

REVIEW AND OVERSIGHT COMMISSION
ON THE SOUTH CAROLINA PORTS AUTHORITY

2016 BIENNIAL OVERSIGHT REVIEW

January 2016

Article 13, Chapter 3 of Title 54 of the South Carolina Code establishes The Review and Oversight Commission on the State Ports Authority and vests with the Commission the duty to screen appointees to the State Ports Authority Board and to conduct biennial oversight reviews of the State Ports Authority and its operations.

With regard to the biennial oversight review, Section 54-3-1310(B) requires the Commission to:

1. Consider whether the authority is promoting, developing, constructing, equipping, maintaining, and operating the harbors and seaports of this State in an efficient, effective manner in accordance with all applicable laws and regulations
2. Evaluate the performance of the Ports Authority's Executive Director
3. Evaluate the performance of the Ports Authority Board and each of its members

On October 20, 2015 the Commission notified Mr. Bill Stern, Chairman of the South Carolina Ports Authority Board, and Mr. Jim Newsome, Executive Director of the South Carolina Ports Authority, that it was beginning the biennial oversight review process. In that letter, the Commission requested that the Ports Authority provide information on a wide range of topics related to the Authority's operations and information related to Board members. The Ports Authority timely responded to the request for information on November 11, 2015.

Commission staff has reviewed the information submitted by the Ports Authority and provided Commission members with a brief analysis of the submitted information.

A public hearing was held by the Commission at the SCPA's Wando Welch meeting facility concerning the Ports Authority and its operations on December 1, 2015. Mr. Newsome briefed the Commission on a wide range of topics related to the Ports Authority's operations.

This is the Commission's report of its findings. The report will be published in the journals of both houses and made available on the General Assembly's Internet website and transmitted to the Governor and the board.

SECTION 1.

REVIEW OF THE PORTS AUTHORITY AND ITS OPERATIONS

Port Characteristics

- The Authority owns and operates six maritime cargo terminals at the ports of Charleston and Georgetown along with a cruise facility in Charleston and an Inland Port in the Upstate.

- The largest facilities are located in Charleston, where the Authority operates five major ocean terminals and a cruise terminal.
 - Over 500 acres of marine cargo storage yards and over 1.1 million SF of warehouse storage space.
 - Ten Post-Panamax cranes & six super post-Panamax cranes (two super post-Panamax cranes on order with estimated delivery of summer 2016).
 - 2013 opening of the SC Inland Port provided overnight, double-stack rail service six days per week between Charleston and Greer (+200 miles).
 - Upgraded terminal operating system with implementation of automated gate targeted in the fourth quarter of CY2015.

- Charleston Harbor
 - 47 feet of water in the entrance channel MLW.
 - 45 feet of water in the interior channel MLW.
 - All terminals are within two hours of open ocean.
 - Received U.S. Army Corps of Engineers Chief's Report in September 2015 recommending a future project depth of 52 feet in the interior channel and 54 feet in the entrance channel.
 - Offers easy access: Channel depths and widths, transit times, and lack of congestion.
 - National defense component: Port of Charleston is a "Strategic Seaport."

Economic Impact

In 2015, the SCPA partnered with the University of South Carolina's Darla Moore School of Business to explore the economic impact of South Carolina's seaports on the state as a whole and on local regions within the state. From October to December 2015, members of the SCPA Board of Directors are traveling to each region of the state for its monthly meeting to unveil the results of the study. In addition, SCPA has been running an advertising campaign in the Upstate, Midlands, and Pee Dee regions with the goal of raising awareness of the Port's statewide impact and supporting earned media following each Board meeting through December 2015.

- The total economic impact resulting from all activities associated with the SCPA on the state is estimated to be approximately \$53 billion annually, corresponding to 187,206 jobs and over \$10.2 billion in labor income for South Carolinians that would not otherwise exist.

