. Dick Baker, Vice President, Heron's Forest Development; Treasurer, Pensacola Area Chamber of Commerce.
- Mr. Jim Cronley, Vice President, Terhaar & Cronley General Contractors, Inc. (served partial tenure on committee).
- Ms. Teresa Dos Santos, President, Contract Resources, a downtown business.
- Mr. Frank Eggleton, Quality Control and Safety Manager, Sikorsky Support Services Inc. located at Pensacola Naval Air Station.
- Dr. Jack Hansen, Associate Director, University of West Florida, Institute of Human and Machine Cognition; Executive Director, University of West Florida Research Foundation.
- Dr. Rick Harper, Associate Professor of Economics, University of West Florida.
- Mr. John Hutchinson, General Manager of Public Affairs, Gulf Power Company.

- Mr. Flack Logan, Director of Administration, Levin & Papantonio Law Firm.
- Dr. Morris Marx, Trustees Professor and President Emeritus, University of West Florida.
- Mr. Jerry Maygarden, President, Baptist Health Care Foundation; Senior Vice President, Baptist Health Care. Former Mayor of Pensacola and former Speaker of the Florida House of Representatives.
- Mr. Peter McDavid, attorney, McDavid Law Offices; downtown business owner.
- Ms. Mary Moulton, Vice President, Moulton Properties; Member, City of Pensacola Architectural Review Board.
- Mr. Ted Nickinson, former member, Pensacola Port Authority; former President, Pensacola Area Chamber of Commerce; retired steamship agent and stevedore. (followed Mr. Cronley with a partial tenure on committee).
- Mr. Brian Spencer, President, Spencer, Maxwell, and Bullock Architects; downtown business owner.
- Dr. Cornelius Wooten, Vice President for Administrative Affairs, University of West Florida.

The input of the Port advisory committee was greatly appreciated throughout the study process.

The Plan as developed is a dynamic plan that honors the existing industrial leases while embracing non-industrial uses (cruise, mixed use buildings and museum). The Plan horizon coincides with the end of the longest existing industrial lease (i.e., Ready Mix USA-Marine's lease with the City of Pensacola lasts until 2022 assuming that Ready Mix exercises its options). However, it is appropriate to revisit the findings of the plan periodically (every five years or as market conditions change) and to fine-tune the plan to match market realities and community desires. Accordingly, while maintaining this course, the Port must be opportunistic and present to Council those opportunities that fit within the Port's business strategy.

Key Findings & Recommendations

The key findings of this study are as follows:

Cargo

The Port is a relatively small niche player focusing on bulk and breakbulk accounts. Competition with other area ports is fierce. Within this environment, the Port can maximize its chances of success by targeting cargoes within its primary market area (within 100 miles of the Port terminals). This includes products generated by/for local industry, which account for the majority of the cargoes moving through the Port. As the distance from the Port increases, the competition also increases but the Port has also been successful in attracting cargo from distances beyond 100 miles.

The Port has a reasonable marketing plan, which includes working with existing accounts to generate additional volumes, cultivating relationships with local industry to develop new cargo bases, evaluating joint marketing opportunities with inland transportation providers (particularly CSX) and enhancing its provision of shipping services (such as scheduled carrier service and short sea services).

However, the Port has limited facilities for handling cargo. At the present time, there are no capacity constraints but the Port must be careful that proposed future cargo and non-cargo opportunities do not constrain its ability to handle existing and future potential cargo market opportunities. In addition, as long as the Port is engaged in waterborne activity (either cargo or non-cargo vessel activity) that requires dredging, it will require the continued existence of the dredged disposal site. This will preclude any development of buildings, surface parking, marinas or other structures in this area.

The Port primarily generates revenue from long-term leases and to a lesser extent from spot business accounts (i.e., consisting of frequent and infrequent users). Leases provide minimum annual guarantees, which help equalize Port revenues in periods of cyclical cargo downturns. The established term of the lease generally takes into account the value of the improvements paid for by the lessee in order to allow a sufficient time to meet the lessee's required return on investment. Under these conditions, attempts to curtail leases before reaching their term may be costly in terms of lease buyout provisions or assumption of responsibility for demolition and cleanup. The additional costs to buyout out these leases could render the alternative use uneconomical. As a result, the City should honor the industrial leases. As leases expire or lease windows for renewal arise that include a mutual consent, a decision about renewal should be based on market conditions, economic impact and financial return.

The projections for cargo throughput rely heavily on the existing leases. Under the low tonnage projection, the projected revenues do not cover projected expenses. Under the high tonnage projection, the projected revenues do cover projected expenses. It is reasonable to assume that the Port will likely be between low and high range in near-term. BST Associates chose the mid-point of the projections as the most likely estimate of future cargo volumes. Under the most likely forecast, Port revenues are sufficient to cover operating/maintenance expenses, existing debt service and capital projects in five out of the next ten years. There is also a potential to attract other tenants and spot users, which would further improve financial outlook. The Port should continue to be opportunistic in searching for both new leases and spot business accounts. The economic impact of the Port is relatively high in the community and currently provides a substantial number of jobs at relatively high wages. However, it is also recommended that the Port seek additional cash flow from non-cargo lines of business. Non-cargo uses should be located to help buffer existing industrial leases from downtown areas.

Cruise

If homeport and port of call cruise ships were attracted to the Port of Pensacola, it would generate a return on investment of 14% (combined with existing cargo operations) and an economic impact ranging from 319 to 432 total jobs in the Pensacola area. Cruise operations would be compatible with cargo if the terminal and access were properly designed.

Port staff has a reasonable marketing plan to attract port of call and homeport cruise operators. The optimal place for cruise is the western edge of the Port with a refurbished Warehouse #1 serving as the cruise terminal. Development of a cruise terminal in this area would help buffer the industrial leases from adjacent downtown uses to the west.

Mixed-Use Building

A mixed-use building comprised of retail, restaurant and office uses would contribute significant economic and financial returns to the Port of Pensacola. The return on investment would be approximately 11% (combined with cargo and cruise operations)[1]. In addition, the mixed-use building would generate 149 to 201 jobs in the Pensacola area.

This proposed building would impact the Trigeant Petroleum lease at the north-end of the Port property but would be compatible with other cargo operations, if designed properly. In addition, development of a mixed-use building would help buffer industrial uses from downtown uses to the north of the Port. The Port should work with local developer(s) to construct the building after the Trigeant Petroleum lease has run its term (in 2008).

Maritime Museum

The proposed Maritime Museum would likely generate significant benefits to the community. However, it is not expected that the Museum (via direct lease or from subleases with concessionaires) would generate revenue for the Port, if it were located at Port. The Museum could negatively impact existing leases and the proposed cruise terminal (especially due to rail access conflicts and security requirements), if it were located on the Port's western edge. Alternatively, the proposed Maritime Museum could be located at the northern edge of the Port, near the mixed-use building, but development at the northern edge could not occur until after 2008, would require a smaller footprint than currently planned and would preclude an adjacent deepwater berth.

Future Development at the Port of Pensacola

The City should establish a partnership with private and public sectors regarding the future development of the Port area. This should include building an alliance with the University and other community leaders and finding the most appropriate ways to preserve Pensacola's maritime, archaeological and historical assets. The City should embrace the "reformation" and "transition" that has been taking place along the waterfront. The City should consider adopting "strategies" that are common to "heritage harbors" or "historic port places", while protecting existing industrial leases through their terms or until renewal windows.

The City should retain the professional services necessary to delineate appropriate parcels suitable for mixed-use development. The plan should include consideration of existing multi-modal transportation needs as the port evolves over time. The City should make every effort to reduce any negative impacts of multi-model transportation services on existing industrial leases.

It should be noted that this course of action allows the port to continue down a path of gradual transition from maritime-industrial usage toward maritime-related and commercial-business usage. However, industrial leases will continue at least through 2022. After 2022, the advantages and disadvantages of industrial leases should be weighed against other proposed uses.

[1] This financial assessment assumes that the Port owns and manages the building. If the Port leases land for the building, which is built and managed by a developer, the return on investment is expected to be less.

SECTION 1 – OVERVIEW

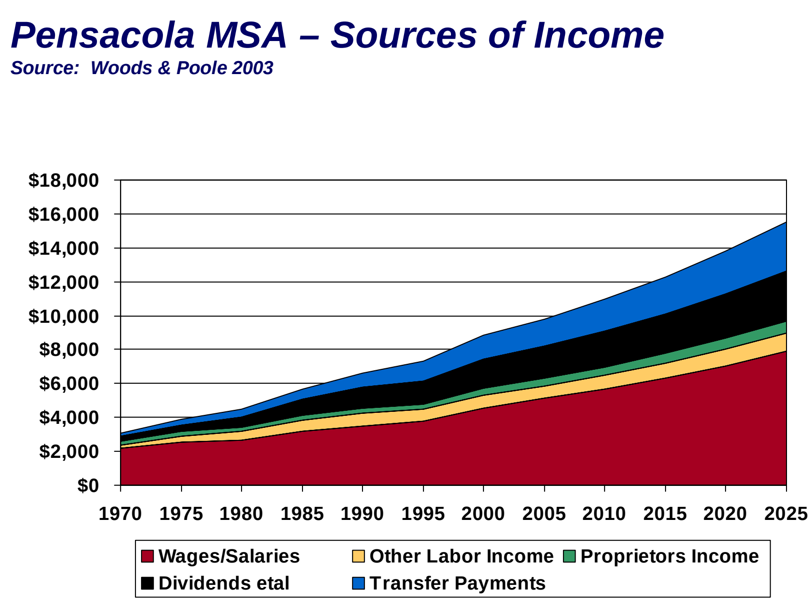
Overview of Economic Conditions

An understanding of the development trends and characteristics of the Pensacola area is critical to determining the context and opportunities for development at the Port of Pensacola. The following chapter evaluates several key variables that identify the development trends. This chapter also describes the economic opportunities being considered at the Port of Pensacola.

Income

Approximately two thirds of the income in the Pensacola Metropolitan Statistical Area or MSA (which includes Escambia and Santa Rosa counties) comes from work and the rest comes from investments and transfer payments. Wages/salaries account for about 51% of income in the Pensacola MSA but are expected to decline slightly to 49% by 2025. Other labor (piecework) accounts for 7% and self-employed income accounts for 5%. Investments (dividends, interest and rent) account for 19% of personal income. Transfer payments (social security and public assistance) account for 16% of personal income.

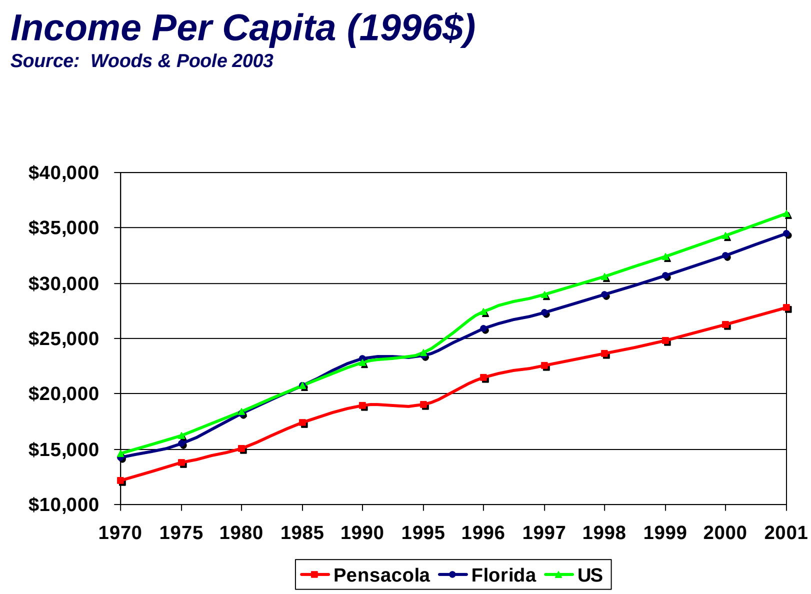
Figure 1 - Pensacola MSA – Sources of Income



Income in the Pensacola area is expected to continue to be dominated by earnings. As a result, the quality of life in Pensacola is linked with the availability of high-wage jobs. However, this is a tenuous balance. Income per capita in the Pensacola MSA is expected to increase from $22,000 at the present time to $28,000 in 2025. Pensacola is expected to continue to lose ground to both the U.S. and Florida, remaining at about 77% of income per capita in the U.S. This is partially a result of reliance on seasonal activities (tourism and agriculture) and a heavier emphasis on retail trade and related services (hospitality, personal services and other lower wage jobs) than on employment opportunities that provide a higher wage.

As a contrast, the average wage of jobs associated with the Port of Pensacola is approximately $31,000 per year.

Figure 2 – Income Per Capita (1996$)



Employment

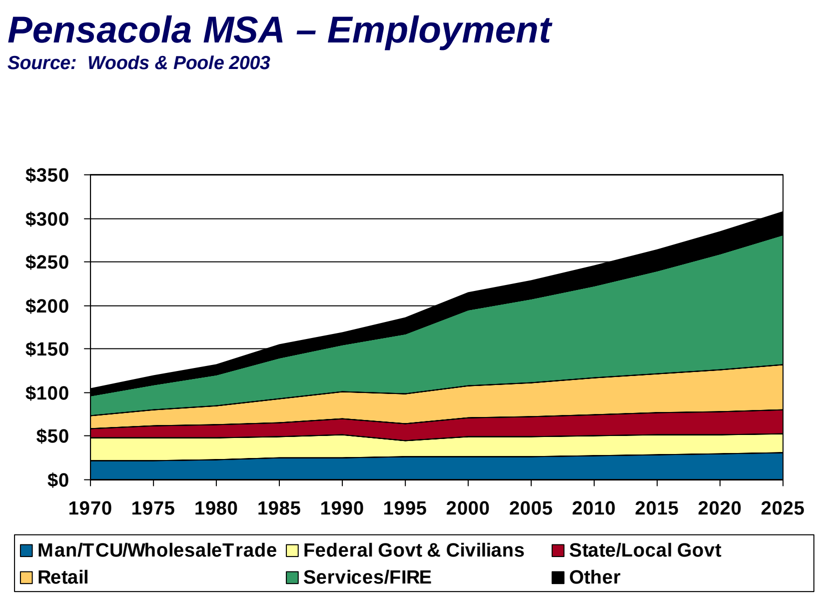
As shown in Figure 3, the Pensacola MSA is projected to add around 80,000 jobs between now and 2025. However, the composition of these jobs is expected to change markedly in the composition of the employment base:

- Industrial jobs (which include jobs in manufacturing, transportation/communication/utilities and wholesale trade) represented approximately 20% of employment in the Pensacola MSA in 1970 but have since fallen to about 12% of total jobs at the present time and are expected to fall further to 10% in 2025. This trend is occurring in most communities in the United States.
- Federal government employment (including military and civilian jobs) has been a very important part of the Pensacola economy. The number of these jobs has leveled off at about 22,000 jobs. However, its share of employment is continuing to decline, from 25% in 1970 to about 10% at the present time and an estimated 7% of jobs in 2025.
- State and local government is expected to grow from 23,000 jobs at present to about 27,000 jobs in 2025, remaining at approximately 9% to 10% of area employment.
- Retail trade is expected to grow from 38,000 jobs at present to 51,000 by 2025, remaining at 17% of jobs.

- Most of the growth in jobs is expected to come from services, which is expected to grow from 95,000 jobs at present (42% of total) to 150,000 jobs in 2025 (49% of total). However, most of this growth will occur in low wage sub-sectors.

One of the challenges facing the Pensacola area is how to retain and attract higher wage jobs.

Figure 3 – Pensacola MSA – Employment

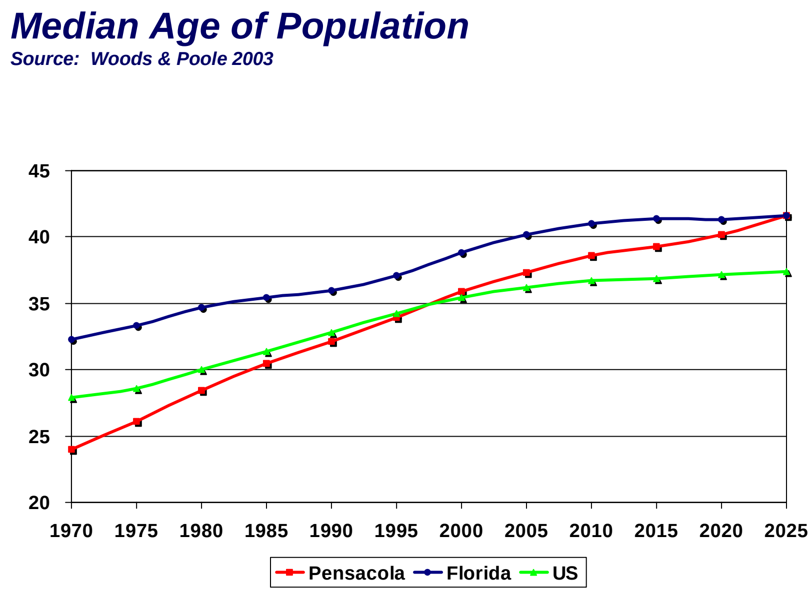


Demographics

Pensacola's population base is aging more rapidly than the U.S. or Florida. The average age in Pensacola surpassed that in the U.S. in 2000 and is expected to match that in Florida in 2025.

