Texas A&M Transportation Institute

Funding Practices for Coastal Port Infrastructure

Testimony of

Jim Kruse

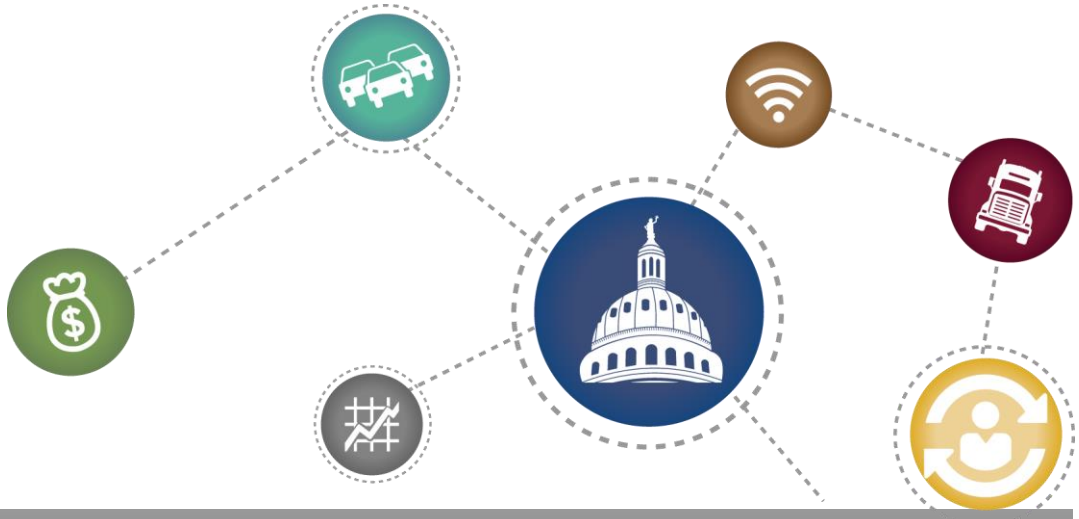
Director
Center for Ports and Waterways

Texas A&M Transportation Institute

to

Senate Select Committee on Texas Ports

May 4, 2016



TRANSPORTATION
Policy Research CENTER

Texas A&M Transportation Institute

Introduction

Chairman Creighton, members of the Committee, thank you for this opportunity to provide testimony regarding our ports and inland waterways. My name is Jim Kruse, and I am the Director of the Center for Ports and Waterways at the Texas A&M Transportation Institute, commonly referred to as TTI. My testimony will focus on the manner in which various states provide financial support for port infrastructure. Last year, the Transportation Policy Research Center sponsored a study on State Funding Practices for Coastal Port Infrastructure. I will present the highlights of that report.

Background

The geographical coverage of the report spans Texas and 10 other states along the Gulf and East coasts. The focus is on coastal deep-draft ports. They tend to have the highest capital investment needs and the greatest impact on surrounding communities. However, since most programs do not target only coastal ports, the data presented in the report often include references to both inland and coastal ports.

Since other testimony presented today will discuss the Texas port system, what the system does, and its value to the state and nation, I will not discuss those topics in my remarks.

All of the Gulf states are included in the analysis. Additionally, we studied Georgia, South Carolina, North Carolina, Pennsylvania, Massachusetts, and Virginia. We specifically excluded West Coast ports. Their legal structure and funding mechanisms are very different from the situation in Texas and the other Gulf states. Furthermore, West Coast ports are heavily oriented toward containerized imports from Asia and agricultural exports from the Northwest Pacific region, whereas in the study region the ports tend to have a much more diverse set of cargo types. Additionally, California ports are typically municipal departments; in Oregon and Washington, deep-draft port authorities manage operations unrelated to maritime transportation (e.g., airports and transit agencies). Given these circumstances, we felt a comparison would be an apples-to-oranges comparison.

When looking at the East Coast, we excluded the "small" states—Delaware and Rhode Island. We also excluded the Port of New York and New Jersey because it is a bi-state agency that is responsible for all modes of transportation in the area.

Ports, by nature, are very capital-intensive operations. They are required to look into the future 30 to 50 years and build costly infrastructure they believe will be of value for that length of time. This makes planning a difficult exercise and often puts ports in the position of needing financial assistance to meet changing market demands. State government may play a role in these situations.

There are three general categories of state funding: contributions to channel improvement projects, direct state funding to port authorities, and indirect funding and incentive programs designed to encourage port development.