- The \$53 billion in annual economic output represents approximately 9.3% of South Carolina's total annual gross state product. This implies that the SCPA generates economic activity – directly and indirectly – that brings in over \$912 million in tax revenue annually for the state.

Cargo Volume

Total cargo volume is broken into two components: (1) Container Volume and (2) Breakbulk Volume. The Port of Charleston handles all of the container volume for South Carolina's ports. Breakbulk cargo is handled by the Port of Charleston and the Port of Georgetown. Port Royal handled breakbulk cargo until its operations were terminated in 2008.

Total cargo volume fell to its lowest point in FY 2010. The Ports Authority has steadily rebounded from the FY 2010 low, having implemented a cargo diversification plan to maximize its various resources in order to stimulate business. The plan included an increased emphasis on breakbulk cargo, increasing cruise activity, and regaining the Port's reputation as the premier container port in the Southeast. The combination of increased container volume, breakbulk tonnage, and cruise ship activity all indicate that the diversification plan has been successful to date.

Container Volume

- Grew 14% in FY2015 from FY2014.
- Is not reliant on seasonal demand.
- Has increased year over year each of the past 12 months.
- Totaled 1.91 million TEU in FY 2015.
- Pier containers have grown at a compound annual rate of 8.1% over the past five fiscal years.

Breakbulk Volume

- Breakbulk and ro-ro (roll-on/roll-off cargo, such as vehicles) pier tons have grown an average of 9.4% over the past 5 years.
- Commercial focus on growing automotive and ro-ro cargo.
- Primarily exporting BMW sport-utility vehicles and Daimler AG's Mercedes-Benz vans.
- Volvo is building its first U.S. factory in Berkeley County, scheduled to open in 2018.

Balanced Imports/Exports

- On average over the past 10 fiscal years, imports made up 52% of total loaded TEU.
- A level amount of imports and exports improves a ship's economics, thereby decreasing its fixed costs.
- Balanced trade makes Charleston a very cost effective port for its customers.
- Top export commodities include paper and paperboard, logs, lumber, and wood pulp, auto parts, and auto and truck tires.
- Top import goods include auto parts, furniture, and auto and truck tires and tubes.
- Exports and imports are highly diversified. The top 20 export commodities represent 63% of total exports, while the top 20 import commodities represent 56% of total imports.

Navy Base Project (Hugh K. Leatherman, Sr. Terminal)

- Received permits in May 2007 to construct a 286 acre container terminal facility on a portion of the former Charleston Naval Base on the west bank of the Cooper River in North Charleston.
 - Facility will be constructed in phases on a demand driven basis.
 - First Phase
 - Over 60% of total project cost (\$747 - \$762 Million).
 - Includes site development & potential access road shortfall.
 - 1,350 continuous feet of berth space.

- 117 improved acres.
- Estimated Completion December 2019.
- Spent to date: \$147 million.

Harbor Deepening

Charleston is currently one of the deepest channels in the South Atlantic at 45 feet with time and tide windows of up to 48 feet. As the Panama Canal expansion nears completion, the industry has focused on improving economics and increasing ship size.

- Post-Panamax ships are already being deployed to the East Coast.
- Charleston has 11 routine, Post-Panamax weekly ship calls that deploy 5,000 – 10,000 TEU ships. This has more than tripled over the past 6 years from three Post-Panamax calls in 2010.

Both the Suez and Panama canals have undergone expansion projects that will double capacity, allow for larger ships and increased transit times.

- Suez completion – August 2015
- Panama completion – Estimated 2016
- Bayonne Bridge (NY / NJ) raising – Estimated 2017 (Many large services will not come to the East Coast until they can unload in New York and New Jersey.)