Pensacola is increasingly attracting a senior population. This trend is also impacting the types of jobs that the community needs and wants.

Figure 4 – Median Age of the Population



Economic Development Goals

The Northwest Region of Florida needs to retain and attract a diverse source of high wage jobs, which are included in the following sectors at the present time:

- Professional and technical services,
- Financial services,
- Technology-dependent manufacturing,
- Transportation/distribution,
- Wholesale trade, and,
- Manufacturing including:
  - Paper industry,
  - Chemical industry,
  - Electronics manufacturing and assembly,
  - Scientific instruments, and,
  - Stone, clay, glass & concrete products.

Efforts to retain and attract high paying jobs include a number of steps, including but not limited to the following:

- Enhance competitiveness of existing clusters, which includes evaluating how to retain and attract the high paying industrial jobs that exist at the Port of Pensacola.
- Enhance knowledge-based industries, which entails evaluating how to best position Pensacola to grow in high tech and related fields. The decision by the University of West Florida's Institute for Human and Machine Cognition to develop a downtown campus

coupled with continued growth in private sector high tech activity in downtown Pensacola are key components of this effort.

- Focus planning on the movement of both goods and people using multi-modal forms of transportation, including ports, airports, rail and highway. Maintaining and enhancing transportation systems is also an important element of the strategy to attract and retain higher paying jobs.

Economic Opportunities at the Port of Pensacola

The Port of Pensacola has been operated by the City of Pensacola for decades and has functioned primarily as an industrial maritime operation. The City of Pensacola has endorsed and supported the operation of the port as an industrial maritime enterprise; however the nature of the physical environment surrounding the Port is changing. The downtown area of Pensacola, including the waterfront on which the Port is located, was once a struggling and blighted business area that had few elements of entertainment or commerce that would encourage people to spend time in the downtown area. The waterfront was used principally for industrial activity except for those properties that had been abandoned altogether and which showed no prospect of renewed development. Over the last 25 years both the downtown and its waterfront component have changed dramatically. The downtown area is now a thriving business center that includes active and successful restaurants and entertainment facilities. In addition residential units have been and are being developed throughout downtown and the University of West Florida academic and research facilities have an increased presence. Tourism related activities in and around the Pensacola Historic District and Museum District draw thousands of visitor’s downtown. These positive developments create a condition that demands that the Port be evermore aware of its neighbors and that the business activities of the Port be balanced so that the dual objectives of operating a financially sound seaport enterprise and being a positive asset to the development and redevelopment of the downtown and waterfront can be achieved.

Port of Pensacola Goals and Objectives

This section briefly reviews the existing direction of the Port of Pensacola and evaluates the potential activities that are being considered in this study. The mission statement of the Port of Pensacola is as follows:

- Manage and operate cost-effective facilities for marine commerce:
  - Foster regional and international trade;
  - Stimulate private investment; and,
  - Promote economic development and employment.

The mission statement is accomplished using the following goals and objectives:

- To maximize the financial performance of the Port's existing resources
  - Objective - Seek to develop medium and long term lease arrangements with transportation and industrial maritime enterprises
  - Objective - Minimize operating expenses by allowing private sector entities the opportunity to perform cargo related services (speaks to transition from operating port to landlord port)
  - Objective - Aggressively market port facilities

  - Objective - See a diversified cargo base, focusing on both repeat business as well as one time cargo movements
- To maintain and enhance existing capital infrastructure and to identify possible capital infrastructure expansion
  - Objective - Develop a 5-year capital maintenance and capital improvement plan for existing capital infrastructure (see Table 1 for latest CIP). The CIP is updated annually to anticipate potential infrastructure improvements at the Port. However, CIP implementation only occurs if adequate sources of funding are available. Some elements of the CIP assume that private sources of funding will be found. In these instances, a private party has indicated a need for a project and its implementation is contingent upon the private party obtaining financing to meet its share of the project. Without private financing, this type of project will not move forward. The City's responsibility is expected to average $250,000 per year matched with $250,000 from the FSTED program.
  - Objective - Seek to identify possible opportunities for capital infrastructure expansion and identify possible revenue sources to accommodate such expansion
- To rapidly respond to opportunity driven expansion of port operations and facilities
  - Objective - Port staff should be alert to expansion opportunities beyond the current geographic boundaries of the port, when those opportunities present realistic and reasonable business prospects for the port, including a high degree of probability that the specific opportunity will result in positive revenue flow to the port.

The Pensacola City Council provided direction for the Port in its Resolution No. 41-95 (dated September 1995)

> A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PENSACOLA - SUPPORTING THE PORT OF PENSACOLA AND ITS MARINE OPERATIONS.
>
> WHEREAS, the Pensacola City Council strongly supports the Port of Pensacola because it contributes to the economic well-being of the Northwest Florida region; and
>
> WHEREAS, the Pensacola City Council wants to reiterate its longstanding endorsement of the Port as a marine operation which expedites cargo for local, national and international purposes and which creates jobs for residents of Northwest Florida; NOW THEREFORE,
>
> BE IT RESOLVED THE CITY COUNCIL OF THE CITY OF PENSACOLA, FLORIDA:
>
> SECTION 1: Hereby states its continuing commitment to the operation of the Port of Pensacola and its marine operations activities. Further, that the City of Pensacola shall endeavor to promote and support the Port in recognition of its economic impact on the entire Northwest Florida region. And that the City acknowledges that all parties working together, including citizens, elected officials, City and Port officials, Port employees, Port suppliers and transportation suppliers can move the Port operations in a positive direction.
>
> SECTION 2: Those copies of this Resolution be distributed to the public to show the Pensacola City Council's position in favor of the port of Pensacola.
>
> SECTION 3. This resolution shall take effect immediately upon its adoption by the City Council.

Table 1 – Port of Pensacola Capital Improvement Plan

Project	2005	City's Share	2006	City's Share	2007	City's Share	2008	City's Share	2009	City's Share	Total Project	City's Share
PORT												
1. Security Improvements - Phase 1	400,000	40,000									400,000	40,000
	(1) FSTED	(3) PORT										
2. Traffic Improvements	200,000										200,000	0
	(4) FDOT											
3. Port Ingress/Egress Improvements	1,800,000										1,800,000	0
	(4) FDOT											
4. Security Improvements - Phase 2			640,000	64,000							640,000	64,000
			(1) FSTED	(3) PORT								
5. Warehouse and Berth Improvements			500,000	250,000							500,000	250,000
			(2) FSTED	(3) PORT								
6. Port Paving			800,000	400,000							800,000	400,000
			(2) FSTED	(3) PORT								
7. Barge Mooring System			500,000								500,000	0
			(1) FSTED (5) PRIVATE									
8. Warehouse and Berth Improvements					500,000	250,000					500,000	250,000
					(2) FSTED	(3) PORT						
9. Rail Track Improvements					500,000	250,000					500,000	250,000
					(1) FSTED	(3) PORT						
10. Warehouse and Berth Improvements							500,000	250,000			500,000	250,000
							(2) FSTED	(3) PORT				
11. Warehouse and Berth Improvements									500,000	250,000	500,000	250,000
Totals	2,400,000	40,000	2,440,000	714,000	1,000,000	500,000	500,000	250,000	500,000	250,000	6,840,000	1,754,000

Notes: Individual CIP items that are the responsibility of the City are only funded after obtaining FSTED fund approval as well as City approval. (1) Florida Seaport Transportation Economic Development Council (FSTED) - Project Approved, (2) Florida Seaport Transportation Economic Development Council (FSTED) - Project Pending Approval (3) Port Funds, (4) Florida Department of Transportation (FDOT), (5) Private Corporation, (6) To Be Determined By City Council (TBD) Source: Port of Pensacola

This study is intended to review the uses that are considered at the Port. Opportunities being considered for the Port property include the following:

- Maritime-industrial Usage: Heavy industrial usage or cargoes requiring waterborne transportation. Examples: chilled/frozen food products, automobiles, forest products, wind turbines, bagged agricultural products, cement, aggregate rock and petroleum-based products among other cargoes.
- Maritime-related Usage: Light usage requiring some connection to waterways. Examples: cruise lines, marinas and dry boat storage.
- Commercial-business Usage: Traditional business operations that have characterized redevelopment of Pensacola’s waterfront, historic district and downtown areas. Examples: retail, office, restaurant and entertainment spaces.
- Mixed Usage: Any mixed-use combination of industrial-maritime, maritime-related and commercial-business uses that maximizes the city’s return on investment. Examples: San Francisco, New Orleans, Norfolk, Baltimore etc.

These opportunities are evaluated in the following report using the following criteria:

- Financial return on investment,
- Economic impact in community, and,
- Compatibility with existing activities.

SECTION 2 – DISCUSSION OF PORT ALTERNATIVES

This chapter evaluates the potential demand for the opportunities being considered for the Port of Pensacola.

Maritime-industrial Uses

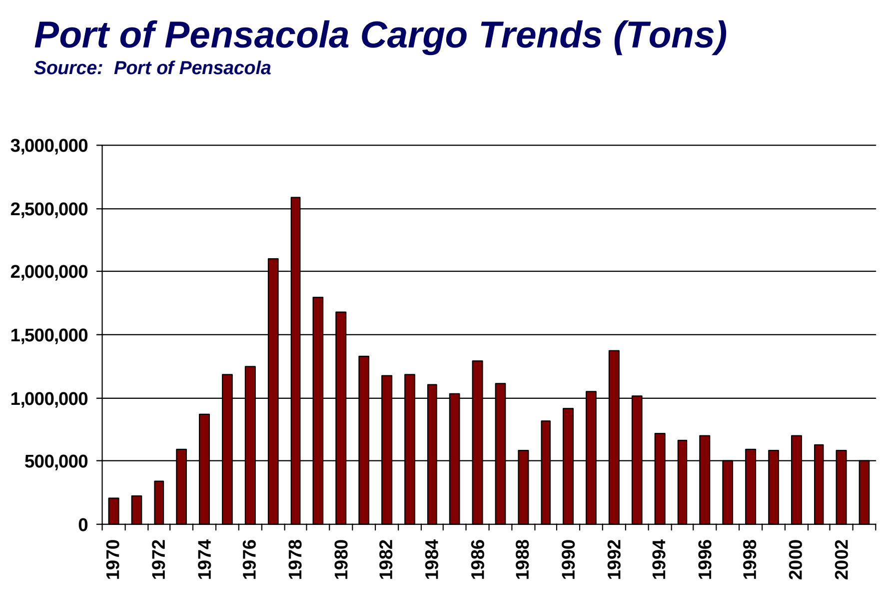
Since it is the primary activity of the Port at the present time, a comprehensive assessment of the market for waterborne cargoes is provided in this section as well as an assessment of the Port's competitive position and an estimate of future cargo volumes.

Port of Pensacola Cargo Trends

Overall Trends

Port traffic has declined from a peak of 2.5 million tons in FY1977 to between 500,000 and 700,000 tons over the past ten years. During this time period, there was a relative increase in the amount of breakbulk traffic (i.e., primarily hand stowed and/or palletized shipments of cold/frozen products and industrial and forest product). However, this shift is likely to be reversed in the future, with relatively more bulk traffic (aggregates, cement and other bulks) than breakbulk traffic.

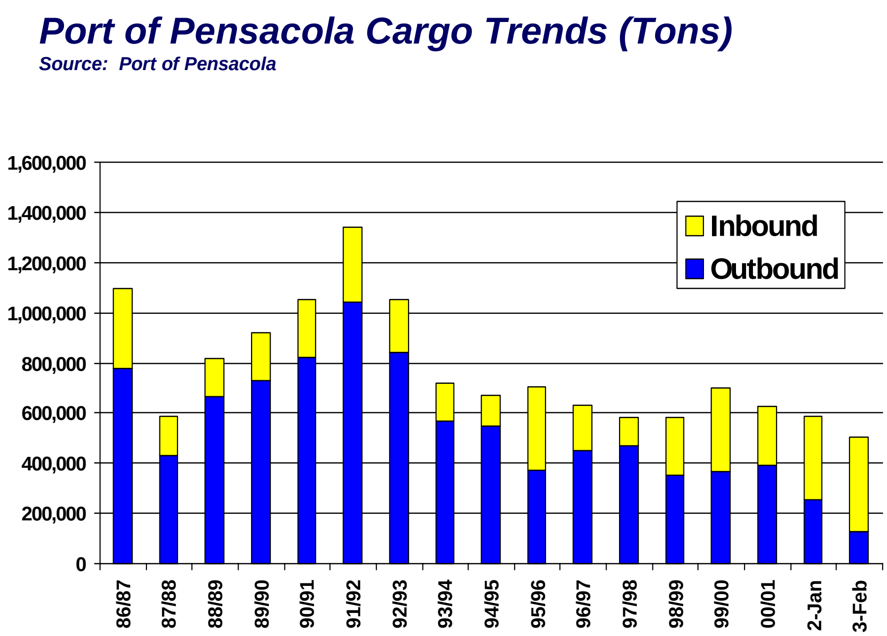
Figure 5 - Port of Pensacola Cargo Trends (Tons)



Outbound versus Inbound Traffic Trends

Outbound traffic has traditionally been greater in volume than inbound traffic. However, there have been more inbound products in the past few years due to introduction of aggregates and continued growth in asphalt receipts. The introduction of cement imports will likely increase the amount of inbound product flow.

Figure 6 - Port of Pensacola Cargo Trends (Tons)



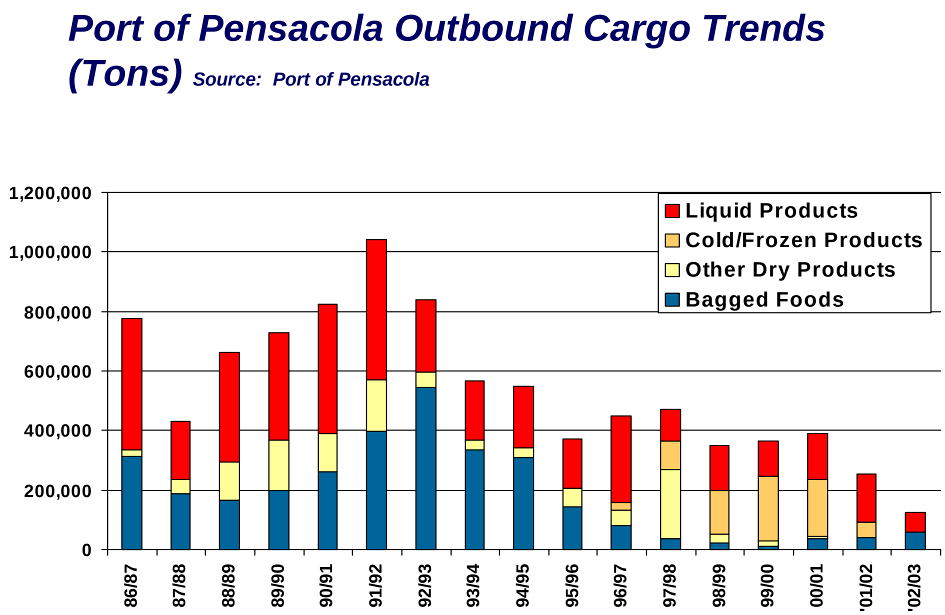
Outbound Trends

Outbound cargoes, which include bagged agricultural products, chilled/frozen products, liquid sulfur and forest products, are described in this section.

- Bagged agricultural products, consisting of corn/soy blends, peas, bean, and bulgur wheat, among other products originate in the Midwest (Kansas, Missouri, and other states). Traffic volumes for these products are generally declining nationally due to provisions of the General Agreement on Trade and Tariffs (GATT), which reduced subsidies for agricultural exports. In addition, competition from other ports for these cargoes has been very strong. In the Gulf region, competition from the Ports of Lake Charles and Houston has been particularly strong. Shipments of bagged agricultural products via the Port of Pensacola are expected to continue but at greatly reduced volumes relative to historical levels.
- Chilled/Frozen Product Exports (primarily consisting of chicken parts and products) began to move through the Port in 1996. The producers were primarily located in Alabama (i.e., Tyson, Perdue and others). These products are exported to Russia, Eastern Europe, Caribbean, and South America. The previous operator ceased operations in FY2002. However, the Port has negotiated a contract with another operator. There appear to be opportunities for chilled/frozen product exports and also potential opportunities for imports of meat products from Australia/New Zealand.

- Domestic shipments of sulfur range from 150,000 to 250,000 tons per years, with volumes depending on market conditions and prices.
- Exports of forest products including pulp, paper, lumber, linerboard, and poles have been sporadic during the past ten years. Competition from Alabama State Docks is particularly strong for these cargoes.
- Miscellaneous products including machinery, steel products and pipe, lime, limestone, and other products have moved sporadically through the Port of Pensacola. These products are difficult to forecast but it should be noted that some level of export traffic has occurred virtually every year.

