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At the request of the Committee Chair, Dr. Rick Harper talked in early June 2011 with several economists and economic developers around the state. This document describes those conversations. These are people with good knowledge of trade, ports, real estate, economic development, and the likely future path of economic development opportunities for Florida. They included:

Dr. Bob Cruz, Chief Economist with Miami-Dade County, expert in economic impact,
Dr. Tony Villamil, Principal at WEG (Coral Gables) and former head of OTTED and the US BEA,
Dr. Dale Brill, former head of OTTED, current President of FL Chamber Foundation,
Dr. Hank Fishkind, Principal at Fishkind Associates, Orlando.

In my conversations with them, I provided what I feel to be an accurate description of the Port of Pensacola and the surrounding economy. I then asked them for help with several questions about the highest and best use of this taxpayer asset.

The Port of Pensacola occupies 50 acre bulkheaded site jutting into Pensacola Bay. It is surrounded by our historic downtown, leaving little or no room for contiguous expansion. It needs to be dredged every 6 years or so to keep it at a 33 feet depth and it has five berths. It is operated as a landlord port owned by the City of Pensacola, and the long term tenants include CEMEX (which has slowed with the building industry), Martin Marietta Aggregates (35 foot mountain of gravel for road building) and several large blast freezers mostly used for poultry exports from Alabama farms. It has not been used extensively by area businesses, but instead is used sporadically, i.e., with the new GE cargoes. It typically generates around $2mm/year in revenue, adequate to cover variable costs (those that vary with cargo volume) but not fixed costs (those that do not vary with cargo volume). It does not currently have scheduled freighter service.

To start the conversation with each of these colleagues, I mentioned several potential benefits attributable to the Port. These included:

- International trade activity has grown for decades as rates faster than the rest of the US economy, and is likely to continue to do so, and thus opportunities might be more likely to arise in the international trade sector than in other sectors.
- The US and perhaps especially the Southeast is likely to be increasingly attractive as a location for inbound foreign direct investment (FDI) as the dollar declines over time and wages stagnate. To the extent that this FDI is in manufacturing and has a global supply chain, it will be more likely to call for seaport services. [note: This scenario is expected to play out as the US recovers from the "balance sheet recession" and moves from economic activity centered on financial sector innovation/risk-taking and into activity driven by productivity growth in traded goods and services.]
- There are other waterfront or near the water spaces which are underutilized - either empty and in need of redevelopment – i.e., we are about to open a mixed-use community maritime park

with substantial retail/office space and have closed a waterfront sewer treatment plant, and there are numerous waterfront residential/commercial spaces with low occupancy.

- There may well be a potential Superfund site if City government were to close the Port and sell the site, as testing for environmental contamination would be a prerequisite for any buyer seeking financing. Once the status of contamination became known, then any necessary cleanup would need to be funded, regardless of whether it is sold (unlikely if a purchaser is required to pay for remediation) or stays in government hands. This is perhaps not unlikely given that the site has been a Port for hundreds of years and served shippers handling toxic stuff. This points towards continued City ownership of the site, whatever the use.
- A decision to close the port entirely would almost certainly be irreversible, so that we would lose the "option value" of having seaport facilities available if and when a great port-dependent opportunity were to knock at our door.

What are the economic drivers of a successful port?

In the estimation of these experts, the number one driver for a port <u>is the presence of local or regional economic activity for which local seaport service is the most cost effective alternative</u>.

This could include local/regional production of goods for which waterborne shipping is the best business decision, or local/regional production that uses inputs that ship by water. For many ports, this includes goods headed either upstream or downstream on a navigable river, conveying a cost advantage relative to ports not on that river. This way of thinking about the port seems obvious - that a port is simply an intermodal transfer station that can also support in-bond assembly (i.e., a free trade zone) or other on-shore operations (e.g., Offshore Inland, or blast freezer services). In a competitive shipping/services marketplace, a port will get used if and only if it lowers the cost of shipping/services relative to an alternative shipping/services solution.