Charleston Post 45

- In September 2015, the U.S. Army Corps of Engineers issued its Chief's Report recommending that the Charleston Harbor be deepened to 52 feet in the interior channel and to a depth of 54 feet in the entrance channel.
- The Preconstruction Engineering and Design phase has started and is expected to last 12 to 18 months. This is the final step before dredging begins.
- This could make the Port of Charleston the deepest port on the East Coast by the end of the decade. Given the industry focus on increasing ship size and improving economics, the SCPA believes harbor depth to be its most strategic competitive advantage for future cargo development and market share growth.
- The Post 45 Project is the first project in the Corps of Engineers to go through the new Civil Works Planning process from start to finish, enabling the initial study timeline to be completed in four years (originally estimated to take 5 to 8 years), reducing the initial study budget from \$20 million to less than \$12 million.
- After review by the Secretary of the Army, the report will move to the Office of Management and Budget for review. Then the report moves to Congress for review and authorization through a Water Resource Development Act, expected in spring 2016.
- Total project cost is estimated at \$510 million.

Inland Port - Greer

- Improves efficiency of international freight movement between the Port of Charleston, the Upstate manufacturing region, and neighboring states.

- \$50 million investment, commenced operations in November 2013.
- 24 hour facility providing overnight double-stack rail service six days per week.
- BMW Manufacturing is the anchor tenant. Dollar Tree announced Upstate distribution center in 2015.
- Had substantial revenue growth in FY2015 of \$3.7 million over FY2014 as a result of increased volume and a full year of operations. There were 58,000 rail lifts in the second year, on track for 100,000.
- Expansion likely in 2017.
- More such facilities are needed.
- After less than two years of operation, the Inland Port contributes 3% of the Port's total revenues, has exceeded its initial five-year volume projections and is outperforming the targeted return on investment.

Cruise Operations

- Cruises have operated from Union Pier since 1913.
- Represent 5% of SCPA business.
- Existing cruise terminal opened in 1973.
- Carnival Fantasy home-ported in May 2010.
- The Carnival Fantasy will be replaced in February 2016 by the Ecstasy, a recently renovated and more environmentally friendly vessel. The Ecstasy has pollution-reducing scrubber technology that cleans exhaust gas and reduces sulfur dioxide emissions. Ecstasy is roughly the same size as the Fantasy, with 2,056 passengers and 920 crew members.
- In FY2015, SCPA had a total of 189,050 passengers.
- Voluntary Cruise Management Plan
 - One berth, one ship at a time.
 - Commitments in writing to City of Charleston.
 - Limits on number of ships (104/year) and size (3,500 passenger-design capacity).
 - Formal consultation of one year should market demands change.
 - Continuous air monitor at Union Pier shows no public health concerns associated with cruise ships.
- SCPA has plans to renovate Union Pier and provide a new cruise terminal there.
- Legal/Permitting challenges for Union Pier plan
 - SCPA has reactivated the Federal Permit Application to conduct a more in-depth analysis for US Army Corps of Engineers evaluation. (See Appendix, page 46.)

Panama Canal

As of late October, the Panama Canal Authority reports that the expansion project is 93% complete and that the new locks will open in April 2016. The new locks will allow the Canal to handle ships of up to 14,000 TEU, nearly triple the largest ships transiting the Canal's existing locks.

Ocean carriers are evaluating future vessel deployments, and the SCPA has discussed their plans with them. To lower per unit costs and realize the new canal's benefits, lines are expected to replace smaller vessels on existing trans-Pacific Panama strings with larger ships of 6,000-8,000 TEU soon after the completion. This presents a unique market opportunity for the South Carolina Ports Authority.

Further, the Port Authority of New York & New Jersey announced in October that the raising of the Bayonne Bridge has been delayed until late 2017. The Bayonne Bridge, with about 150 feet of air draft, remains an obstruction for vessels larger than about 9,000 TEU on the Atlantic Coast. All but one major terminal is upstream of this bridge, yet the New York market is essential for big ship services on the U.S. East Coast. It is anticipated that vessels of 10,000 TEU or greater will call on the East Coast soon after the Bayonne Bridge's lower road deck is removed in fall of 2017.