Figure 7 - Port of Pensacola Outbound Cargo Trends (Tons)

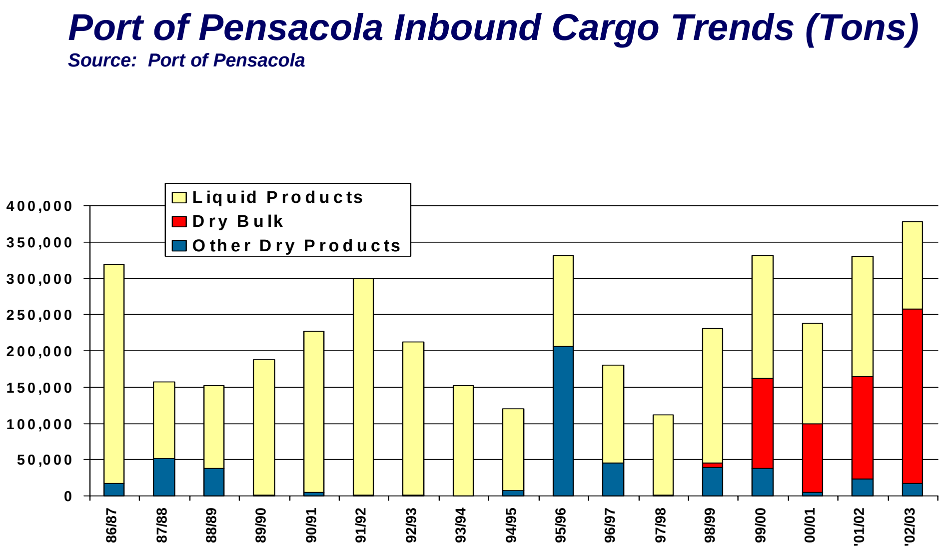


Inbound Trends

Inbound cargoes have typically included aggregates, asphalt and miscellaneous products.

- Inbound aggregates primarily serve the local construction market but are also used in beach re-nourishment projects. Aggregates increased from 85,000 tons in FY2000 to 240,000 tons in FY2003.
- Asphalt is used by local construction industry and imports range in volume from 50,000 to 150,000 tons per year.
- Miscellaneous import products include ores, minerals, limestone, fertilizers, autos, and forest products.

Figure 8 - Port of Pensacola Inbound Cargo Trends (Tons)



Modal Comparisons

The Port's primary market area is defined as cargoes within 100 miles of the Port terminals. The competition for shipments of these products is primarily from the Alabama State Docks in Mobile and to a lesser extent the Port of Panama City. The secondary market area is located beyond 100 miles. As the distance from the Port increases, the level of competition from other ports also increases. In addition, rail traffic dominates at longer distances (e.g., from the Midwest and other more distant areas), depending on the cargo characteristics.

Table 2 – Port of Pensacola Traffic Trends by Mode

Year	Trucks	Railcars	Barges	Ships
FY98	22,886	476	384	62
FY99	20,618	811	412	88
FY00	24,736	417	397	71
FY01	23,129	1,203	254	80
FY02	18,095	312	452	80
FY03	23,680	775	418	59

Source: Port of Pensacola

Rail traffic peaked in 1983 at 9,506 cars. The most recent peak was 6,728 railcars in 1992. However, current traffic is generally under 1,200 cars. The monthly high was 1,198 cars in Feb 1983 compared with the current monthly high of around 250 cars.

Truck traffic generally ranges between 18,000 and 25,000 trips per year. The monthly high was 3,667 trucks in March 1998 compared with the current monthly high of around 2,800 trucks.

Barge traffic is generally between 350 and 450 calls per year. Ship calls are generally between 60 and 90 calls per year.

Competitive Assessment

The Port of Pensacola is ranked 132nd in the U.S with respect to total cargo. Some of the ports in the Gulf Coast handle very large volumes of bulk cargoes (crude oil, petroleum products, grain, and coal among other cargoes). These cargoes were never considered for the Port of Pensacola. As a result, this type of comparison is only intended as an overview. See Table 3.

Table 3 – Gulf Coast Cargo Volumes (2002 Short Tons)

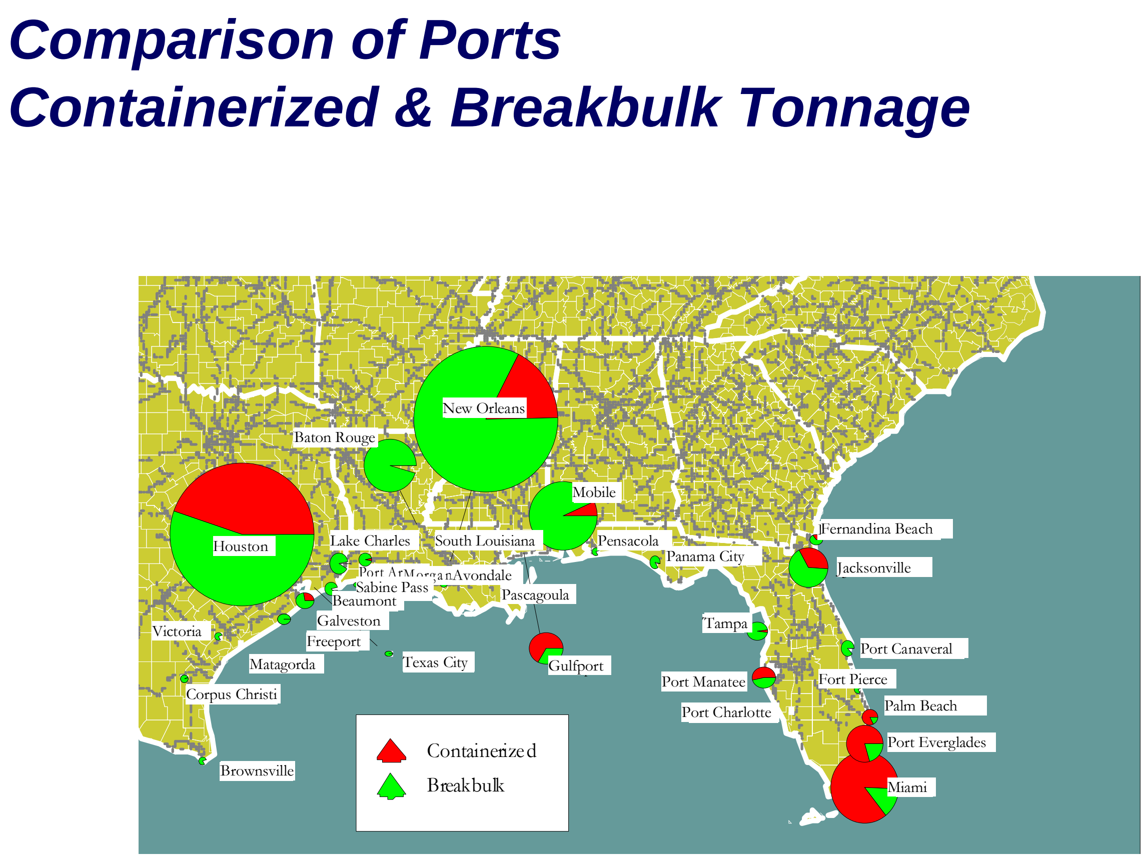
Rank	Port Name	State	Total	Domestic	Foreign	Imports	Exports
132	Pensacola, FL	FL	1,422,852	1,277,669	145,183	134,154	11,029
	% Gulf		0.13%	0.25%	0.02%	0.03%	0.01%
1	South Louisiana, LA, Port of	LA	216,396,497	124,908,067	91,488,430	34,577,409	56,911,021
2	Houston, TX	TX	177,560,719	62,372,636	115,188,083	80,026,921	35,161,162
4	Beaumont, TX	TX	85,910,947	18,181,692	67,729,255	62,625,566	5,103,689
5	New Orleans, LA	LA	85,000,428	33,238,124	51,762,304	21,926,081	29,836,223
7	Corpus Christi, TX	TX	72,000,304	21,420,094	50,580,210	41,714,363	8,865,847
9	Baton Rouge, LA	LA	60,582,710	39,645,083	20,937,627	16,808,194	4,129,433
10	Plaquemines, LA, Port of	LA	59,110,736	35,826,872	23,283,864	13,725,168	9,558,696
11	Texas City, TX	TX	55,232,906	16,062,067	39,170,839	36,397,436	2,773,403
15	Tampa, FL	FL	48,384,970	31,815,180	16,569,790	8,343,457	8,226,333
16	Lake Charles, LA	LA	47,522,085	20,090,917	27,431,168	23,105,186	4,325,982
17	Mobile, AL	AL	46,021,599	21,871,248	24,150,351	15,661,508	8,488,843
22	Pascagoula, MS	MS	31,857,678	11,371,251	20,486,427	17,496,585	2,989,842
24	Freeport, TX	TX	27,163,872	5,079,632	22,084,240	19,778,106	2,306,134
30	Port Arthur, TX	TX	22,675,808	7,458,017	15,217,791	11,687,188	3,530,603
41	Memphis, TN	TN	16,400,555	16,400,555	0	0	0
56	Matagorda Ship Channel, TX	TX	9,590,150	2,912,219	6,677,931	4,640,338	2,037,593
58	Galveston, TX	TX	9,135,823	3,887,370	5,248,453	1,215,501	4,032,952
76	Brownsville, TX	TX	4,739,064	1,579,124	3,159,940	2,751,398	408,542
77	Victoria, TX	TX	4,734,456	4,734,456	0	0	0
84	Vicksburg, MS	MS	4,236,989	4,236,989	0	0	0
85	Port Manatee, FL	FL	4,232,687	1,040,616	3,192,071	2,618,735	573,336
86	Nashville, TN	TN	4,224,393	4,224,393	0	0	0
104	Greenville, MS	MS	2,781,813	2,781,813	0	0	0
105	Chattanooga, TN	TN	2,769,683	2,769,683	0	0	0
109	Panama City, FL	FL	2,477,772	1,712,842	764,930	489,500	275,430
112	Biloxi, MS	MS	2,329,524	2,329,524	0	0	0
114	Gulfport, MS	MS	2,290,453	132,974	2,157,479	1,255,667	901,812
			1,112,516,217	505,009,457	607,506,760	417,058,690	190,448,070

Source: U.S. Army Corps of Engineers, Waterborne Commerce Statistics

The Gulf Port system is very competitive, with several ports engaged in high volume shipments of grain, crude oil, petroleum products and other bulk cargoes. The Port of Pensacola accounts for approximately 0.13% of the cargo moving through Gulf Port facilities.

The Port of Pensacola's market niches are in breakbulk and bulk cargoes. Competition is strong for general cargo (including both containerized and breakbulk cargoes). There is an increasing trend toward containerization of those cargoes that can be placed in containers. The largest general cargo ports in the Gulf are Houston and New Orleans followed by Mobile, Baton Rouge and Gulfport. Several ports handle between 50,000 and 100,000 tons of general cargo. Pensacola is included in this group.

Figure 9 – Comparison of Ports - Containerized & Breakbulk Tonnage



Source: BST Associates, MARAD data

Most of the competition for cargoes handled at Pensacola comes from the Eastern Gulf Region, which includes the area from Gulfport on the west and Panama City on the East.

Mobile dominates this region in breakbulk shipments. As shown in Figure 10, Mobile is particularly strong in exports and imports of forest products and iron and steel products. Mobile also has a new cold storage facility, which will generate exports and imports of cold/frozen products.

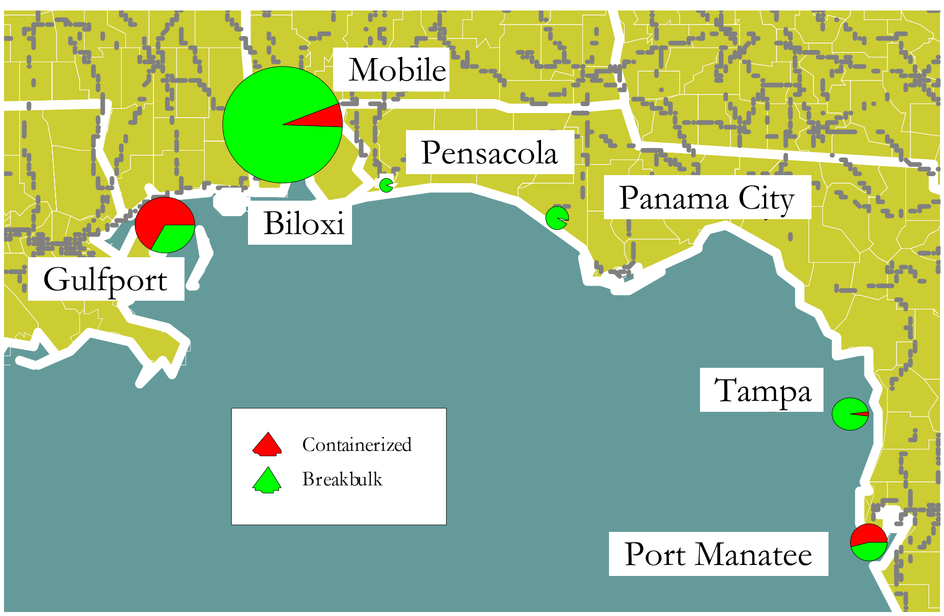
Pascagoula and Gulfport have relatively large volumes of cold/frozen product exports as well as some traffic in forest and metal products.

Panama City is primarily an exporter of pulp and paper as well as an importer of metal products. These cargoes are generated by industries located in the Port's industrial centers.

The Port of Pensacola primarily serves bagged agricultural product exports and project cargo. However, cold/frozen product exports and imports will resume in the near future. The Port also ships some forest and metal products.

Figure 10 - Comparison of Ports (Eastern Central Gulf) - Containerized & Breakbulk Tonnage

Comparison of Ports (Eastern Central Gulf) Containerized & Breakbulk Tonnage



Source: BST Associates, MARAD data

Breakbulk traffic on international routes grew at 3.4% per year between 1990 and 2002 and is projected to grow at 2.1% from 2003 through 2025. Most ports (including Pensacola) experienced a downturn in cargo traffic in the past few years due to the international recession but current conditions call for an upturn.

Figure 11 – East Central Gulf Foreign Breakbulk Traffic

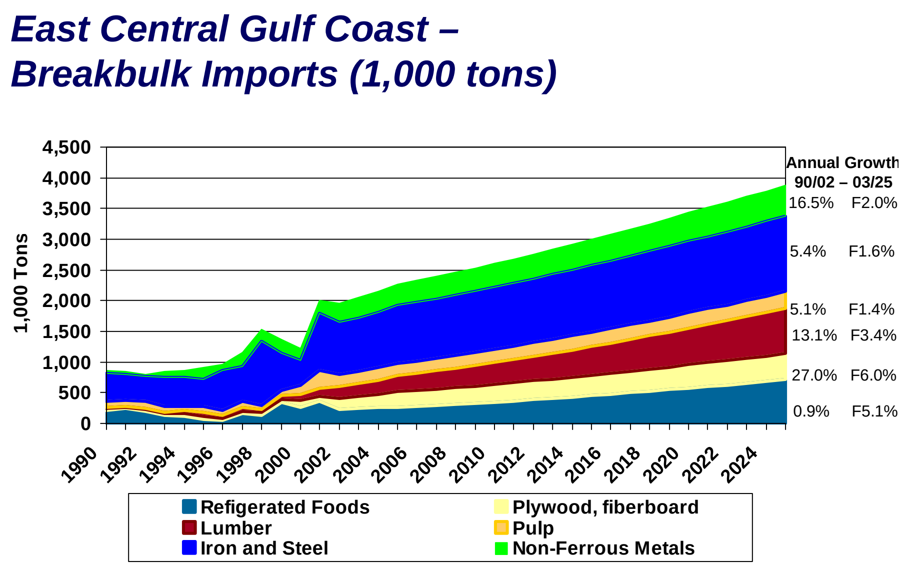
East Central Gulf Ports – Comparison of Foreign Breakbulk Traffic

	MOBILE	GULFPORT	PASCA-GOULA	PANAMA CITY	PENSA-COLA
Exports					
Wood Products	346,233	3,602	19,956	-	-
Reefer Foods (Meat)	81,245	179,566	268,449	-	-
Pulp	755,267	1,163	-	149,775	-
Paper and Paperboard	68,762	26,992	70,162	5,227	-
Iron and Steel	81,313	116	13,649	5,645	-
Bagged Goods	6,453	5,213	-	-	25,254
Imports					
Refrigerated Foods	-	47,267	-	-	-
Lumber	194,467	17,830	11,108	-	-
Plywood, Fiberboard	49,085	42,002	-	-	-
Pulp	408,957	-	-	-	-
Iron& Steel	230,175	251	2	29,340	22
Non-Ferrous Metals	83,675	27,242	78,082	9,529	-

PIERS data for CY2003, metric tons.
Pensacola will participate in Reefer foods and paper/pulp in 2004

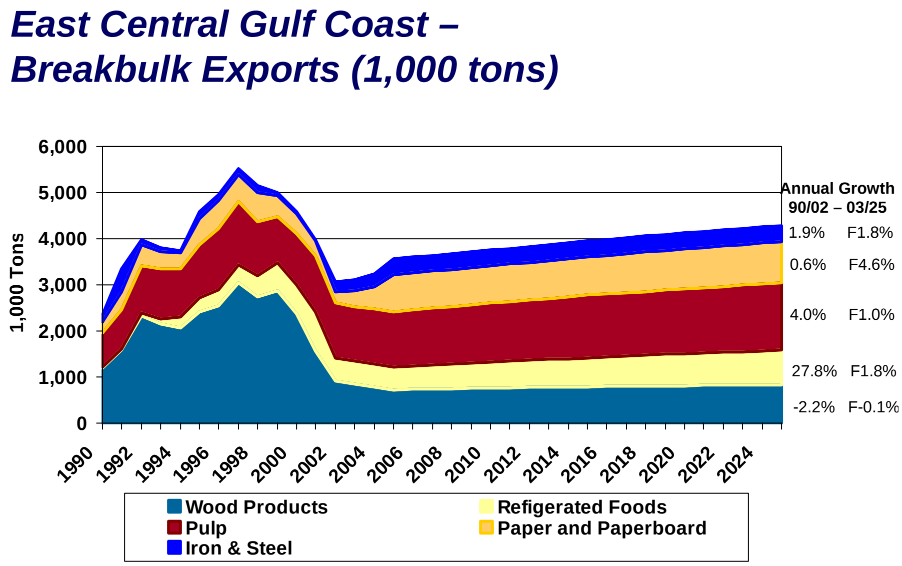
Breakbulk imports in the East Central Gulf ports grew at 7.0% per year between 1990 and 2002 and are projected to grow at 3.0% from 2003 through 2025. Pensacola participates in chilled/frozen food products, paper products and steel products.

