

Y O U R
P O R T
ACTIVITIES, FINANCE
AND GOVERNANCE



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The development of ports in the United States in several instances predates the founding of the Nation. At one time, ports were the primary reason for establishing inland and coastal communities. Today, ports not only play important roles in the development of waterborne commerce but they're also strategic actors in the economic development efforts of a number of States.

Port authorities vary dramatically in size and scope. The smallest may do nothing more than channel maintenance and snag removal. The largest port authorities operate marine terminals for international commerce and engage in a wide variety of activities including managing and owning airports, bridges, railroads, industrial parks, and recreational facilities.

This publication provides an overview of what the smaller ports do, how they're financed, and how they're governed. To demonstrate by example the diversity in activities, financing, and governance of the smaller U.S. ports, we selected six port districts for study. Three are West Coast ports (Olympia, Washington; Newport, Oregon; Humboldt Bay, California), and three are Gulf Coast ports (Freeport, Texas; South Tangipohoa, Louisiana; and Hancock County, Mississippi). See figure 1.

A concluding section makes some observations about factors affecting the future of smaller U.S. ports. This focus of this publication on coastal ports



Figure 1.—Map showing the six smaller U.S. ports in this study

is not intended to suggest that Great Lakes, inland, or river ports are unimportant. Nor is the exclusion of larger ports meant to suggest that smaller ports are more important.

Some authorities define smaller ports in terms of volume handled through the port, using 10 million tons as a dividing line between smaller and larger ports. We don't use this division because many smaller ports aren't engaged primarily in shipping, but rather in waterfront industrial, commercial, or recreational activities not related to cargo transport, handling, or storage.

The definition of "smaller" we use in this publication is not precise. On the West Coast, it would exclude the seven largest ports—Seattle, Tacoma, Portland, Oakland, San Francisco, Los Angeles, and Long Beach. Along the Gulf Coast, ports such as New Orleans, Houston, Mobile, Gulfport, Galveston, and Tampa would be excluded.

What ports do

The activities of U.S. maritime ports are regulated by the State and local laws under which they operate. Different States authorize different kinds of activities for port authorities. The charter of such authorities is generally quite broad, however, and such activities often extend far beyond shipping and cargo-handling activities.

Oregon port districts, for example, are authorized to engage in such activities as:

- improvement of bays, rivers and harbors;
- construction and operation of wharves, warehouses, terminals, and other facilities;
- operation of airports, railroad terminals, and interstate bridges;
- construction and operation of public marina facilities and campgrounds;
- operation of restaurants, lodging facilities, and other related activities;
- operation of water transportation lines;
- trade development;
- provision of water for domestic industrial and irrigation purposes;
- development of industrial parks and construction and operation of sewage treatment and water facilities for these parks;
- erosion and flood control programs; and
- land development projects for sale to industrial or agricultural clients (Oregon Revised Statutes, Chapter 777).

Federal law also affects the activities of U.S. ports through their impact on, for example, navigation, harbor and channel maintenance, customs, and tariffs.

In different States, of course, diverse port enterprises have been authorized. Table 1 shows the activities in which selected port districts on the Gulf Coast and West Coast are involved. Port authorities in the six States represented here are engaged in a wide variety of activities. These activities can be grouped under six major headings:

1. Marine transportation: cargo handling and storage
2. Air transportation: airports
3. Land transportation: railroad, bridge
4. Industrial parks
5. Marinas for commercial fishing and recreation
6. Offshore staging base

Table 1.—Major activities of selected smaller U.S. ports (O/O = Own/operate; L/O = Lease-operate)

Activity	Olympia	Newport	Humboldt	Freeport	South Tangipohoa	Hancock
Marine facilities						
Wharf and/or dock	O/O	Own	—	O/O	Own	Own
Buildings	O/O	Own	—	—	Own	Own
Cargo-handling equipment	Own	—	—	—	—	—
Airport facilities						
Runways and ramps	O/O	—	—	—	—	O/O
Buildings	Own	—	—	—	—	O/O
Rail facilities						
Rail	Own	—	—	—	L/O	O/O
Rolling stock	L/O	—	—	—	—	O/O
Industrial park						
Land	Own	—	Own	Own	—	Own
Utilities	Own	—	—	O/O	—	O/O
Buildings and equipment	Own	—	—	O/O	—	O/O
Marina facilities^a	O/O	O/O	O/O	—	—	O/O
Offshore oil service and supply staging area	—	—	—	—	Own	Own

^aMoorage, launch ramp, fish hoist, boat trailer parking, etc.