Channel Improvement Projects

Channel projects require some explanation and background. They are a federal responsibility, but they require a non-federal sponsor to pay part of the cost of the project (usually in the 35–50 percent range). Typically, a state agency or port authority arranges for the non-federal portion, although in the case where two or more ports share a waterway, a separate non-federal sponsoring entity may be established as the coordinator (e.g., the Sabine-Neches Navigation District in Texas, which coordinates on behalf of Beaumont, Orange, and Port Arthur). Such projects are usually very costly and require a lengthy permitting process. There are 17 congressionally authorized channel projects in the 11 states, 8 of which are actually being constructed at this time. Table 1 summarizes the cost of each project, the direct state contribution to the project (apart from the port authority's contribution), and the source of the funds.

As mentioned above, channel improvement projects are high-dollar high visibility projects. Five of the 17 currently authorized channel projects are in Texas. Four of the five projects are in a holding pattern awaiting appropriations from the U.S. Congress. The Port of Houston decided to pay 100 percent of the cost of their project. The four projects on hold are estimated to cost just under $2 billion, of which at least $800 million must be borne by non-federal interests. The projects are the Sabine-Neches Waterway, Freeport ship channel, Brownsville ship channel, and Corpus Christi ship channel. A navigation district is expected to provide the required non-federal share in each case.

Florida has six projects. The state contributed $24 to Port Canaveral and $112 million to the Port of Miami. The other 4 require local entities to pay the non-federal share. In Georgia, the state government has committed to paying the entire non-federal share of $266 million for the Port of Savannah project. South Carolina has set aside $300 million for the Charleston project, although the General Assembly will have to authorize any expenditures from the fund. North Carolina will pay $3.7 million for a small project at Wilmington. It appears that Pennsylvania will pay all or most of the $117 million non-federal share for the deepening of the Delaware River. In Massachusetts, the state included $65 million (roughly 2/3) of the non-federal share for the Port of Boston in a $2.2 billion environmental bond bill.

To recap, 7 of the 17 projects in the study area are receiving state funding to cover all or a large portion of the non-federal share, while 10 are expected to be funded at the local level; five of the 10 are in Texas, four are in Florida, and one is in Mississippi.

Table 1. Summary of Active Ship Channel Projects

State	Channel Improvement Project	Estimated Total Cost (Millions)	State Contribution (Millions)	Source of State Funds
Texas	Sabine-Neches Waterway	$1,114	0	N/A
	Brownsville Ship Channel	$251	0	N/A
	Corpus Christi Ship Channel	$353	0	N/A
	Freeport Ship Channel	$239	0	N/A
	Port of Houston Ship Channel	$80	0	N/A
Mississippi	Bayou Casotte Channel Widening (Pascagoula)	$40	0	N/A
Florida	Tampa Ship Channel Widening	$36	0	N/A
	Jacksonville Ship Channel	$601		N/A
	Jacksonville Mile Point	$37	0	N/A
	Port Everglades Ship Channel	$320	0	N/A
	Port Canaveral	$41	$24	Strategic Port Investment Initiative
	Port of Miami	$206	$112	Florida Department of Transportation budget
Georgia	Savannah Harbor Expansion	$706	$266	Bonds
South Carolina	Charleston Harbor Deepening	$510	$300	General revenues
North Carolina	Cape Fear River Widening and Realignment	$15	$4	
Pennsylvania	Delaware River Deepening	$334	$15	General revenues
Massachusetts	Boston Harbor Deepening	$311	$65	Environmental Bond Program

Ongoing Direct and Indirect Funding

Four states provide little or no ongoing direct support (Texas, Georgia, South Carolina, and North Carolina). Among the states that do provide direct funding, there is a wide range of funding levels. Table 2 summarizes the mechanisms the various states use. Florida has by far the most aggressive ongoing funding mechanism for ports, followed by Louisiana. We will provide details on these two states later in this presentation.

Table 2. Summary of Direct Assistance Mechanisms

State	Program	Source of Funds
Alabama	Constitutional Amendments 666 and 796	Oil and gas capital payments and state general obligation bonds
Florida	Florida Seaport Transportation and Economic Development Program	General revenues
	Strategic Port Investment Initiative	State Transportation Trust Fund
	Florida Ports Financing Commission	Revenue bonds
	Seaport Investment Program	State Transportation Trust Fund
	State Infrastructure Bank	Federal with state-matched funds; bond proceeds; general revenues
	Strategic Intermodal System Program	Not yet defined
Georgia	None	
Louisiana	Port Construction and Development Priority Program	Appropriations to Transportation Trust Fund
	Capital Outlay Plan	State general obligation bonds
Massachusetts	Seaport Advisory Council	Environmental bond funds
	Rivers and Harbors Grant Program	General revenues
Mississippi	Port Revitalization Revolving Loan Program	State general obligation and limited obligation bonds
	Marine Transportation Capital Improvement Program Fund	General revenues
North Carolina	None	
Pennsylvania	Direct appropriations	General revenues
	Pennsylvania Intermodal Cargo Growth Incentive Program	Multimodal Transportation Fund
South Carolina	None	
Texas	Port Access Account Fund	General revenues (no money appropriated to date)
Virginia	Commonwealth Port Fund	Transportation Trust Fund

The indirect funding mechanisms are heavily dominated by tax credit programs. Notable exceptions include Texas's Port Transportation Reinvestment Zones (TRZs) and the Texas Mobility Fund, North Carolina's Water Resources Development Project Grants and Site and Infrastructure Grant Fund, and the Port of Virginia Economic and Infrastructure Development Grant Program. Table 3 summarizes the mechanisms discussed in the report.