Figure 12 – East Central Gulf – Forecast of Breakbulk Imports



Breakbulk exports grew at 1.7% per year between 1990 and 2002 and are projected to grow at 1.5% from 2003 through 2025. Pensacola participates in chilled/frozen foods, paper products and steel products.

Figure 13 – East Central Gulf – Forecast of Breakbulk Exports



Mobile also dominates the Eastern Gulf region in bulk shipments. As shown in Figure 14, Mobile exports significant volumes of coal and oilseeds and imports coal, crude minerals, ores and cement. Pascagoula exports fertilizers and imports coal. Gulfport imports crude minerals and ores. Pensacola and Panama City also import crude minerals (aggregates).

Figure 14 – East Central Gulf Foreign Bulk Traffic

East Central Gulf Ports –
Comparison of Foreign Bulk Traffic

	MOBILE	GULFPORT	PASCA-GOULA	PANAMA CITY	PENSA-COLA
Exports					
Oilseeds	1,118,172	-	-	-	27
Coal	3,298,145	-	-	-	-
Fertilizers	-	5	205,093	-	-
Imports					
Crude Minerals	1,000,947	21,837	-	352,343	236,371
Ores	228,361	188,619	-	-	-
Coal	6,600,307	-	84,135	-	-
Cement	333,371	-	-	-	-

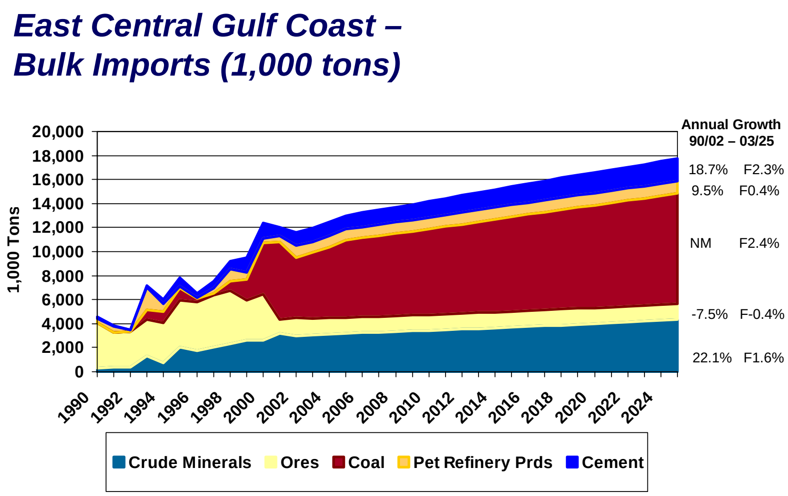
PIERS data for CY2003, metric tons

In addition, Pensacola handles 150,000 tons of sulfur and 150,000 tons of asphalt.

Bulk traffic on international routes grew at 3.5% per year between 1990 and 2002 and is projected to grow at 1.4% from 2003 through 2025.

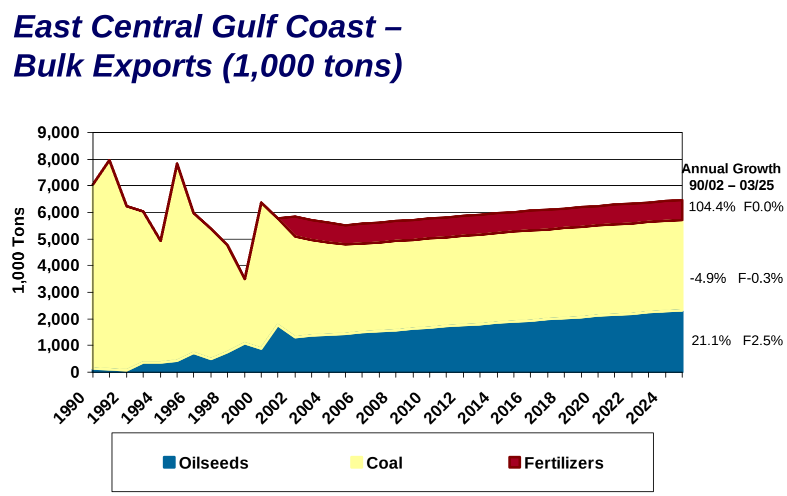
Bulk imports grew at 8.1% per year between 1990 and 2002 and are projected to grow at 1.8% from 2003 through 2025. Pensacola participates in crude minerals (aggregates) and cement.

Figure 15 – East Central Gulf – Forecast of Bulk Imports



Bulk exports declined at -1.5% per year between 1990 and 2002 and are projected to grow at 0.6% per year from 2003 through 2025. Pensacola does not participate in these cargoes.

Figure 16 – East Central Gulf – Forecast of Bulk Exports



Pensacola has 9 berths with 2,360 lineal feet of mooring space, which is smaller than most of its competitors. Although Pensacola has a limited number of berths and moorage space, it is not capacity constrained. With limited berthing facilities, the Port must be careful not to allow uses that might constrain capacity to locate at its berths.

The water depth at Pensacola is 33 feet, which is less than most competitors. Pensacola has a comparable or shorter transit from the Gulf to the Terminals, but the water depth is limited compared to competitors. Pensacola primarily serves Handymax vessels, which are able to fully load at this depth.

Pensacola has rail service by CSX, BNSF and AGC, which is comparable to its competitors. The Port has average highway access relative to its competitors.

The Port's labor supply is very good in terms of productivity and cost, which is considered on par if not superior to its competitors.

Table 4 – Comparison of Eastern Central Gulf Ports
Berths and Rail Service

	Berths			
Port	**Number**	**Lineal Footage**	**Water Depth**	**Rail Service**
Pensacola	9	2,360	33	CSX connects to BNSF, AGC
Gulfport	9	5,840	32-36	KCS connects to CN/IC Remote access to CSX available via road haul to ramp
Pascagoula				
River West Harbor	4	2,563	38	CSX, MERR connects to CN
West River	5	3,021	42	
Subtotal	9	5,584		
Mobile	36	25,547	40-45	BNSF, CSX, CN, NS and CG Railway
Panama City	6	3,240	32	Bay Line RR connects with CSX, NS and H&S RR

Source: U.S. Army Corps of Engineers Port Series Handbooks, individual ports

Pensacola has 395,000 square feet of covered dry storage space, 22,000 square feet of chill/frozen space and 9 acres of open storage space. These dimensions are generally smaller than competitors in the Eastern Gulf Region but they do not currently represent a constraint on capacity at the Port of Pensacola. Again, it is important that proper uses be located in these storage areas to minimize potential future constraints.

Table 5 – Comparison of Eastern Central Gulf Ports
Open and Covered Storage

	Covered Storage	Cold Storage	Open Storage (acres)	Other
Port	**Sq Ft**	**Sq Ft**	**Acres**	
Pensacola	395,000	22,000 SqFt	9	
Gulfport	500,000	200,000 SqFt	50	Port expanding by 84 acres
Pascagoula				
River West Harbor	409,050		50	
West River	350,000			
Subtotal	759,050	2.0 million cu.ft	50	
Mobile	2,087,300	2.0 million cu.ft	60	Planning new container terminal at Choctaw Point
Panama City	470,000		7	Has two industrial parks adjacent to Port:
				Bay Industrial Park (100 acres)
				Hugh Nelson Industrial Park (175 acres)

Source: U.S. Army Corps of Engineers Port Series Handbooks, individual ports

The Port of Pensacola changed from an operating to a landlord port several years ago, which allowed the Port to significantly cut its expenses. Mobile is the only operating port in the Eastern Central Gulf Port range at this time.

Pensacola is owned by its City (as is Panama City), while other competitors are owned by their state and/or county governments.

Pensacola is much smaller in terms of revenues and tonnage than its competitive ports. In 1998, the Port of Pensacola was able to cover its operating expenses with operating revenues and be financially self-sufficient. However, in 2001, the Port was unable to meet its operating expenses. This situation occurred for several reasons:

- The Port's operating expenses increased as the Port became responsible for debt service payments.
- The Port's revenues declined due to a decline in its historical cargo base. This condition was apparent at some other ports as a result of the national and international recession.
- The Port's attempts to diversify its cargo base were not allowed because the cargoes were deemed unacceptable to the community. These lost opportunities included manganese and illmenite ores, woodchips, cement clinkers, explosives, and environmental waste. These lost opportunities could have generated $900,000 to 2.4 million in additional revenues, which would have covered operating expenses[2].

[2] When the postponed cargo volumes from current leases and lost revenue opportunities are included in the Port's revenues, the Port would have met the cargo and revenue expectations prepared for the 1999 Master Plan.

Table 6 – Comparison of Eastern Central Gulf Ports
Operating Status, Financial Comparison

Category	Gulfport	Pascagoula	Mobile	Pensacola	Panama City
Operating Status	NONOP	NONOP	OP	NONOP	NONOP
Port Type	State	County	State	Municipal	Municipal
Operating Revenue					
1998	14,984	3,184	57,787	1,987	4,845
2001	17,621	3,327	67,927	1,553	5,929
Operating Expenses					
1998	5,104	2,715	37,074	1,443	1,878
2001	6,467	3,131	44,128	1,794	3,217
Operating Income					
1998	9,880	469	20,713	544	2,967
2001	11,154	196	23,799	(241)	2,712
Cargo (Tons)					
1998	2,497,863	26,403,862	15,831,048	596,992	2,683,473
2001	1,954,843	30,298,093	16,976,666	628,604	2,996,537
$Op Rev/ton					
1998	6.00	0.12	3.65	3.33	1.81
2001	9.01	0.11	4.00	2.47	1.98
$Op Income/ton					
1998	3.96	0.02	1.31	0.91	1.11
2001	5.71	0.01	1.40	(0.38)	0.91
Investment in Plant, Property & Equipment					
1998	70,918	61,956	290,736	10,387	24,352
2001	90,400	69,557	317,204	14,431	32,521

Note: Investment in plant, property and equipment is the sum of asset values for land, buildings, other improvements and equipment less accumulated depreciation plus construction in progress.
Source: U.S. Maritime Administration FY 1998 and 2001 finance surveys.

Findings

The Port of Pensacola has recently experienced a downturn in its cargo base. This occurred for several reasons:

- Economic and other conditions outside the port's control have significantly diminished the volumes of project cargo moving internationally:
- Lack of an approved Energy Bill by the US Congress (wind energy fields, offshore pipeline and exploration projects) impacted shipments of wind turbines from GE.
- Current world political and economic conditions have resulted in a sharp drop in the number of US companies bidding for foreign plant/facility construction projects, which reduced project cargo opportunities.
- The failure of key long-term tenant projects to come on line within anticipated timelines resulted in lower than anticipated revenue in the past few years from leases (e.g. Ready Mix and freezer operations).

- Lack of stability in monthly USDA contract awards has resulted in lower than anticipated revenue from bagged agricultural exports.
- A demonstrated shift in the view of what constitute "acceptable and palatable" business lines at the port (ref. IP wood chip initiative, cement clinker opportunity, containerized environmental waste opportunity, illmenite ore opportunity, and others.)

The Port has established a current list of cargo marketing priorities that includes:

- Work with existing cargo accounts to increase their business,
- Cultivating business with local industry,
- Attract a scheduled carrier,
- Attract short sea shipping to Pensacola,
- Enhance Panamanian trade opportunities in consort with Pensacola area economic development groups,
- Evaluate joint marketing opportunities with CSX.

Tenant Leases

Long-term leases are particularly important for the Port of Pensacola because they provide a minimum annual guarantee and help stabilize cargo volumes moving through the Port. Table 7 summarizes the lease conditions with the five long-term leases at the Port of Pensacola, including those with Trigeant Petroleum (asphalt), Gulf Sulphur (sulfur), Martina Marietta (aggregates), Ready Mix (cement) and Pate Stevedoring (chill/frozen food products).

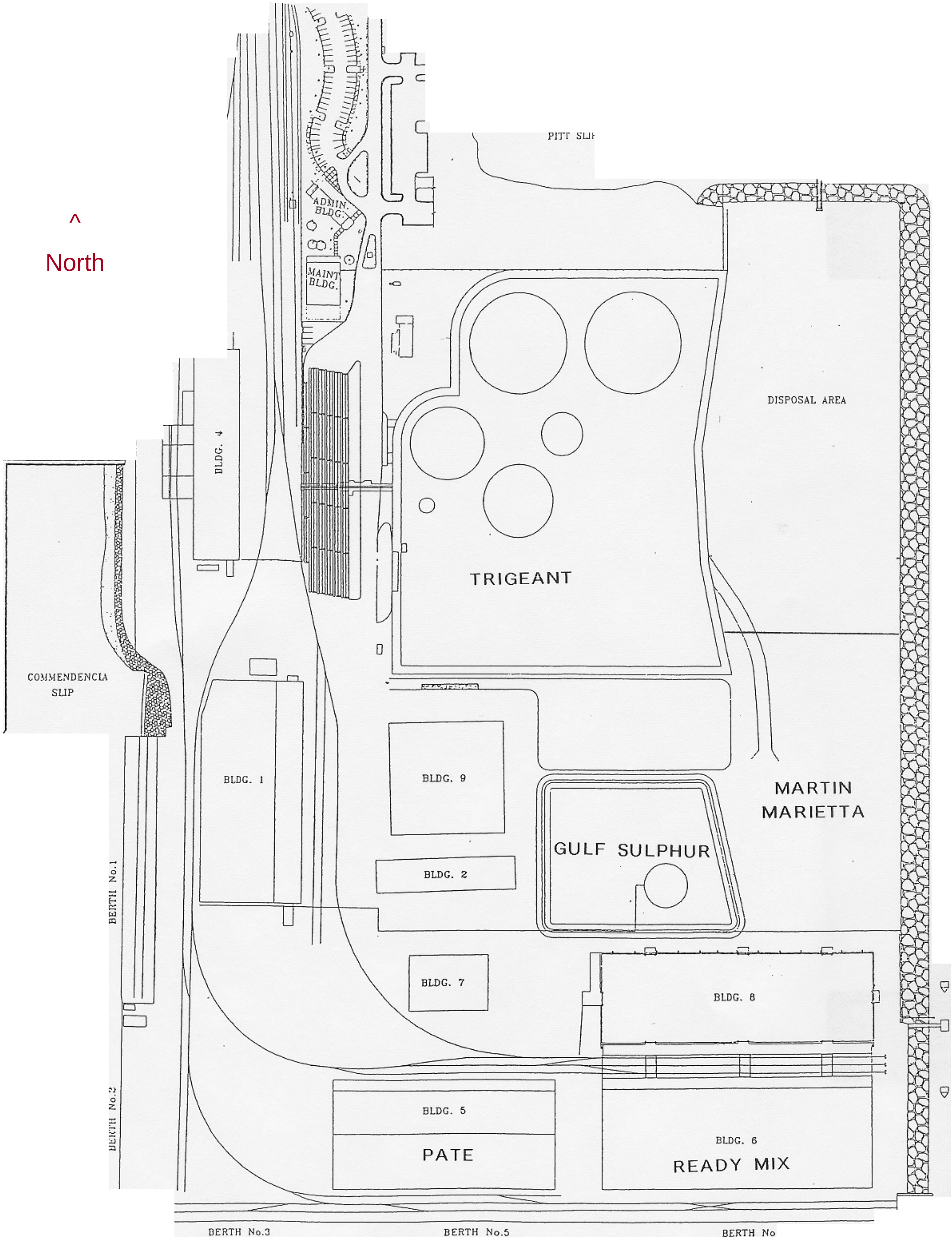
The leases with Trigeant Petroleum and Gulf Sulphur are the first to expire. However, if the lease with Trigeant is terminated before its end, the City will bear the responsibility of the tank demolition. The Gulf Sulphur lease is renewed annually. The other three leases are long-term (20 years) with windows. However, there are no buyout conditions associated the City's early termination of the Ready Mix lease and exercise of the renewals is at the sole option of the tenant. The lease was structured in this manner to provide a sufficient number of years for Ready Mix to recoup its capital costs in the facility.