Marine transportation

The most common activity of port districts is marine transportation. The Port of Olympia, for example, owns and operates a marine terminal.

The Port of South Tangipohoa owns a 20,000-square foot warehouse that has been used primarily for transshipment of forest products to Northern Europe and P.L. 480 grain shipments to developing nations. The port owns this facility and leases it on a long-term contract to a private operator.

The Hancock County port also owns the terminal at the industrial park and leases it to a private operator. It's used primarily for the storage and handling of general cargoes that arrive aboard small freighters.

For the Port of Freeport, Texas, marine transportation is also the major activity of the port. The port owns and operates four general-cargo wharves in the inner harbor area; it also owns and leases two liquid bulk and two dry bulk storage and handling terminals. Its principal activities are exporting commodities such as foodstuffs, chemicals, and miscellaneous products and importing items (primarily foodstuffs) from Latin America, the Caribbean region, and the Middle East.

Airports

Two of the six ports we selected for study own and operate airports. Hancock County, for example, owns and operates Stennis International Airport, with an 8,500-foot paved, lighted runway. An industrial park is located next to the airport.

The Port of Olympia, Washington, owns and operates Olympia Airport, a general aviation airport with twin 5,400-foot paved and lighted runways.

Railroad

The Hancock County, Mississippi, port owns and operates a shortline railroad. This 8.6-mile line connects Port Bienville Industrial Park with the Chesapeake Seaboard Railway. The rolling stock includes two 100-ton diesel locomotives.

Industrial development

Next to marine transportation activities, the most common activity for the selected smaller ports is industrial development. Some ports (Hancock County, for example) have highly visible parks that form a core of their activities.

Port Bienville Industrial Park, located close to the Port Bienville Public Terminal, is a 2,200-acre park developed by the Hancock County Port and Harbor Commission. The park has 85 parcels of industrial land, 18 of which have frontage on the 12-foot deep channel. Currently, industries are located on the waterfront parcels, including a plastic manufacturer, a steel fabrication plant, a timber yard, a bulk unloading facility for coal and coke, and two shipbuilders.

The ports of Freeport, Texas, and Olympia, Washington, also have industrial parks.

Even the three ports that don't have industrial land for lease consider industrial development to be a major activity and they're actively involved in promoting industrial development in their localities. Industrial development indeed serves as a major justification for the activities of these ports, as many industrial development activities would increase the marine transportation demand and the consequent demand for services of the port.

Marinas for commercial fishing and recreation

For some ports, supporting the commercial fishing industry is a major activity. The Port of Newport, Oregon, for example, owns and operates docks over which a major share of the commercial fish brought into Newport is passed.

The Humboldt Bay Harbor Recreation and Conservation (HR&C) District has provided a new marina and boat yard to support the commercial fishing fleet. The district has also provided a boat launch and park at Shelter Cove to support recreational boating.

The Hancock County port operates a small craft marina at Bayou Caddy for loading and unloading of fishing vessels. The marina has no overnight berths available, but it has 12 to 14 slips for small recreational craft, and a public launch site is available at no cost to the users.

The Port of Newport also constructed a large recreational marina. The Port of Olympia operates a marina and boat launch.

Offshore staging base

Along the Gulf of Mexico, offshore service and supply companies have operated from shore-based staging areas or stocking points. It has become a common practice for these locations to be considered as one-stop service areas for all major offshore supply items (drilling fluids, tubular goods, potable water, fuel, etc.). In addition, many such areas have some fabrication capacity nearby and in some areas oil storage capacity.