In July 2014, the SCPA and the Panama Canal Authority extended for five years its memorandum of understanding, whereby the entities exchange non-proprietary market information and jointly cooperate on mutually-beneficial promotional activities.

Port of Georgetown

- Authorized depth is 27 feet at mean low water.
- Controlling depth is 18 feet mean high water due to deferred maintenance dredging and declining volumes.
- Office of Management and Budget requires one million tons of cargo to qualify for maintenance dredging.
- Army Corps' estimate to restore Georgetown to 27 feet has increased significantly from previous estimates.
- SCPA maintains the Georgetown Port Maintenance Dredging Fund (Budget Proviso 88.5), which currently has \$5.25 million set aside by the General Assembly in 2014 and 2015 (\$5 million in 2014, \$250,000 in 2015).

Growth opportunities are limited by draft restrictions. Existing business in Georgetown consists of various non-containerized commodities, of which bulk cement is the largest volume. The closing of the Georgetown steel mill makes a difficult scenario even more difficult, as the plan to reach one million tons of cargo included the steel mill volume.

The smaller vessels capable of calling Georgetown restrict trade opportunities to nearby regions primarily including Canada, Mexico, the Caribbean & northern portions of South America. Commodities targeted for growth include lumber, forest products, steel and various bulk commodities.

Additional steps have been taken by the Ports Authority to maximize Georgetown's potential, including aggressively marketing the port for barge-related cargo traffic and emphasizing growth in breakbulk traffic. Georgetown's breakbulk volume during the first three quarters of the current fiscal year has increased by 10% over same period during the previous fiscal year.

Business Development

The Ports Authority continues to earn above-market growth and is the fastest-growing major container port since 2010. Cargo development is focused on three areas:

- **Win the Backyard:**

The Port of Charleston has expanded its market share in the region. In 2014, container volume increased nearly 12%, more than double the national growth of less than 5%. While imports led growth, exports also expanded by 8% despite flat to declining U.S. exports overall.

Related to agribusiness, the SCPA works with companies to establish container stuffing operations for South Carolina-grown logs, soybeans and wheat. This has increased to several hundred containers a week, seasonally. Growers previously only had a domestic market for these products.

Further, utilization of the state's Port Tax Credit has increased to 60% of the maximum available, representing 50,000 TEU of new business for the state.

- **Win More Discretionary Business:**

Examples include intermodal rail routing from key U.S. markets and bulk transload operations. Intermodal rail shipments increased by 38% in 2014. This was driven in large part by the South Carolina Inland Port and growth afforded by the RapidRail dray program service. Excluding Greer, all other intermodal rail markets increased 11% in 2014, well above the national growth rate. Intermodal rail split is now above 20%, up from 12% just a few years ago.

Bulk transload operations, which involve shifting products from rail to container, have also expanded. This includes rail cars of plastic resin, soybean meal, dried distiller grains, and milo transloaded for export in container.

- **Win New Distribution Centers and Manufacturing Facilities:**

Over the past year, the SCPA worked with state economic developers on a number of projects, securing 16 wins that accounted for \$1.3 billion in capital investment, 5,000 announced jobs, and considerable new port volume. Examples include Daimler Vans, Volvo, Dollar Tree, TTI, Rite-Aid and Gerber.

Several national cold storage operators were also secured, resulting in 500,000 SF of new cold storage space, a ten-fold increase in capacity. Finally, a thriving industry to export plastic resin is also being established, moving by rail to the port area for transload to container. Driven by cheap natural gas, there are well over \$100 billion in cracker plant expansions around the country. Much of this production will need to find offshore markets, generating a huge export opportunity. The SCPA is in discussions with producers, traders and specialized transloaders, with two such facilities already announced.