Table 7 - Port of Pensacola Long-Term Contract Details

Lessee	Trigeant Petroleum, EP	Gulf Sulphur	Martin Marietta Aggregate	Ready Mix USA-Marine	Pate Stevedore Company
Terms	5 Years	3 Years	20 Years—4 five year terms	20 Years—4 five year terms	20 Years - 4 five year terms
Current Status	Year 2 of 5 yr term (7/8/03-7/8/08)	Year 3 of 3 year term (10/1/01-9/30/04)	Year 2 of 1st 5 yr term (12/1/02 to 11/30/07)	Year 2 of the 1st 5 yr term (1/1/03-12/31/07)	Year 1 of 1st 5 Year Term (4/1/04 to 3/31/09)
Renewal Terms	None	City Manager and Lessee may renew agreement annually	1st renewal (Yrs 6 – 10) is at the option of Lessee. 2nd (Yrs 11 – 15) and 3rd (Years 16 – 20) renewals are at the mutual option of the City and Lessee.	Each renewal (Years 6 – 20) is at the option of Ready Mix	Each renewal (years 6-10, years 11-15, and years 16-20) are at the mutual option of the City/Port and Lessee
Early Termination Provisions	Trigeant & City have the option of terminating lease without cause after providing two years notice. The City is responsible for the cost to remove the tanks, lines and all related infrastructure if it exercises this option. Otherwise, Trigeant is responsible	None	During the first 10 years of the lease, the City may buy out the remaining years at $200,000 per year. As Lessee is in Year 2, the buyout is $1.8 million ($200,000 * 9 years)	None	Flat rate buy-out of $1 million lump sum payment at any time
Lease Demise	10 acres	3.42 acres	5 acres	Warehouse #6	Warehouse #5
Demise Details	5 tanks & 1 office trailer	1 tank & 1 office bldg	1 office trailer	90,000 sq ft	21,600 sq ft

Source: Port of Pensacola

Figure 17 – Port of Pensacola Layout (With Location of Leases)



Cargo Forecast

The cargo forecast for the Port of Pensacola, which is presented in Table 8, focuses on the range of cargoes that are expected to be handled by long-term tenants and spot accounts. The forecast ranges from around 800,000 at the low-end to 1.4 million tons at the high-end. This forecast is considered conservative because it does not include cargo volumes for any new accounts.

Table 8 – Port of Pensacola Cargo Forecast (Metric Tons)

Cargo Customers	Low	Most Likely	High
Tenants			
Gulf Sulphur	90,000	107,500	125,000
Trigeant	124,000	134,500	145,000
Martin Marietta	300,000	377,500	455,000
Reynolds Ready Mix	200,000	350,000	500,000
Pate Stevedore Company	40,000	82,500	125,000
Subtotal	754,000	1,052,000	1,350,000
% Total	95%		95%
Other Users (Spot Cargo & Potential Users)			
GE - Wind units	5,000	16,000	26,250
Bagged Cargo	30,000	35,000	40,000
Archer Western	5,000	7,500	10,000
Subtotal	40,000	58,500	76,250
% Total	5%		5%
Total Cargo	794,000	1,110,500	1,426,250

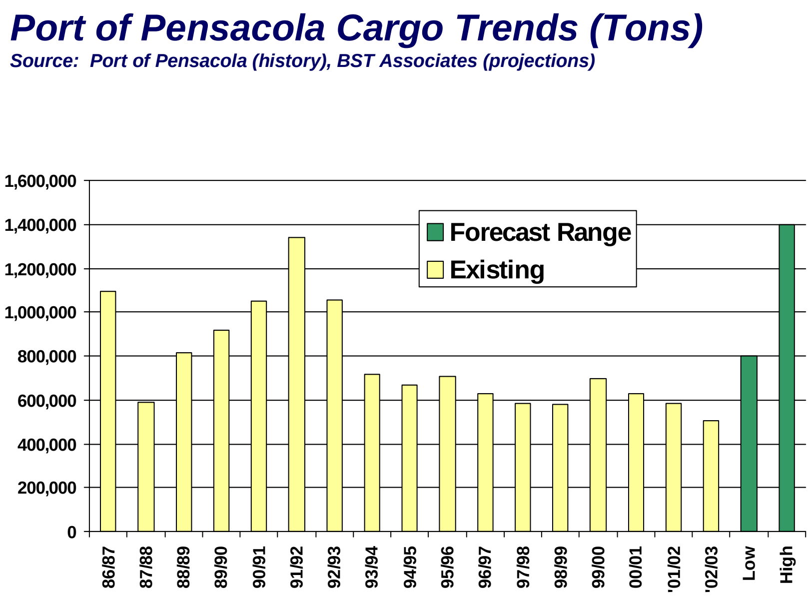
Source: Port of Pensacola

This level of cargo throughput would generate 52,000 trucks per year each way under the most likely forecast (or 285 trucks per day, including trips in and out). The truck traffic accessing the Port includes dump trucks and 18-wheel semi-trailers. According to the Florida Department of transportation, Bayfront Parkway[3] had average annual traffic of 18,400 vehicles per day in 2003. Under the most likely forecast scenario, Port traffic would represent 1.55% of average daily traffic on the Bayfront Parkway in 2003.

[3] Source: FDOT Transportation Statistics Office 2003 Annual Average Daily Traffic Report for a location 300 feet to the east of Tarragona Street on Bayfront Parkway.

Figure 18 indicates that the expected range for future forecasts are higher than the cargo volumes experienced in the past nine years, which is due to higher volume bulk operations (aggregates and cement).

Figure 18 – Port of Pensacola Cargo Trends



Maritime-related Uses

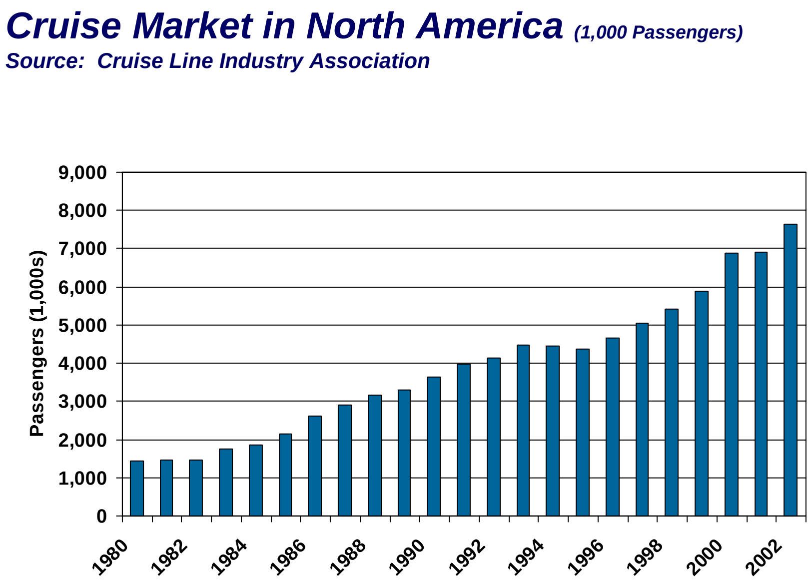
The demand for maritime related uses (cruise and marinas) is evaluated in this section

Cruise ship

The North American cruise market has grown very rapidly, from 1.4 million passengers in 1980 to 7.6 million passengers in 2002, with annualized growth averaging 7.9% per year.

In response to this sustained growth, cruise ship lines are building bigger vessels, capable of accommodating more passengers. This phenomenon has had a cascading effect on ports as new vessels are deployed in established cruise ports leading to shift of older vessel to another port.

Figure 19 – Cruise Market in North America

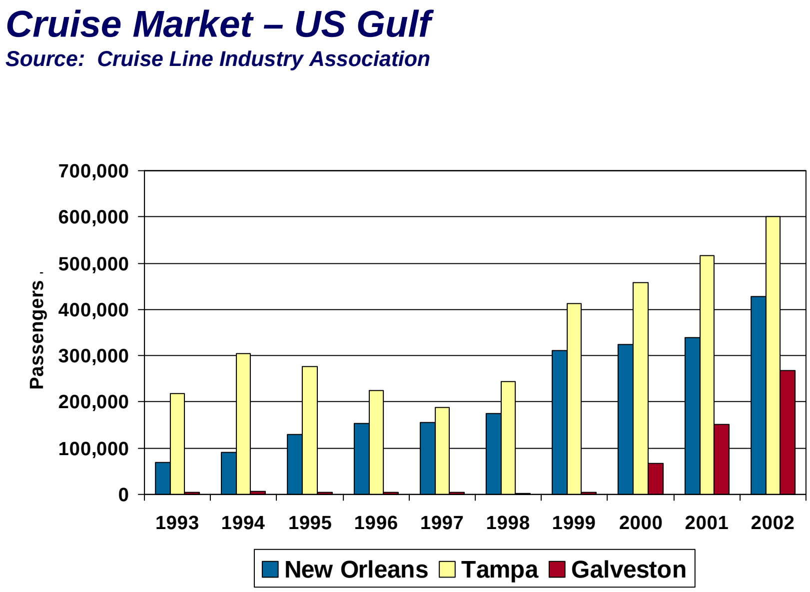


The cruise lines have discovered U.S. Gulf ports as evidenced by the rapid growth in passengers at the Ports of Tampa, Galveston and New Orleans. As shown in Figure 20, Tampa has grown from 300,000 passengers in 1994 to 600,000 in 2002. New Orleans has grown from 91,000 passengers in 1994 to 430,000 in 2002. Galveston had less than 10,000 passengers until 1999 and then the number of passengers increased rapidly to 270,000 in 2002.

Cruising has become very popular and the cruise lines are responding by offering a variety of new services, including:

- Increase in number of drive-to cruise ports,
- Growing variety of ships,
- Explosion in itineraries, and
- Boom in theme cruise.

Figure 20 – Cruise Market in U.S. Gulf Coast



U.S. demographics favor cruising because people aged 45-65 have the highest likelihood of cruising and are the fastest growing segment of the U.S. population. The Cruise Lines International Association (CLIA) has stated that the most likely scenario is that:

- 27 million adults over 25 years of age with incomes of $20,000 (or more) could go on a cruise in next three years.
- The affluent market (incomes over $60,000) consists of 15 million persons.

As a result of these market conditions, demand for cruises in North America is expected to continue to grow. Three recent studies have estimated the growth in the cruise market at between 3% and 7% per year:

- The Port Everglades Master Plan projects 6% per year growth in cruise passengers from 2005 through 2020[4],
- The Florida Department of transportation and Center for Urban Transportation research project cruise passenger growth at 7% annually from 2002 to 2008.
- The Washington Economics Group projects 3% annual growth in cruise passengers through 2010 at Florida's established cruise ports.

Pensacola is currently marketing cruise lines, including Homeport vessel (25+ calls during 6 month period), Port of call vessel (approximately 30 calls over an 8 month period) and excursion vessels.

[4] Source: Section Three Future Passenger and Cargo Throughput Projections, Transystems, August 2001

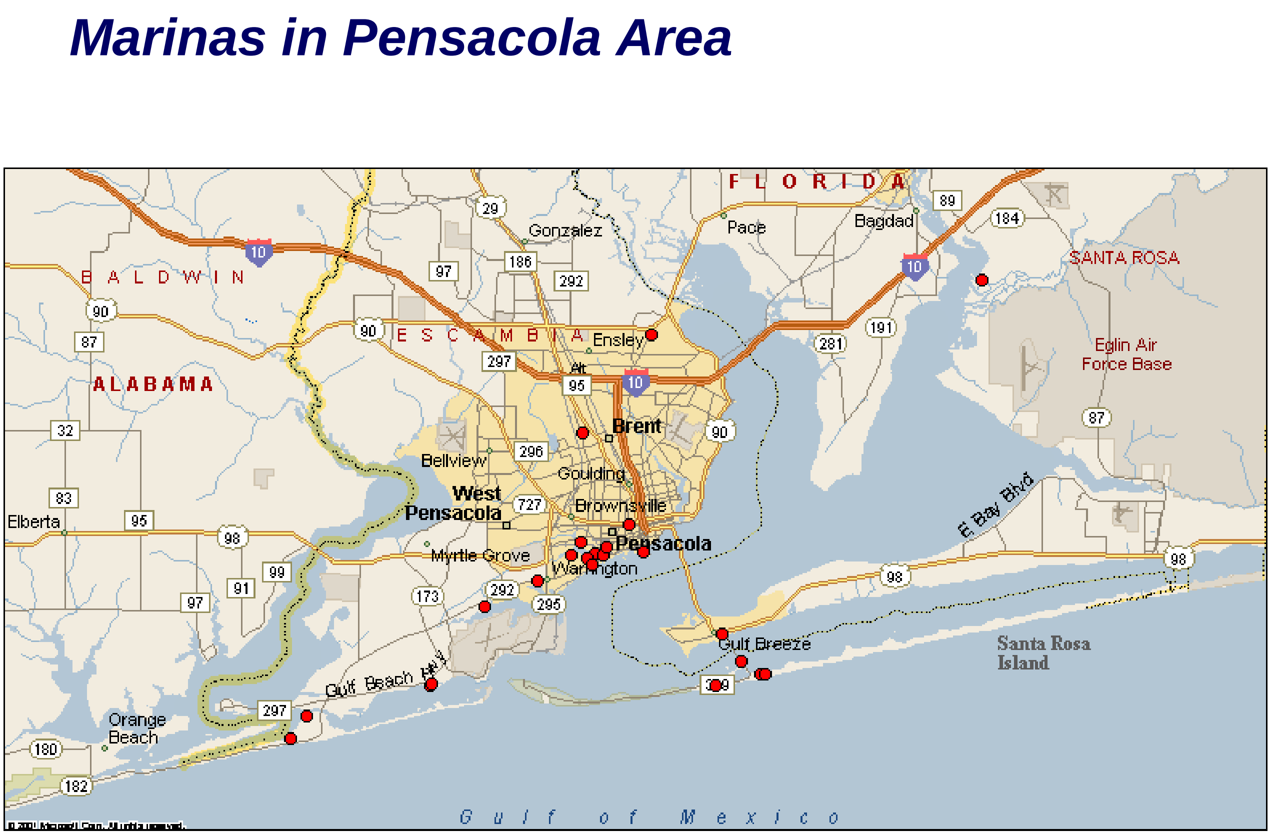
Marina/Boat Storage

Boat ownership in Pensacola increased from 22,145 boats in FY96 to 25,244 in FY03, or by nearly 3,100 additional boats. The Pensacola area is also beginning to see vessels in excess of 100 feet. Per capita boat ownership is greater in Pensacola than in the rest of Florida:

- 60 boats over 16 feet per 1,000 persons in Pensacola
- 45 boats over 16 feet per 1,000 persons in Florida

Pensacola is attracting boats from outside Florida, particularly from Alabama and Mississippi.

Figure 21 – Marinas in the Pensacola Area



By 2020, there is a projected demand for 2,000 to 4,000 additional slips in the Pensacola area. This amounts to a new marina of 100 to 250 slips each year. Marina space is currently tight (conversation with Les Westerman – NW Florida Marine Industry Association).

Marinas and dry stack storage facilities are clustered around Bayou Chico as well as at downtown Pensacola and the beach areas. A Marina or dry stack storage facility at or near the Port of Pensacola could present an opportunity. Site compatibility issues are discussed in Section 3.

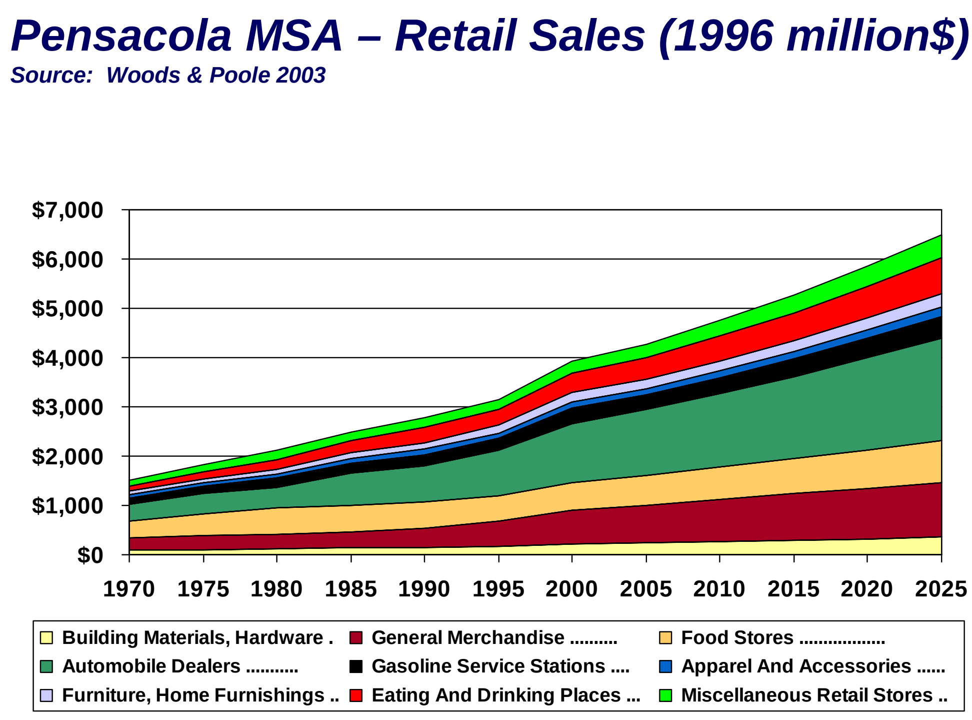
Commercial-business Uses

Commercial business uses include retail stores, restaurants, commercial office space, residential and public uses such as a museum.