As an example, Offshore Inland has fabrication, equipment handling and storage, project mobilization, vessel repair and overhaul facilities that depend on seaport and onshore services access. These activities generate work at the Port, hotel room nights, and flights, however, they required City and County subsidy to close the deal for them to locate here. Because the Port operates in a more competitive marketplace, with substitutes readily available, and its customers have good information about cost and convenience, it cannot charge a price greater than what customers find elsewhere. If other ports are subsidized, either in operations or in needed capital improvements, then the port business might well always lose money for Pensacola in most plausible usage scenarios.

I asked the experts if we are just seeing a "which comes first, the chicken or the egg?" situation, i.e., businesses which require the intermodal capabilities will not locate in the area unless they are reasonably certain that there will be a port in operation. Thus, we will not see port-dependent businesses near Pensacola because of the uncertainty in recent years regarding the port's viability. Would we have seen port-dependent businesses spring up if there were a long term commitment to maintaining and improving Port infrastructure (bulkheads, cranes, other equipment) and marketing, and recruiting scheduled freighter service?

It is also important to note that even if the City loses money running the Port, this would not by itself be a sufficient reason to close it. The reason libraries aren't asked to turn a profit is because they provide important benefits to the community and it is ok that they aren't a government moneymaker. If the Port were to allow job creation in an export sector because businesses have lower costs and make better profits by locating here, then we would likely consider the Port worthy of taxpayer subsidy until shipping volumes reached a level that made the Port viable. By the same token, if the construction materials imported via the Port lowered local building costs so that City taxpayers got cheaper roads or buildings, or firms that use those materials chose to base their operations, jobs, and contribution to the tax base, within the City, this would be a benefit to the community. This is the importing analogy to the traditional argument on the export side.

My interpretation of the discussion with these experts is that they do not see potential to turn the Port into a moneymaking enterprise for the City. Apart from the issues of positive cash flow to the Port enterprise account, that they do not see near- to medium-term potential for job creation associated with the current use of the property. This is because most of the economic activity associated with the Port occurs away from the Port (i.e., where the chickens are produced, where the road builders spend their income), and locals that do use the Port for shipping have other alternatives that are unlikely to damage their business profitability. Instead, the jobs associated with the Port are those of a standard intermodal transfer facility. These are valuable in and of themselves, but there is little other Port-related economic activity located within the City of Pensacola, whose taxpayers pay the bills, and whose waterfront assets are tied up and unavailable for other uses.

It is important to note that most local and regional businesses have economically viable alternatives to using the Port. This makes the competitive situation unlike that of Energy Services of Pensacola (ESP), which is also a City enterprise activity. ESP, due to the cost efficiencies and convenience of natural gas delivered by a network of pipelines to the consumer, is able to charge rates well above those that it would be able to get if there were multiple pipeline networks in place (think cell phone service providers as an example). As long as gas water heating or cooking is perceived as cheaper or superior to electricity or other alternatives, ESP can set rates so as to throw off revenue in excess of cost that the City can use for other purposes (e.g., avoid raising taxes and/or cutting spending), without destroying demand from its customers. The same is true of the Airport, albeit to a lesser extent. While airlines are very interested in the landing fees charged by a particular airport (e.g., Pensacola has traditionally been cheap, while Miami has traditionally been expensive), any given customer will typically not choose to travel to Pensacola rather than Miami due to a $20 per passenger difference in ticket price. Freight, on the other hand, typically doesn't care which port it is shipped through and cares very much about the low cost shipping solution. Superior service, of course, can erase some of a simple cash cost differential.

What specifically do these experts say?

As those who know him expect, Hank Fishkind (HF) was quick, clear and to the point. His personal knowledge of the port stems from having looked at it almost 10 years ago in the context of economic development. His instant characterization was of an asset that doesn't work in its current configuration

and can't get better due to its location and inadequate local non-port infrastructure (particularly transportation and market access). He thinks this would be true even if Pensacola put in the $50 million (his number) necessary to install container cranes, other equipment, and warehouses. His instant response was to focus on non-industrial marine development. Specifically, his thinking is that Pensacola has extensive protected waters that are perfect for boating and that redevelopment of portions of the site for use as a marina would enable and encourage high end residential development across the downtown area.