How ports are financed

Ports finance their activities from a number of sources of revenue. Some revenues are used primarily to cover operating expenses, and others are used to finance capital improvements (table 2). Of course, this division is not airtight, since one of the sources for financing capital improvements is the port earnings generated through an excess of operating revenues over operating expenditures. Bonds, of course, aren't intended to be used to cover operating expenses.

Operating revenues

There are two major categories of operating revenues, property taxes and user charges.

In the six States in which our selected ports are located, port districts are authorized to levy property taxes to cover operating expenses. In many

Table 2.—Major revenue sources for selected smaller ports, 1988 (✓ means port has used revenue source within the last 5 years)

Source	Olympia	Newport	Humboldt	Freeport	South Tangipohoa	Hancock
Leases, fees, dues, etc. ^a	✓	✓	✓	✓	✓	✓
Property taxes	✓	✓	✓	✓	✓	✓
General obligation bonds (obligates taxpayers to repay)	✓	✓		✓	✓	✓
Revenue bonds (does not obligate tax- payers to repay)	✓	✓		✓	✓	✓
Government grants	✓	✓	✓	✓	✓	✓
Government loans		✓	✓			
Commercial loans		✓			✓	

^aFrom docks, warehouses, airport landings, hangars, moorages, launch ramps, water use, camping, industrial parks.

cases, State law specifies a maximum tax rate that could be levied to support port operations.

In Oregon, for example, the tax rate can't exceed \$2.50 per \$1,000 of true cash value. For most ports in Oregon and elsewhere, however, tax rates are quite a bit lower than that and aren't a major source of revenue for port districts.

Most of Louisiana's ports are authorized to levy an ad valorem tax, although four are prohibited from doing so. Twelve can levy taxes without voter approval.

The major sources of operating revenues are user charges and leases. Like private businesses, ports can charge fees for services rendered and for leasing land, buildings, and equipment. Major source of revenue for ports with maritime-shipping activities are port fees (dockage and wharfage), leases of land, and (for small ports that operate their own docks) revenue from cargo handling.

The leasing of industrial land is also a major source of revenue for small ports. For those ports with recreation facilities, marina-moorage fees can be a major source of revenue. Each of the ports we selected for study uses some combination of property tax revenues and user fees to finance operating revenues.

Financing capital improvement revenues

There are five principal categories of revenues used to finance port capital improvements.

Port earnings. An increasingly important source during the past several decades has been port earnings, revenues made available by the excess of operating revenues over port operating expenditures. Indeed, during the 1970's and early 1980's, this method ranked second only to revenue bonds in terms of source of capital expenditure revenues.¹

When available, this internal source of revenue is quite advantageous for ports. It involves few restrictions on spending and doesn't involve going into debt. The other methods usually involve some kind of debt.

General obligation (GO) bonds are floated by ports and are backed by the ad valorem property taxing power of the district. In case of default of GO bonds, districts would have to raise property taxes to pay off the indebtedness.

¹Source: U.S. Department of Transportation, *Public Port Financing in the United States*, June 1985, p. 46.

This feature makes GO bonds very secure, although issuing them almost always requires prior voter approval—which may be difficult to obtain if most taxpayers in a district wouldn't receive direct benefits from the project. Capital improvements in the Hancock County port are financed primarily by general obligation bonds secured by tax revenues from "seawall and road protection" taxes.

Revenue bonds aren't backed by the taxing authority of the port district. They're repaid with earnings of the project for which the revenues are being sought, or with the combined net revenues of all port projects. Revenue bonds have been the single largest source of capital improvement funding during the past decade or so. Since they don't represent a general obligation of the port district, issuing revenue bonds normally doesn't require prior approval of the voters.