Retail/Restaurant

In real terms (adjusted for inflation), retail sales in the Pensacola MSA are expected to grow at 2.1% per year. The fastest growth is expected in restaurant sales (2.5% per year) and miscellaneous retail (2.8% per year). These are the types of retail that best fit a mixed-use waterfront development.

Figure 22 - Pensacola MSA – Retail Sales (1996 million$)



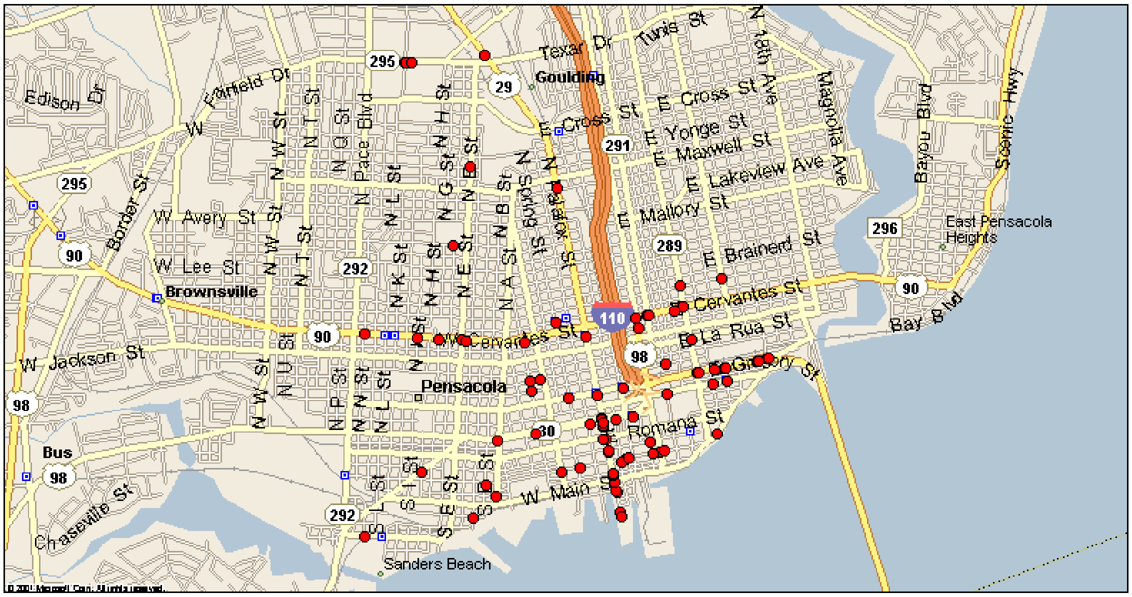
The retail market in downtown Pensacola currently has an estimated 12% vacancy rate. Rental rates are between $15 and $17 per Sq.Ft (gross).

Restaurants in the Pensacola area are clustered along Palafox Street and other main streets in the City. For all mixed-use plans there is a critical mass of development that should be undertaken with sensitivity to impacts on other areas.

The Port site could accommodate approximately 20,000 square feet of retail/restaurant space.

Figure 23 – Location of Restaurants in Pensacola

Restaurants

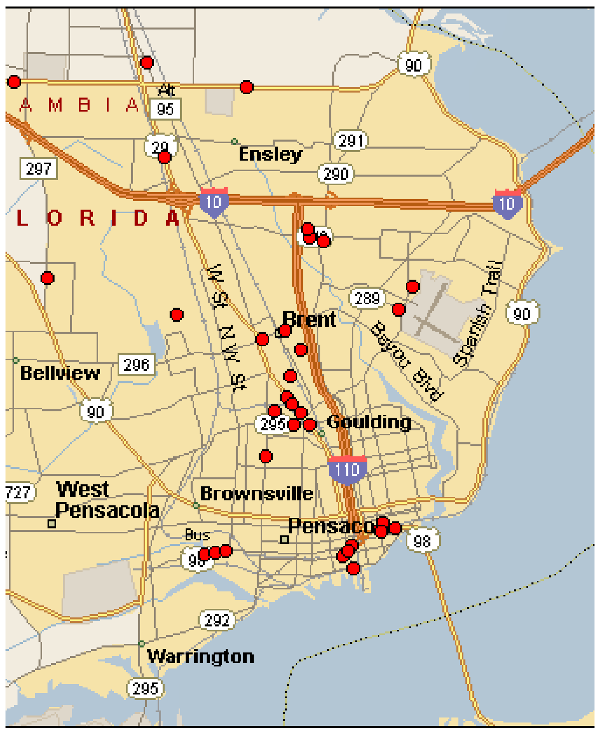


Commercial Office Space

Downtown office space has increased significantly in recent years. Currently the office market has an estimated vacancy rate of around 12%.

Figure 24 – Location of Commercial Office Space in Pensacola

Commercial Office Space
Downtown Pensacola



Office rates are approximately:

- Class A non-waterfront is ~$19 per Sq.Ft.
- Class A with waterfront is ~$23 to $29 per Sq.Ft.
- Class B ~$14 per Sq.Ft.

The Port site could accommodate around 20,000 Sq.Ft of office space.

Residential

Downtown Pensacola offers neighborhood-oriented retail and services within a traditional “Main Street” context. The demand for quality housing is strong. Zimmerman Volk estimated the potential market for new housing units at 2,320 households, including:

- 760 multi-family
- 1,560 single-family

The market draw for housing in downtown Pensacola is expected to be mainly from local households (e.g., City of Pensacola at 32%, Escambia County at 34% and Santa Rosa County at 2%). The balance of the market is expected to come from the rest of the U.S. (32% of market demand).

Zimmerman Volk residential estimate represents the number of households that would be most likely to move within or to the Study Area, if appropriate housing options were to be made available. The Community Redevelopment Area could capture up to 160 units per year.

The City of Pensacola should investigate if there is sufficient residential land to support the growth estimates. Residential housing was considered to be incompatible with existing port industrial uses and was not considered as a potential opportunity for further analysis.

Lodging

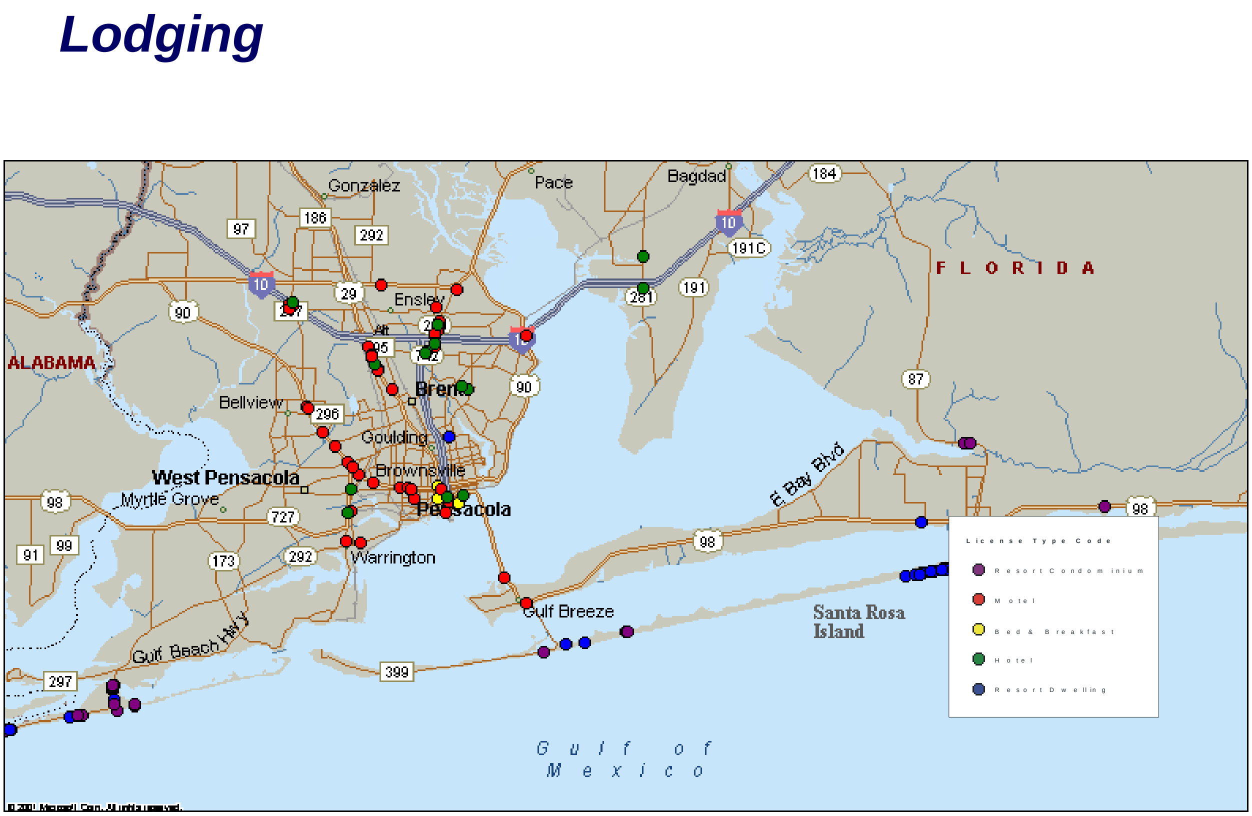
Hotels and motels are concentrated along the freeway and between freeway and downtown. Condos are concentrated on the beach. The Haas Center estimates that tourist spending is approximately $433 million, and that around 75% (or more) of this impact is related to the beaches, which are the biggest draw to the area.

The occupancy in Pensacola area lodging facilities averaged 60.7% from 2001 through 2003. Occupancy rates increased from 2001 to 2002, but then decreased from 2002 to 2003 due to increase in supply.

Lodging revenues increased by 8.4% per year during this time period as demand continued to outstrip supply. Demand grew at 4.1% per year, compared with growth of supply at 2.5% per year. Two new projects will increase supply of lodging in the Pensacola area, including 1,000+ condos for Perdido Key (30% rental rooms) and 600+ condos for Pensacola Beach (not all rental).

The City/Region should investigate if there is sufficient land to support lodging growth requirements.

Figure 25 – Location of Lodging Facilities in the Pensacola Area



Maritime Museum

A Maritime Museum in Pensacola could provide significant benefits to the City of Pensacola, including research and education as well as providing another tourist attraction. The focus of this analysis is on the projected level of expected visitation of the Museum. The financial self-sufficiency of the Museum and its compatibility with existing uses of the Port property is discussed in the next section.

The Haas Center for Business Research & Economic Development at the University of West Florida prepared an estimate of visitation at the proposed Maritime Museum at between 803,936 visitors (low-end) to 979,570 visitors (high-end)[5]. The authors state that these estimates are conservative:

[5] Source: The Potential Economic Impact of a Maritime Museum in Pensacola, pages 41 and 42.

> "To estimate the amount of area tourism spending that a downtown maritime museum could generate, this analysis uses the visitation to the historical district and downtown museums as a reasonable low-end estimate, and the visitation to the National Museum of Naval Aviation as a reasonable high-end estimate. At the low-end, we could expect 44.4% of our annual visitors to visit the maritime museum and increase their length of stay by .378 days. At the high-end, we could expect 54.1% of our annual visitors to visit the maritime museum and increase their length of stay by .75 days…"

> "This should be considered a conservative estimate. It relies upon our current visitor count, length of stay, and spending characteristics. It does not include spending by visitors to our area that do not pay for lodging and are therefore more difficult to estimate because they are not reflected in the bed tax data. It also does not rely upon new visitors being attracted to the area, even though they certainly will be."

However, the Haas Center report also mentions misgivings by Museum Directors about forecasts of visitation. A respondent to the Haas Center survey from Norfolk indicated that the original estimates were twice as large as those actually occurring after the museum opened:

> "Designed by guy with background with Disney, promised over 800,000 visitors, museum barely gets 400,000; museum was almost scrapped but the city of Norfolk gave it one more chance; it is now doing well, but it was not designed for traveling exhibits, needs flexibility to bring in new things and exhibits because what is relevant now will not be relevant in five years." (On Page 72,second bullet).

BST Associates surveyed two maritime museums (located in Seattle and Astoria). The directors of these facilities also suggested that initial visitation estimates were typically difficult to attain. In Seattle (Odyssey Maritime Museum), the consultant suggested that they would achieve 350,000 visitors annually but they typically get less than half of that number.

BST Associates did not prepare a separate forecast for visitation at the proposed Maritime Museum. However, the estimates prepared by the Haas Center appear to be overly optimistic, which also over-inflates the estimated economic impacts.

SECTION 3 – EVALUATION OF PORT ALTERNATIVES

This chapter evaluates the potential opportunities for the Port of Pensacola based upon:

- Financial performance,
- Economic impact to the Pensacola area in terms of jobs and payroll, and,
- Compatibility with existing port uses.

Maritime-industrial Uses

Financial Performance

The recent financial performance of the Port of Pensacola is shown in Table 9. During the period 1999 through 2004, the Port's financial performance was as follows:

- Operating revenues ranged from $1.5 million to $2.0 million per year.
- Operating expenses (including depreciation) ranged from $2.1 million to $3.1 million per year. Depreciation accounted for $600,000 to nearly $1 million during this time period.
- Non-operating expenses ranged from $176,000 to $334,000 during this time period. Interest expenses on outstanding bonds comprised the largest share of this category. These bonds will be fully paid off in 2013.
- The Port experienced losses ranging from $434,000 to $1.8 million before accounting for contributions.
- After contributions, the Port had a net income ranging from $0.7 million to $2.2 million. Contributions came from state and federal sources of approximately $600,000 per year and from the City (including allocation of Port rainy day accounts) of nearly $1.0 million per year.

Table 9 – Port of Pensacola Recent Financial Performance (US$)

Component	1999	2000	2001	2002	2003
Operating revenues	2,028,535	1,985,342	1,552,817	1,672,891	1,495,583
Operating expenses[6]	2,129,428	2,461,274	2,483,250	2,735,670	3,069,248
Non-operating revenues (expenses)[7]	(334,056)	(251,414)	(218,384)	(204,083)	(176,841)
Income (loss) before contributions and operating transfers	(434,949)	(727,346)	(1,148,817)	(1,266,862)	(1,750,506)
Contributions[8]	1,200,000	1,150,000	3,373,783	2,657,558	3,451,562
Net Income (loss) before cumulative effect of acct	765,051	422,654	2,224,966	1,390,696	1,701,056

Source: City of Pensacola Comprehensive Annual Financial Report

[6] Includes Salaries and employee benefits, materials and supplies, repairs and maintenance, contractual services, office and utilities, overhead allocation, bad debt expense, and depreciation.

[7] Includes: Gain (loss) on disposal of fixed assets, Investment interest, Interest expense, Amortization of bond expense, and Bad debt recovery

[8] Includes Federal and state grants, Operating transfers, and Contributed capital from other funds.

In order to be self-sufficient, the Port must generate revenues of approximately $1.9 million to 2.7 million annually to cover operating and non-operating expenses, depending primarily on the level of bond debt service, which ranges between $140,000 and $540,000 per year until the outstanding debt service is retired.

The cargo forecast presented in the previous chapter, coupled with other non-cargo related leases indicates that the Port will generate revenues estimated at between $1.5 million and $2.8 million per year, based upon current tariff rates. Under the most likely revenue forecast, the Port is able to generate revenues sufficient to cover O&M expenses, debt service and anticipated capital funding in five out of the next ten years (see Table 11).