Financial Position

See:

www.port-of-charleston.com/About/statistics/financials/SCSPA_Financial_Statements_2015.pdf

Outstanding Litigation

- Preservation Society of Charleston, et al. v. SCPA (SC Court of Appeals)
- Atlantic Coast Materials v. SCPA (In discovery state. Early mediation scheduled.)

Port Royal

SCPA has a current contract to sell the property in Port Royal, under which the due diligence period expires December 11, and the closing must take place on or before December 31. By statute, the Ports Authority cannot accept new contracts at this time. If the closing does not occur, then under budget proviso 93.37 the property is to be auctioned by the Department of Administration after a new appraisal. The net proceeds from sale will be used in further capital projects of the Ports Authority. This is the fifth contract for sale of the property in Port Royal. In November 2014, a new buyer signed a purchase contract, but failed to close. The property was placed back on the market, resulting in the current contract in June 2015, amended in October to extend the inspection period and provide for closing by December 31.

Daniel Island

SCPA has taken steps to sell parcels of property on Thomas Island back to original owners who want to exercise their right of first refusal. Three contracts have been received and a fourth is pending. One sale has already closed and the remainders are expected to close by the end of the year.

- SCPA transferred fifty acres of its property on Daniel Island to the Department of Parks, Recreation and Tourism, as provided in the 2015-16 Appropriations Act, and has determined the areas needed for dredge disposal cells and environmental mitigation. The remaining property will be sold. Net proceeds of sale will be used for capital improvement projects of the Ports Authority.
- SCPA is studying the feasibility of developing a mitigation bank on portions of its property on Daniel Island.

Jasper Ocean Terminal

- The ports of Charleston and Savannah may near capacity between 2030 and 2035.
- Construction of a JOT is estimated at \$5 billion.
- In June 2015, the Jasper Ocean Terminal Board of Directors approved a FY2016 budget that includes further studies of the site design, sediment, access corridor, and channel improvements necessary for the largest container ships, as well as efforts to recruit a third party required for completion of an environmental impact study.
- Co-sponsors Georgia Ports Authority and SCPA each contributed \$1.25 million for the FY2016 budget (\$1 million appropriated by General Assembly this year).
- The FY2016 work plan, also adopted in June 2015, includes geographical studies and conceptual work on terminal design by Moffatt & Nichol. The permitting process with the U.S.

Army Corps of Engineers for the new terminal and channel deepening and widening will begin later in 2015.

- In November 2015, the Joint Project Office sent a letter to the U.S. Army Corps of Engineers to begin the permitting process for the establishment of the Jasper Ocean Terminal.
- In November 2015 a new joint venture agreement, replacing the original intergovernmental agreement, was signed by the SCPA and the GPA.

Quality of Life

- Land Protection - SCPA recently created a \$ 5 million dollar land protection fund for the Cooper River Corridor.
- Marsh Restoration - SCPA is restoring 22 acres of salt marsh on the southern tip of Drum Island. This newly restored marsh will improve water quality as well as providing wildlife habitat.
- The SCPA is also active in community giving, offers community tours, and has designed a middle-school maritime education program.

Human Resources

Recent reorganization:

- The SCPA is now a five level organization: CEO, Senior Vice President, Director, Manager, and Coordinator. The Port reports that this reorganization is designed to ensure efficiency and effectiveness.

Total direct port employment statewide:

- Charleston: 500
- Greer: 19
- Georgetown: 3

Labor

- The Authority is an operating port whereby it owns and maintains all infrastructure - including the yard management system - and manages all functions including vessel, yard and gate operation within its facilities.
- All major equipment is operated by Authority personnel.
- Stevedoring vessel functions to move cargo between the vessel and the yard using a yard tractor are performed by ILA workers.
- Total employees vary during vessel operations.
- All cranes and container handlers are operated by the Authority personnel during vessel operations.
- The gate operations are managed by the Authority. The Authority outsources the labor to a third party gate company, Charleston Gate, LLC. This company employs ILA workers.