A major type of revenue bond used to finance port improvements has been the industrial development revenue bond (IDRB). These were used to acquire capital facilities that were subsequently leased to outside organizations. They were used to attract new industries to a port by offering lower interest rates than were available through the corporate bond market. Recent changes in Federal tax laws have severely limited the use of IDRB's by ports.

In a number of States, port districts are one of the few local governments with the power to issue revenue bonds without voter approval. This power makes these bonds a relatively powerful development tool for port districts.

State/Federal grants and loans. Both Federal and State governments provide grants and loans for which ports are eligible recipients and which ports can use to develop facilities they own.

In Oregon, for example, the State Department of Economic Development has established a port revolving fund, a program under which the Economic Development Commission may loan up to \$250,000 to port districts for port development projects.

There are also a number of Federal grant and loan programs for which port districts are eligible.

Commercial loans. In some States, ports may borrow from commercial banks, primarily to cover operating expenditures on a short term basis, or for small self-financing projects.

How ports are governed

According to Marc Hershman et al., in their book *Under New Management* (1978),

Most public port authorities derive their authority and obligations directly or indirectly from state law. In some states, port authorities operate directly under state statute as state-level departments or special districts. Others are controlled indirectly by states, with powers statutorily passed from the state to municipalities or counties which, in turn, create port authorities.

The types of port authorities vary among the states. Most ports operate within a legislatively or statutorily defined local region. California ports, with few exceptions, are departments of city government. In Washington and Oregon, port authorities are created under state enabling statutes, but operate at the local level. The ports of Texas derive their authority from the state, but operate as county navigation districts. Many East Coast states have a single, statewide port authority. Great Lakes port authorities represent a variety of all types that appear elsewhere.

Despite the differences in organizational structure, there are several features common to enabling legislation in the various states:

1. The legislation creates a public role and responsibility to improve and develop water-borne commerce.
2. Port commissions are established to exercise that responsibility.
3. Port authorities are authorized to develop, build, finance, and promote facilities and services necessary to the public port enterprise and its objectives.

Each of the ports in this publication operates in a State with a different system for port governance (table 3). In Oregon and Washington, the organization of port districts requires local voter initiative under a general State authorizing statute.

Unlike many California ports, the Humboldt Bay district was organized under a specific State statute authorizing its formation, which was ratified by a vote of the people.

In Louisiana and Mississippi the ports are organized by specific statutes.

Governance of ports in each case is vested in a commission. In the Western States, the commissions are all elected for limited terms and tend to be smaller than those in the Gulf States. In the Gulf States, commissions are larger; in Louisiana and Mississippi, they're appointed by a combination of local and State governing bodies or officials.

The staffing of ports tends to be fairly similar across the different States. In each case, the commission appoints the manager; in Humboldt Bay, the commission also appoints some additional officers who serve at the pleasure of the commission. The manager is authorized to hire staff as permitted by the governing body.

Table 3.—Governance of selected smaller ports, 1988

Step	Olympia	Newport	Humboldt	Freeport	South Tangipohoa	Hancock
Creation	Local voter initiative under general State statute	Local voter initiative under general State statute	Specific State statute subject to local voter ratification	Local voter initiative under State constitution	Specific State statute	Specific State statute
Commission No. members	3	5	5	6	7	7
Elected/appointed	Elected	Elected by "division" (district)	Elected by district	Elected by district	Appointed by governor, confirmed by senate	Five members appointed by county board of supervisors, 2 members appointed by governor, 1 from each of the 2 municipalities in the county. Commission operates under auspices of county commission.
Term of service (years)	6	4 staggered terms	4 staggered terms	4 staggered terms	6	Unlimited

The future of smaller U.S. maritime ports

Ports are operating in highly competitive environments in their transportation, industrial development, commercial fishing, and recreation-related activities. There are a number of factors that suggest a diminishing advantage for smaller ports in these activities relative to larger ports in the near term future.

There are a number of other factors, however, that suggest an increasing advantage of smaller ports with regard to the recreational activities.