Table 10 – Revenue Projections for the Port of Pensacola

Cargo Customers	Low	Most Likely	High
Tenants			
Gulf Sulphur	$137,000	$164,000	$191,000
Trigeant	$150,000	$162,500	$175,000
Martin Marietta	$264,000	$332,500	$401,000
Reynolds Ready Mix	$495,000	$750,500	$1,006,000
Pate Stevedore Company	$223,000	$375,500	$528,000
Subtotal	$1,269,000	$1,785,000	$2,301,000
% Total	81%	81%	81%
Other Users (Spot Cargo & Potential Users)			
GE - Wind units	$20,000	$63,000	$105,000
GE - Energy rentals	$67,500	$101,250	$135,000
Bagged Cargo	$90,000	$105,000	$120,000
Archer Western	$20,000	$30,000	$40,000
Barge Dockage	$16,000	$18,000	$20,000
Ship Dockage	$74,000	$84,500	$95,000
CRA Lease	$17,000	$17,000	$17,000
Subtotal	$304,500	$418,750	$532,000
% Total	19%	19%	19%
Total Cargo	$1,573,500	$2,203,750	$2,833,000

Source: Port of Pensacola, BST Associates

Table 11 – Port of Pensacola Financial Pro Forma – Cargo Only (Most Likely case)

Category	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues	$2,203,750	$2,269,863	$2,337,958	$2,408,097	$2,480,340	$2,554,750	$2,631,393	$2,710,335	$2,791,645	$2,875,394
O & M Expenses (3%)	$1,615,100	$1,663,553	$1,713,460	$1,764,863	$1,817,809	$1,872,344	$1,928,514	$1,986,369	$2,045,960	$2,107,339
Debt Service	$120,000	$130,700	$136,200	$339,500	$431,700	$495,800	$495,200	$496,100	$497,200	$ -
O&M and Debt Service	$1,735,100	$1,794,253	$1,849,660	$2,104,363	$2,249,509	$2,368,144	$2,423,714	$2,482,469	$2,543,160	$2,107,339
Net Income (Loss) Before Capital Projects	$468,650	$475,610	$488,299	$303,734	$230,831	$186,607	$207,679	$227,865	$248,484	$768,055
Capital Projects	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000
Total Expenses - O&M, Debt Ser., & Capital	$1,985,100	$2,044,253	$2,099,660	$2,354,363	$2,499,509	$2,618,144	$2,673,714	$2,732,469	$2,793,160	$2,357,339
Net Income (Loss) After Capital Projects	$218,650	$225,610	$238,299	$53,734	$(19,169)	$(63,393)	$(42,321)	$(22,135)	$(1,516)	$518,055

Source: Port of Pensacola, BST Associates

Financial performance at small ports

Additional information from the Maritime Administration is presented in Table 12 on the financial performance of U.S. ports that had gross revenues of less than $6.0 million in 2001.

Of 16 small ports responding to MARAD's finance survey in 2001, 10 (or 62.5%) experienced negative net income, defined as operating revenues from all sources subtracted by operating expenses (including costs for operation & maintenance, security, sales promotion/trade development, other administration and depreciation). In these ports, outside funds (tax revenues, contributions and sources) were required to meet annual expenses. Six respondent ports (or 37.5%) had positive net income. It is more likely that small ports will not be financially self-sufficient.

This database also identifies that the responding small ports receive approximately 70% of total operating revenues from marine activities (cargo and cruise) and the remaining 30% from a variety of non-marine activities (including commercial property leases). Virtually, all of the Port of Pensacola's operating revenues come from marine activities. Diversification of the Port's revenue base would help financial performance.

Table 12 – Financial Performance of Small U.S. Ports

		Operating Revenues					Operating	Net
Region	**Port**	**Marine**	**% Total**	**Other**	**% Total**	**Total**	**Expenses**	**Income**
North Atlantic	Philadelphia Regional Port Authority (PA)	$4,116	100.0%	$0	0.0%	$4,116	$15,001	-$10,885
Gulf	Port Of Shreveport-Bossier (LA)	$111	8.0%	$1,278	92.0%	$1,389	$4,253	-$2,864
Gulf	Port Of Beaumont (TX)	$4,659	88.1%	$629	11.9%	$5,287	$7,285	-$1,998
North Pacific	Port Of Olympia (WA)	$705	79.1%	$185	20.8%	$891	$2,109	-$1,218
Gulf	Greater Baton Rouge Port Commission (LA)	$2,371	54.1%	$2,011	45.9%	$4,382	$5,527	-$1,145
Gulf	Port Of Pensacola (FL)	$1,547	99.6%	$6	0.4%	$1,553	$2,483	-$930
North Pacific	Port Of Bellingham (WA)	$603	55.9%	$475	44.1%	$1,078	$1,960	-$882
Gulf	St. Bernard Port/Harbor/ Terminal District (LA)	$2,256	96.4%	$84	3.6%	$2,340	$3,190	-$850
Great Lakes	Toledo-Lucas County Port Authority (OH)	$1,543	98.4%	$25	1.6%	$1,568	$2,189	-$621
Great Lakes	Port Of Green Bay (WI)	$61	6.0%	$960	94.0%	$1,021	$1,130	-$109
North Atlantic	Port Of Richmond (VA)	$1,142	79.7%	$289	20.2%	$1,432	$1,422	$10
Gulf	Port Of Pascagoula (MS)	$2,498	75.1%	$829	24.9%	$3,327	$3,131	$196
Great Lakes	Indiana Port Commission	$1,847	32.4%	$3,862	67.6%	$5,709	$4,500	$1,209
Gulf	Port Lavaca/Point Comfort (TX)	$4,871	94.6%	$281	5.5%	$5,151	$3,662	$1,489
Gulf	Port Of Freeport (TX)	$3,547	70.2%	$1,508	29.8%	$5,055	$3,232	$1,823
South Pacific	Port Of Redwood City (CA)	$2,241	49.5%	$2,282	50.5%	$4,523	$2,201	$2,322
	Total	$34,118	69.9%	$14,704	30.1%	$48,822	$63,275	-$14,453

Source: Maritime Administration, Port Finance Survey 2001

Economic Impact

The economic impacts associated with the cargo operations at the Port of Pensacola are shown in Table 13. The process for estimating the direct economic impacts of cargo operations entailed interviews with the existing tenants/users of the Port and use of secondary labor market research for Escambia County. Survey respondents were assured that information from individual companies would be considered confidential. As a result, details for individual companies are not reported.

BST Associates sought to develop reasonable estimates of the number of full-time equivalent jobs (FTEs) and payroll associated with vessel, terminal and inland transportation activities at the Port of Pensacola. The methodology included estimating the number of jobs based upon actual employment, where available, or by estimating the labor force required to handle the expected volume of cargo, by commodity. As an example, survey respondents were asked to describe how many man-hours it took to load/unload a vessel, provide terminal marshalling efforts and provide inland transportation for a particular cargo. These estimated man-hours were then translated into full-time equivalent jobs by dividing by a standard work year (2,020 hours per year). This is a standard process in conducting economic impact studies.

Direct impacts from Port operations create between 148 jobs (low forecast) and 239 jobs (high forecast). The average direct wage is approximately $30,000, resulting in payroll of between $4.5 million (low forecast) and $7.2 million (high forecast). The sales or revenue generated by firms that provide these operations is estimated to be $24 million (low forecast) and $40 million (high forecast). The direct impact estimates are based upon interviews with users, evaluating the impacts created in moving the cargo from the vessel through the Port facilities and to/from the inland origin/destination.

Total impacts from Port operations create between 289 jobs (low forecast) and 488 jobs (high forecast). Total income from these operations is estimated at between $8.8 million (low forecast) and $14.4 million (high forecast). Total impacts include direct, indirect and induced effects of Port operations and are based upon multipliers for the Pensacola MSA generated using the Implan model.

Table 13 – Economic Impact of Port of Pensacola Cargo Operations

Economic Impacts	Low	High
Direct		
Employment	148	239
Payroll	4,592,000	7,186,000
Sales	24,335,705	40,975,367
Total		
Employment	289	488
Income	8,841,000	14,444,000
Sales	43,140,000	73,459,000

Source: BST Associates

Compatibility with Port Uses

As described in the previous section, the Port has several long-term leases with industrial customers. Maintaining the industrial character of the Port will not create compatibility issues with these accounts.

Dredge Disposal Site

The location of the dredge disposal site was decided after extensive negotiations with Florida Department of Environmental Protection and the U.S. Army Corps of Engineers in the 1970s. The dredge disposal site operates under a 99-year permit, which commenced in 1977 and ends in 2076. When the site reaches capacity, the plan allows for removal of some of the spoils to an upland landfill site so that there will be capacity for additional dredging. The site is currently approaching its capacity.

As long as there are large vessels calling at the Port, the Port's approaches and berths will need to be dredged which needs to occur about every ten to twelve years. The last time the Port was dredged was in 2002 and the next dredging period will be around 2012-2014. It is expected that the dredge disposal site will remain in effect throughout the life of this plan.

There is a process for removal of the dredged spoil site but this should only be contemplated when the site is no longer needed, which could occur if the Port had no large vessel traffic or found another dredge disposal site.

Maritime-related Uses

Cruise

Financial Performance

Cruise revenues accrue from dockage, passenger fees, harbor fees, wharfage, water, and parking charges (for a homeported vessel only). In order to accommodate cruise operations at the Port Terminals, the Port would need to spend approximately $4 million to reconfigure Warehouse No. 1 as a homeport cruise ship terminal. Accommodating a port-of-call vessel at this terminal would entail nominal capital expense. The additional operating costs for the Port would be minimal, including additional security costs of approximately $1,000 per vessel call.

A homeport cruise vessel would generate approximately $60,000 per call, assuming there were 1,500 passengers per vessel call[9]. Assuming that there would be 30 vessel calls per year, a homeport vessel would generate approximately $1.8 million per year.

A port of call cruise vessel would generate approximately $21,000 per call, assuming there were 2,000 passengers per vessel call. Assuming that there would be 30 vessel calls per year, a port-of-call vessel would generate approximately $635,000 per year.

Economic Impact

The economic impacts associated with the cruise operations at the Port of Pensacola are shown in Table 14.

A homeport cruise vessel is expected to generate 117 direct jobs, with a direct payroll of $1.4 million. The total impacts associated with a homeported cruise vessel are expected to be 168 jobs and income of $2.3 million per year.

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[9] The expected number of passengers for homeported and port of call vessels is based upon discussions between the Port of Pensacola and interested cruise lines.

A port of call cruise vessel is expected to generate 143 direct jobs, with a direct payroll of $1.6 million. The total impacts associated with a port-of-call cruise vessel are expected to be 208 jobs and income of $2.8 million per year. The impacts for a port of call vessel are slightly higher than for a homeported vessel due to the number of passengers expected with each kind of operation (e.g., a homeported vessel is expected to have 1,500 passengers while a port of call vessel is expected to have 2,000 passengers).

The direct impacts are estimated based upon the typical spending patterns of passengers and crew for both homeported and port of call vessel operations as well as the expenses related to vessel operations. The total impacts are estimated using the appropriate multipliers generated by the Implan model for the Pensacola MSA.

Table 14 – Economic Impact of Port of Pensacola Cruise Operations

Economic Impacts	Homeport	Port of Call	Combined
Direct			
Employment	117	143	259
Payroll	1,397,000	1,675,000	3,072,000
Sales	9,633,000	13,085,000	22,718,000
Total			
Employment	168	208	376
Income	2,271,000	2,777,000	5,048,000
Sales	16,670,000	22,890,000	39,560,000

Source: BST Associates, CH2Mhill, Port of Pensacola

Compatibility with Port Uses

Port staff has discussed the compatibility of the cruise operations with both cruise lines and existing tenants/users. The result of these discussions is that the cruise terminal and access to the terminal could be designed to minimize impacts to existing cargo accounts. Access to the terminal would be along the western edge of the Port with a separate gate. The cruise terminal would be located in Warehouse 1, which consists of 72,000 square feet. The cruise terminal would also need approximately 250 to 280 parking spaces to serve the homeport vessel. There are sufficient parking spaces within a 1-mile radius (e.g., there are 600 parking spaces owned by the City of Pensacola within a one-mile radius of the Port of Pensacola that are currently unencumbered and available for cruise parking).

Recreational Marina & Dry Storage

Financial Performance

A recreational marina with 200 slips would cost approximately $7 million to construct (including a breakwater). The expenses to operate and maintain the marina would be approximately $218,000 per year (including labor, repairs/maintenance and other costs)[10]. The revenue

[10] Based on consultant experience and data from the International Marina Institute, The 2000 Financial and Operational Benchmark Study for Marina Operators.

associated with the marina would be approximately $660,000 per year, assume 95% occupancy and rates of $9 per lineal foot[11].

A dry stack storage facility of 100 spaces would cost approximately $900,000 to construct. Expenses are expected to be approximately $100,000 per year (labor, repairs/maintenance and other costs) based upon local market conditions. Revenue from dry stack storage is projected to be approximately $200,000 per year, assuming 95% occupancy and rates of $175 per stall per month[12].

Economic Impact

The economic impacts associated with a marina and/or dry stack storage facilities at the Port of Pensacola are shown in Table 15.

Table 15 – Economic Impact of Marina/Dry Stack Storage at the Port of Pensacola

Economic Impacts	Marina	Dry Stack
Direct		
Employment	6	3
Payroll	155,000	75,000
Sales	676,000	143,000
Total		
Employment	8	4
Income	260,000	126,000
Sales	1,118,000	236,000

Source: BST Associates

A marina is expected to generate 6 direct jobs, with a direct payroll of $155,000 per year. The total impacts associated with a marina are expected to be 8 jobs and income of $260,000 per year.

Dry stack storage is expected to generate 3 direct jobs, with a direct payroll of $75,000 per year. The total impacts associated with a dry stack storage facility are expected to be 4 jobs and income of $126,000 per year.

As with other opportunities examined in this section, the direct impacts were based on interviews with operators and total impacts were based on multipliers for the Pensacola MSA generated by the Implan model.

Compatibility with Port Uses

Dry stack storage could be located at the northern portion of the Port. This would displace Trigeant Petroleum but would not impact other tenants/users, if access was designed properly and the facility was buffered. However, a dry stack storage facility could interfere with a mixed-

[11] Assumes the average vessel size is 32 feet. The lineal moorage rate is based upon discussions with local marina operators in downtown Pensacola.

[12] Based upon discussions with local operators and consultant experience.

use building at this site, which is expected to generate better financial results and economic impacts.

It is unlikely that a marina could be built at the Port because it would interfere with existing operations. A marina located in Commendencia Slip would be constrained to a very small size (approximately 25 to 30 slips) and would not likely be financially successful. It could also impact and be impacted by vessels at berths on the west side of the Port. A marina located at the east end of the Port would interfere with access to the dredge disposal site and berths on the eastern side of the Port.

For these reasons, a new marina may be better located elsewhere, which is beyond the scope of this analysis.

Commercial-business Uses

Commercial business uses include retail stores, restaurants, commercial office space and lodging.

Mixed Use Building(s) including Retail/Restaurant and Commercial Office

Financial Performance

The concept of a 40,000 square foot building providing 20,000 square feet for retail/restaurant and 20,000 square feet for commercial office space is evaluated in this section.

The cost to construct a 40,000 square foot building is estimated to be $5.5 million, based on average costs of $136 per square foot[13]. The operating revenues and expenses for the retail/restaurant component are based on expected rent of $17.00 per SqFt full service and an estimated cost of $3.00/SqFt. The operating revenues and expenses for the office component are based on expected rent of $27.00 per SqFt full service and an estimated cost of $6.25/SqFt[14].

This analysis assumes that the Port would own and manage the proposed building. Alternatively, the Port could lease the land to a developer, who would bear the construction costs and market risks.

Economic Impact

The economic impacts associated with a mixed-use building are shown in Table 16.

The retail/restaurant component of the building is expected to generate 69 direct jobs, with a direct payroll of $907,000 per year. The total impacts associated with retail/restaurant are expected to be 93 jobs and income of $1.4 million per year.

The office component is expected to generate 51 direct jobs, with a direct payroll of $2.1 million per year. The total impacts associated with the office component are expected to be 82 jobs and income of $3.7 million per year.

The direct impacts for retail and restaurant were based on average revenues per square foot as reported by the Urban Land Institute in Dollars and Sense of Shopping Centers 2002, which

[13] Based on data in Commercial Square Foot Building Costs 2004 by Deloitte & Touche and Saylor Publications.

[14] Based upon discussions with Moulton Properties for downtown Pensacola properties.

estimates the average retail space generated $250 per square foot and the average restaurant generated sales of approximately $275 per square foot. Payroll was estimated based upon data from the Census of Retail Trade 1997 for the Pensacola area. Employment estimates were based upon the average wage for retail employment in Escambia County from the State of Florida.

The direct impacts for office space were based on an average estimate of square feet per employee of 390, which is slightly higher than the report for Tampa (which is the most proximate market to Pensacola in the BOMA database) in the 2002 BOMA Experience Exchange Report[15]. Payroll was estimated based upon the average wage for selected private sector office employment in Escambia County from the State of Florida. Revenues were based on the Census of Service 1997, which reflects the percentage of payroll to sales by industry segment.

Total impacts were based on multipliers for the Pensacola MSA generated by the Implan model. These uses (retail/restaurant, and office uses) do not need to be located on the waterfront. A key question facing the City is whether the supply of land (at greenfield or infill sites) is sufficient to meet the requirements of these uses. When waterfront land is used to meet non-water dependent uses, it is important to understand that the majority of the space absorption may occur from businesses relocating from one site in the City to another. As an example, Zimmerman-Volk found that approximately 2/3rds of the potential market for downtown housing would come from local residents and 1/3rd from outside the Pensacola MSA. A similar result typically occurs for business relocations, with the majority of the space absorption coming from local firms. This shifting of uses from one site to another within the local area may not have any economic impact on the area.

BST Associates included all of the jobs associated with mixed-use building, museum and other non-water dependant uses. The report assumes that all of these uses result from new activities (businesses moving from outside the local area or from additional tourist expenditures) and that these uses cannot be accommodated at other sites within the City. As a result, the report over-estimates the impacts of non-water dependent uses relative to water-dependent uses.