HF says that the City should look for joint venture partners, and that the property should not leave City ownership due to possible environmental contamination issues that might impede transfer. He sees opportunities as being recreation-oriented, connected to tourism and "an unparalleled boating opportunity." He noted that marina activity would help ensure the success of the Community Maritime Park and redevelopment of the Bruce Beach area by providing complementary amenities. Because of the presence of other underutilized downtown assets, and limited near-term absorption capacity for additional real estate projects, he favors a scheme that would release Port property for development from north to south on an as-needed basis, so as not to create a vacant eyesore before the property could be redeployed in another use. However, he was blunt in suggesting that the Port has little viability, even in the post-Panamax environment. HF concurred with other experts in saying that leases at the Port should, to the extent possible, be put into a similar timing structure so that the maximum amount of contiguous property would be available to be developed should there be demand for it.

Like the others, Tony Villamil (TV) sees the value of a port in its ability to enable business activity in the broader region. He also added that there is large potential value in handling of shipments at the ports facility themselves. However, he sees potential continued business for the Port of Pensacola as a specialized cargo port serving the markets in the Caribbean and thinks the best potential is to focus marketing efforts on Yucatan, Veracruz and Campeche. In terms of generating domestic economic activity focused on exports, he sees the market reach of the Port extending into Alabama and Mississippi for cargoes.

TV is overall not favorably inclined towards the future of the Port, and does not think that growth in international trade and widening of the Panama Canal will create previously unknown opportunities. The main reason he gave is that much of local value-added for a community comes from "cracking the boxes," or taking inbound or outbound containers of products and repackaging, handling or otherwise processing them so as to create local jobs and add value locally. He doesn't see this happening in the City of Pensacola. TV did speculate that cruise ships could tap a different market apart from the traditional marine industry/seaport use. His view was that leases should be standardized to the extent possible in terms of expiration dates and length of lease, and that it clearly would not be good to release large amounts of property into the market without a specific project partner.

Dale Brill (DB, who is not an economist) was the most favorably inclined of the group to see economic potential in traditional seaport usage of the Port of Pensacola in coming decades. As President of the Florida Chamber of Commerce Foundation and sponsor of the Florida Trade and Logistics study, he is

keenly aware of the overall growth of markets and products that are internationally traded as compared to other types of economic activity. He didn't have specific awareness of Port of Pensacola performance, limitations, or potential, but sees our future as lying more in trade with Latin America and associated trade in manufactured goods or materials, than in the population migration that defined post-war Florida.

DB termed a move to residential or mixed use development of some or all of the Port property as "a wrong step towards the Old Florida," and suggested that non-shipping uses would "lock Pensacola into an old economy model." By the old economy or Old Florida model, he meant an economy focused on tourism, retirees and real estate development. In his view, this would do little to assist economic diversification or align Pensacola with a future Florida that is more trade intensive.

Bob Cruz (BC) echoed the notion that the value of a port is in its downstream and upstream effects. He asked if any of the shippers affect the local economy, as this would be his litmus test for value. He doesn't see much of a future for the Port of Pensacola unless there are bottlenecks in port capacity elsewhere along the central Gulf coast. He emphasized that for a port to be viable, it has to be cheaper than alternative locations. He sees the natural market as being for Caribbean cargoes. BC said that the conditions for success of our Port include connection to a commercial center of businesses that rely on the Port, and that he views this as not likely for a Port that focuses on cargoes that don't need to be containerized. He viewed the potential availability of substantial acreage on the waterfront as quite valuable, and sufficient to induce private partners to enter into revenue and cost sharing arrangements in any alternative development profile. However, he suggested that the long history of port activities means that the City would want to retain ownership due to possible environmental concerns

Conclusions

It would be fair to say that the experts agree that there are not easy and obvious fixes for a Port that doesn't already have trade-ready businesses on the tax roll in the City. Without a willingness of the jurisdictions that potentially use seaport services to share in the financing, the cost will continue to fall on City taxpayers. It is also fair to say that the response of these experts was to avoid giving up the core maritime industrial asset until there is demand for it to be put into specific alternative development uses. Perhaps the risk-minimizing strategy for the City would consist of several things that were suggested by respondents. One would be to attempt to put some consistency in timing into the leases of port users upon renewal, so that the maximum amount of contiguous property would be available as the leases turn over. Another would be to make parcels on the north edge of the Port available for development by private investors so as to test the waters for alternative high-value uses for this taxpayer asset.