- Labor relations are stable. There has not been a significant labor disruption in almost four decades. Longshore man hours are at near record levels.

SECTION 2

PERFORMANCE REVIEW OF EXECUTIVE DIRECTOR JIM NEWSOME

Mr. Newsome was hired by the State Ports Authority Board on September 1, 2009. Prior to his position with the Ports Authority, he was President of Hapag-Lloyd (America) Inc., an international shipping company. Mr. Newsome has spent his entire career in international shipping.

When Mr. Newsome began at the Ports Authority container and breakbulk volume had been steadily declining and the Port of Charleston was losing market share. Under his leadership, the Ports Authority has embarked on a new strategic plan that includes aggressive sales and marketing, a management reorganization, a cargo diversification plan, and other actions to enhance the Port of Charleston's reputation in the shipping industry. Mr. Newsome has identified the Post 45 project as the key strategic project necessary to ensure that the Port of Charleston can grow and regain lost market share. He has demonstrated that he has a long-range vision for the Ports Authority and has taken commensurate actions regarding personnel and has made other key decisions to bring that vision to fruition.

Key actions during Mr. Newsome's tenure include:

- Overhauling the Ports Authority's sales and marketing staff and program.
- Rebuilding relationships with shipping lines that had become frayed under previous leadership.
- Diversifying the Ports Authority's cargo portfolio through maintaining and pursuing new cargo lines, increasing emphasis on breakbulk cargo and modernizing cruise capabilities.
- Developing a strong working relationship with state and local leaders.
- Working closely with the City of Charleston concerning cruise lines.
- Implementing plans to build new Union Pier cruise terminal.
- Initiating the construction and operation of the new Inland Port.
- Leading the effort to deepen the Charleston Harbor.

SECTION 3

PERFORMANCE REVIEW OF THE PORTS AUTHORITY BOARD AND BOARD MEMBERS

The SCPA Board is comprised of nine voting members appointed by the Governor with the advice and consent of the Senate, and two non-voting members. The two non-voting members are the Secretary of Commerce or his designee, and the Secretary of Transportation or his designee.

The nine voting members of the State Ports Authority Board are:

- Mr. Bill H. Stern - Chairman*
- Mr. Michael Sisk - Treasurer
- Mr. Willie E. Jeffries - Secretary
- Mr. Whitemarsh S. Smith, III
- Mr. David J. Posek
- Ms. Pamela P. Lackey
- Mr. Patrick W. McKinney*
- Mr. Kurt D. Grindstaff
- Mr. Richard L. Stanley

*Mr. McKinney is scheduled to become chairman of the board in January 2016.

The two non-voting members of the State Ports Authority Board are:

- Mr. Robert Hitt, Secretary of Commerce
- Ms. Christy Hall, Interim Secretary of Transportation.

Staff has observed that each voting member of the Board of Directors has demonstrated knowledge of substantive port issues and the ability to apply that knowledge to addressing issues facing the Ports Authority. The voting members of the board are inquisitive and critically analyze the matters presented to them. The voting members have further demonstrated that their decisions, both individually, and as a body, are free of influence from political considerations and labor unions and serve the best interests of the State. Each voting member of the board has demonstrated the temperament and demeanor necessary to be an active, productive member of the board.

The positive developments at the Ports Authority evidences the fact that the board, as a whole, is taking the actions necessary to promote, develop, construct, equip, maintain, and operate the harbors and seaports of this State in an efficient, effective manner in accordance with all applicable laws and regulations.

Key actions taken by the Board:

- Ensuring preparations for post-Panama Canal expansion are on target.
- Oversight of the development of the Hugh K. Leatherman Terminal.
- Oversight of the Charleston Post 45 project.
- Implementing plans to build new Union Pier cruise terminal.
- Agreeing to voluntary commitments to implement the Cruise Management Program.
- Approving funding and implementation of the Inland Port.

- End -