Factors affecting marine transportation

Willard Price (*Smaller Maritime Ports: A Research Agenda*, 1984) suggests six factors that he believes diminish the advantage of smaller ports relative to larger ports with regard to marine transportation:

1. shifts in the distribution of international trade patterns, concentrating cargo movements at large port "load centers," particularly for container cargo;
2. increased vessel size, demanding greater harbor depth and increased dredging requirements;
3. new ship-loading technology, required for the newer and more sophisticated ships and necessitating larger capital investments;
4. an international recession, affecting both imports and exports, but particularly those cargoes dependent on the recovery of the international economy;
5. proposed legislation and regulations that may deregulate the Federal Maritime Commission's public review of tariffs and lease agreements, and the right of seaport associations to meet and discuss common prices for their services; and
6. proposed legislation and regulations that may decrease the Federal Government's involvement in dredging by initiating user fees to be paid by port customers.

Each of these factors, he believes, has the potential to diminish the competitiveness of smaller ports.

Others have argued this way: Given the cargo-handling and harbor-depth characteristics of many smaller and medium-size ports in three key regions (Pacific Rim, European, and Caribbean/Latin American), the capacity of smaller U.S. ports to match the port characteristics in a number of rapidly developing countries in these regions, may be an advantage—it may, in fact, provide a micromarket that larger ports can't service as well.

To the extent that this is true, it suggests a need for port managers in smaller ports to become increasingly sophisticated in their understanding of foreign markets and in their contacts with managers of smaller port in these countries.

Factors affecting demand for recreational boating

While the competitive environment for smaller ports with regard to maritime transportation may be diminishing, there are several factors that increase the advantage of smaller ports with regard to recreational boating and fishing.

The over-65 population will continue for several decades to increase as a share of the Nation's population. This age group has higher per capita spendable discretionary income than any younger age group. The large share of this population that's healthy, active, and seeking leisure services constitutes a significant potential market for marinas.

The shift toward two-earner families has imposed new constraints on leisure time of younger families, but it has provided many with increased disposable incomes.

These two trends may create new opportunities for marinas for services other than docking, fueling, bait, and tackle. For example, those with high disposable incomes and constraints imposed by aging or limited leisure time may demand "valet" services at marinas—personalized maintenance, catering, repair, or fishing service.

While some of these services will be profitable only in larger cities, many affluent visitors seek to avoid the hustle and bustle of more developed places; they're on the lookout for quaint, out-of-the-way vacation spots.

To the extent that this is true, it suggests that port managers and commissioners need to better inform themselves about the trends in the recreation market, to develop their own market niches in this regard, and to market these appropriately to the emerging sources of market power.

Factors affecting industrial parks

The demand for industrial park space is affected by the shift in the national employment base toward services, which implies a generally diminished need for industrial land suitable for manufacturing. Rural areas, with lower wage rates, may have a comparative advantage for industrial facilities requiring a low-wage labor force.

Smaller ports in areas with pleasant living environments may also be able to recruit or retain those manufacturing firms with preferences for such amenities.

At the same time, small ports can be affected by the movement of manufacturing firms offshore in search of lower-wage labor. To the extent that smaller ports can look for service industry opportunities, they may be able to take advantage of the general shift to service employment.

Factors affecting commercial fishing

The demand for commercial fishing moorage and other services is affected by the fishery management regulations of the State and Federal governments. The effect of these regulations on a given port will depend on its

location relative to the fishing grounds for regulated species, not on the port's size.

Both small and large ports are likewise affected by consumer demand for the types of fish in nearby waters. The general trend for increased consumption of fish may imply an increase in demand for commercial fishing moorage. Again, small ports have no inherent advantage or disadvantage here.

Adaptability: A key to smaller port improvement

Smaller ports, like other smaller business-oriented, market-oriented enterprises, are in a rapidly changing, competitive environment. Competing successfully in this market requires understanding of the trends affecting the market and requires flexibility in adapting to the changing demands.

By finding and filling emerging micromarket niches, smaller ports can thrive economically and provide important services for society at large.

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