Table 16 – Economic Impact of a Mixed-Use Building at the Port of Pensacola

Economic Impacts	Retail/Restaurant	Office	Combined
Direct			
Employment	69	51	121
Payroll	907,000	2,073,000	2,980,000
Sales	5,291,000	7,690,000	12,981,000
Total			
Employment	93	82	175
Income	1,415,000	3,787,000	5,202,000
Sales	8,999,000	12,990,000	21,989,000

Source: BST Associates

15 BOMA is the Building Owners and Managers Association, which summarizes occupancy information for various types of office buildings throughout the United States.

Compatibility with Port Uses

A mixed-use building could be located at the northern portion of the Port. This would displace Trigeant Petroleum but would not impact other tenants/users, if access was designed properly and the facility was buffered.

Lodging

Financial Performance

A proposal for a hotel at the Port of Pensacola is currently being discussed but no definitive business plan is available as of this writing. This section seeks to compare actual operating results of hotels in the Southeast Region of the U.S[16]. Room rates in the Pensacola area average approximately $65.00 per night. The annual increase in rates has been approximately 4.6% during this period. Rates did not decrease in 2003, despite increase in supply. Information on three types of hotels is presented in Table 17:

- Full service – a hotel which provides a wide range of facilities and amenities, including food and beverage outlets, meeting rooms and recreational activities,
- Limited-service – a hotel which provides only some of the facilities and amenities of a full service hotel but does not offer restaurant, lounge or banquet service,
- Resort hotel – a hotel, usually in a suburban or isolated rural location, with special recreational facilities.

Most of the hotels in the City of Pensacola are considered limited service. In addition, the average room rate in Pensacola more closely approximates the average rate for limited service hotels in the Southeast U.S. than the average room rate for full service or resort hotels. The occupancy rate in Pensacola area is approximately 61% at the present time.

Table 17 – Financial Performance of Selected Lodging Facilities ($/room/year)

	Type of Hotel		
Category	**Full-Service**	**Limited Service**	**Resort**
Revenues			
Rooms	$23,341	$13,709	$32,297
Food & Beverages	$9,299		$17,288
Other	$1,765	$457	$8,253
Total	$34,405	$14,166	$57,838
Expenses			
Departmental costs/expenses	$13,739	$4,009	$26,273
Undistributed operating expenses	$9,477	$4,309	$15,533
Management fees, prop tax and insurance	$2,449	$1,325	$5,022
Subtotal	$25,665	$9,643	$46,828
Income before other fixed charges	$8,740	$4,523	$11,010
Percentage Occupancy	64.8%	61.1%	61.5%
Average Daily rate of Occupied Room	$99.39	$61.54	$146.18
Average size (rooms)	257	125	350

Source: Trends in the Hotel Industry USA Edition 2003 by PKF Consulting

16 Based upon data for the Southeast U.S. from Trends in the Hotel Industry USA Edition 2003 by PKF Consulting.

Compatibility with Port Uses

It is unclear whether a lodging facility would be financially viable at the Port of Pensacola. However, the location of the facility may create difficulties for both the hotel and industrial uses. In order to maximize the views from a hotel, the facility would need to be located as close to the Bay as possible. Placing a hotel at the southern end of the Port property would interfere with existing industrial tenants and would create conflicts with the south-end berths. Placing the hotel on the west end of the Port property would interfere with the proposed cruise ship terminal. It would not be possible to locate the hotel on the east end because it would interfere with either the dredged disposal site and/or existing industrial tenants. For these reasons, a hotel is not considered to be compatible with existing industrial uses.

Maritime Museum

Financial Performance

The business plan for the Maritime Museum, which is currently being formulated, assumes that the museum will cover its own costs through earned revenues and private/public grants. According to American Association of Museums[17], the sources of operating revenues for specialized museums (such as maritime museums) include:

- Government – 18%
- Private – 43%
- Earned – 32%
- Investment – 7%

It is expected that the Museum may need to seek annual operating assistance from public sources for approximately 2/3rds of their annual operating budget. In addition, it is anticipated that the Museum would not generate rents for the Port of Pensacola if it were to be located at the Port.

Economic Impact

The Haas Center prepared an estimate of the economic impacts from the proposed Maritime Museum. These results are presented in Table 18.

Table 18 - Economic Impact of a Maritime Museum at the Port of Pensacola

Economic Impacts	Low	High
Direct		
Employment	228	514
Payroll	3,240,000	7,313,000
Sales	16,700,000	37,700,000
Total		
Employment	403	911
Income	5,071,000	11,448,000
Sales	22,184,000	50,177,000

Source: Haas Center

[17] Source: 2003 Museum Financial Information, American Association of Museums, Page 64.

Direct employment is estimated at between 228 and 514 jobs with payrolls of $3.2 million to $7.3 million. Total employment is expected to range from 403 to 911 jobs with an income impact of $5.0 million to $11.5 million.

As indicated previously, the visitation estimates upon which these impacts are based are considered overly optimistic. As a result, the impacts are considered overly optimistic.

Compatibility with Port Uses

The Museum is currently seeking to find a home at either the Port or the Trillium property. The Museum proponents have listed the advantages and disadvantages of these two sites as follows.

Location Effects at Trillium Site

If the proposed Maritime Museum were located at the Trillium site, the impacts would be as follows:[18]

- Positive Attributes of Trillium Site:
  - New building could be designed specifically for museum,
  - Initiates and supports westerly redevelopment,
  - Provides a strong waterfront edge and related park,
  - Immediate execution,
  - Strong relationship to deep water, dockage and static display,
  - Allows immediate exterior display areas,
  - Not hindered by Port security issues,
  - Utilizes engineering plans for parking, utilities and site improvements,
  - No interference with Port operations,
  - Allows for unencumbered plans for Port future.
- Negative Attributes of Trillium Site:
  - Removed from Seville and Palafox Pier redevelopment,
  - Site environmental remediation issues,
  - Sewer Treatment Plant,
  - Removes portion of property from commercial development,
  - Occupies a portion of the property, which could be an open park.

Location Effects at Port Site

If the proposed Maritime Museum were located at the Port site, the impacts would be as follows:[19]

- Positive Attributes of Port Site:
  - Close to Seville and Palafox Pier redevelopment,
  - Existing parking available (see discussion of available parking below),
  - Provides for strong support for any future Port redevelopment,
  - Allows Trillium property to be free for development,

[18] Source: State of Florida Maritime Museum presentation dated March 2004

[19] Source: State of Florida Maritime Museum presentation dated March 2004

- Negative Attributes of Port Site:
  - Existing structure,
  - Impact rail access/egress to Port facility,
  - Removes current parking inventory,
  - Noise from Port operations,
  - No exterior display area,
  - Port operation interference.

If the Museum were located at the Port, it could be located on the west edge. This location would eliminate the capability of locating cruise operations at public sites along the downtown waterfront for 3 to 5 years. Warehouse 1 has been identified as the best site for a Cruise ship terminal; with cruise ships docked at berths 1 and 2. Location of the Maritime Museum in this area would thus eliminate opportunities to attract a Cruise ship to the Port of Pensacola. In addition, locating the Maritime Museum at this site could also substantially impact rail access/egress and parking. The Museum would also need to adopt a security plan that meets Homeland Security requirements.

As currently planned, the Maritime Museum site proposal contemplates seven acres that encompasses the footprint of Warehouse 4 and Warehouse 1. Access to the Maritime Museum would transverse over rail access/egress to the Port. Rail service is provided in leases for Pate Stevedore Company and Reynolds Ready Mix. It is unclear whether rail access could be reasonably maintained to service the aforementioned leases, while accommodating the space requirements of a maritime museum.

The Port controls about 75 parking spaces at the Commendencia Street parking lot. This would be insufficient to accommodate all of the demand by the Maritime Museum. As a result, acquisition of other parking spaces would be required if the Port site were selected for the Maritime Museum.

Alternatively, the proposed Maritime Museum could be located at the northern edge of the Port, near the mixed-use building. However, development at the northern edge could not occur until after 2008 (after the Trigeant Petroleum lease expires) and would require a smaller footprint without a deepwater berth, which would cause a change in the project as currently planned.

Findings & Recommendations

The summary conclusions of the assessment of financial performance and economic impacts are provided in this section.

Cargo Markets

Cargo market opportunities are reviewed in this section.

Market Niche

The Port is a relatively small niche player focusing on bulk and breakbulk accounts. Competition within the Central Eastern Gulf Coast is fierce, particularly from the neighboring Alabama State Docks but also from Gulfport, Pascagoula and Panama City. Within this environment, the Port can maximize its chances of success by targeting cargoes within its primary market area (within 100 miles of the Port terminals). This includes products generated by/for local industry, which account for the majority of the cargoes moving through the Port, including:

- Building materials for local construction and restoration projects (aggregates, cement, asphalt, lumber and like products),
- Sulphur mined at Jay, Florida,
- Wind turbines assembled at General Electric, and
- Occasional shipments of pulp and paper products from International Paper, among others.

As the distance from the Port increases, the competition also increases. The Port is also successful in attracting some cargo from farther distances, including:

- Bagged agricultural products from the Midwest, and,
- Chilled/frozen meat products[20] from Alabama and other states, among others.

The Port has a reasonable marketing plan, which includes working with existing accounts to generate additional volumes, cultivating relationships with local industry to develop new cargo bases, evaluating joint marketing opportunities with inland transportation providers (particularly CSX) and enhancing its provision of shipping services (such as scheduled carrier service and short sea services).

However, the Port has limited facilities for handling cargo. At the present time, there are no capacity constraints impacting berths, storage facilities or inland transportation systems but the Port must be careful that proposed future cargo and non-cargo opportunities do not constrain its ability to handle existing and future potential cargo market opportunities. In addition, as long as the Port is engaged in waterborne activity (either cargo or non-cargo vessel activity) that requires dredging, it will require the continued existence of the dredged disposal site (10 acres located at the northeast corner of the Port). This will preclude any development of buildings, surface parking, marinas or other structures in this area.

Importance of Leases

The Port primarily generates cargo from long-term leases and to a lesser extent from spot business accounts (i.e., consisting of frequent and infrequent users). Leases provide minimum annual guarantees, which help equalize Port revenues in periods of cyclical cargo downturns. The established term of the lease generally takes into account the value of the improvements paid for by the lessee in order to allow a sufficient time to meet the lessee’s required return on investment. Under these conditions, attempts to curtail leases before reaching their term may be costly in terms of lease buyout provisions or assumption of responsibility for demolition and cleanup.

The City has entered into five key leases that are consistent with Council directives, including:

- Gulf Sulphur
  - Lease may be renewed annually after it terminates in 2004, could remain until the termination of the Trigeant Petroleum lease in 2008.
- Trigeant Petroleum

[20] Some of these products are also generated within 100-miles of the Port but most are more distant.

- Lease is in second year of a five-year lease, which extends until 2008.
- After the lease expires, Trigeant is responsible for the cost to remove the tanks, lines and all related infrastructure.
- If the lease is terminated at an earlier date, the City bears the responsibility for the cost to remove the tanks, lines and all related infrastructure. The cost of this requirement is not known.
- Trigeant only uses a small portion of its lease area and accordingly provides a minimal return on investment. The City should consider eliminating this lease after its term because the current lease ties up a substantial amount of land with minimal financial return. In addition, the northern portion of the lease could be used for mixed-use, which would buffer other longer-term leases from the Downtown area.

- Pate Stevedoring Company (chilled/frozen food products)
  - Lease is in the first year of the initial five-year lease. There are three more five-year terms (20 years all together), which are renewed at the mutual consent of both the City/Port and lessee.
  - Within any of the lease periods, there is buy-out provision requiring a $1 million payment to the lessee for early termination by the City/Port.
  - This lease can provide a substantial source of revenue and a significant economic impact to the community. Lease renewal at the five-year windows should be considered based upon market conditions, economic impact and revenue generation.
- Martin Marietta Aggregates
  - Lease is in second year of the initial five-year term with out year options.
  - Lease may be renewed at lessee's option until 2012,
  - Early termination of the initial lease requires a payment of $200,000 per year for every year left on the term.
  - After 2012, the lease may extend until 2022 at the mutual consent of both the City/Port and lessee.
  - The Port and the U.S. Army Corps of Engineers found an acceptable way to utilize a portion of the dredged disposal site for storage of aggregate products, which is beneficial to the Port and the lessee.
  - Lease renewal after 2012 should be considered based upon market conditions, economic impact and revenue generation.
- Ready Mix USA Marine
  - Lease is in second year of the first of four five-year periods. All renewals are at the option of the lessee due to the value of the improvements that Ready Mix is placing at the lease site.
  - Buyout of the lease is not specifically included in the lease but would require sufficient funds to allow Ready Mix to find another suitable location for its operations. This has been estimated[21] at between $50 million and $150 million.
  - The City should allow this lease to run to term (until 2022). After 2022, the lease should be re-evaluated based upon a re-assessment of optional cargo and non-cargo market opportunities.

[21] Source: Communication from Ready Mix USA Marine to Mr. Jerry Maygarden.

Cargo Forecasts

The projections for cargo throughput rely heavily on the existing lessees. Under the most likely revenue forecast, the Port will meet its financial requirements for self-sufficiency in five out of the next ten years. There is also a potential to attract other tenants and spot users, which would improve the financial outlook. The City (vis-à-vis the Port) should continue to be opportunistic in searching for both new leases and spot business accounts.

The economic impact of the Port is relatively high in the community and currently provides a substantial number of jobs at relatively high wages.

However, it is also recommended that the Port seek additional cash flow from non-cargo lines of business. Non-cargo uses should be located to help buffer existing industrial leases from downtown areas.

Cruise

If homeport and port of call cruise ships were attracted to the Port of Pensacola, it would generate a return on investment of 14% (combined with existing cargo operations) and an economic impact ranging from 319 to 432 total jobs in the Pensacola area. Cruise operations would be compatible with cargo if the terminal and access were properly designed.

Port staff has a reasonable marketing plan to attract port of call and homeport cruise operators. The optimal place for cruise is the western edge of the Port with a refurbished Warehouse #1 serving as the cruise terminal. Development of a cruise terminal in this area would help buffer the industrial leases from adjacent downtown uses to the west.

Mixed-use building

A mixed-use building comprised of retail, restaurant and office uses would contribute significant economic and financial returns to the Port of Pensacola. The return on investment would be approximately 11% (combined with cargo and cruise operations)[22]. In addition, the mixed-use building would generate 149 to 201 jobs in the Pensacola area.

This proposed building would impact the Trigeant Petroleum lease at the north-end of the Port property but would be compatible with other cargo operations, if designed properly. The Port should work with local developer's to construct the building after the Trigeant Petroleum lease has run its term (in 2008).

Maritime Museum

The proposed Maritime Museum would generate significant benefits for the community in terms of economic impact but would not generate revenue for the Port, if it were located at Port. It could negatively impact existing leases (especially via rail access conflicts) and the proposed cruise terminal, if it were located on the Port's western edge. Alternatively, the proposed Maritime Museum could be located at the northern edge of the Port, near the mixed-use building. However, development at the northern edge could not occur until after 2008 and would require a

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[22] This financial assessment assumes that the Port owns and manages the building. If the Port leases land for the building, which is built and managed by a developer, the return on investment is expected to be less.

smaller footprint without a deepwater berth, which would cause a change in the project as currently planned.

Future Development at the Port of Pensacola

The City should establish a partnership with the private and public sectors regarding the future development of the Port area. This should include building an alliance with the University and other community leaders and find the most appropriate ways to preserve our maritime, archaeological and historical assets.

The City should retain the professional services necessary to delineate appropriate parcels suitable for mixed-use development. The plan should include consideration of existing multi-modal transportation needs as the port evolves over time. The City should make every effort to reduce any negative impacts of multi-model transportation services on existing industrial leases.

It should be noted that this course of action allows the port to continue down a path of gradual transition from maritime-industrial usage toward maritime-related and commercial-business usage.

Table 19 – Summary Comparison of Financial and Economic Impacts

	Financial					Economic Impact			
	Net Revs (1,000s)		Return on Investment	Asset Value (1,000s)		Total Jobs		Total Income (1,000s)	
Alternatives	**Low**	**High**		**Low**	**High**	**Low**	**High**	**Low**	**High**
Cargo (existing)	(466)	1,226	3%	12,750	17,250	289	488	8,841	14,444
Cruise									
Homeport	1,367	1,850	40%	3,400	4,600	143	193	1,930	2,612
Port of Call	309	418	58%	500	750	177	239	2,360	3,194
Both	1,676	2,268	43%	3,900	5,350	319	432	4,291	5,805
Cargo & Cruise	1,210	3,494	12%	16,650	22,600	608	919	13,132	20,249
Mixed Use	487	659	11%	4,624	6,256	149	201	4,422	5,982
Cargo, Cruise & Mixed Use	1,697	4,153	12%	21,274	28,856	757	1,121	17,554	26,232
Museum	-	-	0%	-	-	403	911	5,071	11,448
Cargo, Cruise, Mixed Use & Museum	330	2,303	5%	21,274	28,856	946	1,760	18,652	32,790

Source: BST Associates