Table 3. Summary of Direct Assistance Mechanisms

State	Program	Source of Funds
Alabama	Alabama State Docks Capital Credit Project	N/A
Florida	Intermodal Logistics Center Infrastructure Support Program	State Transportation Trust Fund
Georgia	Port Tax Credit Bonus	N/A
Louisiana	Ports of Louisiana Tax Credits Program	N/A
	Louisiana Department of Transportation and Development (LaDOTD) Marine and Rail Program	LaDOTD budget
Massachusetts	Harbor Maintenance Tax Credit	N/A
	Investment Tax Credit	N/A
Mississippi	Export Port Charges Tax Credit	N/A
	Import Port Charges Tax Credit	N/A
North Carolina	Water Resources Development Project Grants	General revenues
	Port Enhancement Zones	N/A
	North Carolina Ports Tax Credits	N/A
	Site and Infrastructure Grant Fund	North Carolina Department of Commerce[1]
Pennsylvania	None	N/A
South Carolina	Port Volume Increase Credit	N/A
Texas	Port TRZ	Increase in tax base[2]
	Texas Mobility Fund	Bonds secured by future revenues[3]
Virginia	Port Volume Increase Tax Credit	N/A
	Barge and Rail Usage Tax Credit	N/A
	International Trade Facility Tax Credit	N/A

Texas

What is the current state of direct funding support for port infrastructure in Texas? Currently, there is none. In 2001, the Texas Legislature amended the Transportation Code to create Chapter 55—Funding of Port Security, Projects, and Studies. The chapter created the Port Access Account Fund, which was intended to be the vehicle by which the state could invest in port infrastructure. However, to date there have been no appropriations to the account.

During the 83rd Texas Legislature, ports were made eligible to use TRZs as a funding tool in SB 971. Four port authority TRZs have been created—three in Jefferson County and one in Cameron County. They are all inactive at this time. The Transportation Commission recently authorized the use of $20 million of Rider 48 funds to ten projects "outside the port gates"—projects which connect the port to the larger infrastructure network and which can be used by the general public.

[1] The program has not been funded in several years. Last activity was 10 years ago.
[2] Authorized in 2013. No projects defined yet.
[3] One navigation district has submitted an application.

Florida

Florida has 15 public sea ports. Locally elected officials make up 10 of the 15 seaport governing bodies. The rest are appointed by various levels of government.

The kingpin in the financing program is the Florida Seaport Transport and Economic Development Program, which is referred to as FSTED. The program resides within the Florida Department of Transportation. It was originally set up to be an annual $8 million seaport grant program for financing port transportation projects on a 50/50 matching basis. It has now grown to $25 million annually. Additionally, the Strategic Port Investment Program (SPIP) has a $35 million annual floor for bigger port projects such as dredging, bringing the total annual amount to $60 million. In the last legislative session an additional $93 million was appropriated for specific port projects. According to press releases from the governor's office, Florida has pumped almost $800 million into port projects since 2011.

FSTED program

Projects eligible for the FSTED's $25 million dollar program must be consistent with a port's master planning documents. Port master plans must be submitted to the appropriate local government entity for incorporation into the local government's comprehensive plan, which in turn is reviewed and approved by a number of state and regional authorities. State funding is matched by the local port, usually on a 50/50 basis, but allows for 75% state funding for certain types of projects. The FSTED Council was created to review and approve projects for funding. The council consists of 17 members, including the port directors of Florida's 15 public seaports, and representatives from FDOT and the Department of Economic Opportunity. The cost of the council is paid by all ports that receive funding from FSTED, based upon a pro rata formula measured by each recipient's share of the funds as compared to the total funds disbursed to all recipients during the year.

The FSTED Council is also responsible for preparing and continually updating a five-year Florida Seaport Mission Plan and for the Small County Dredging Program. The council is required to annually submit to the secretary of transportation and the executive director of the Department of Economic Opportunity, or his or her designee, a list of projects that have been approved by the council. FDOT and the Department of Economic Opportunity must review and approve the projects on the list before they may be funded.

Strategic Port Investment Initiative

The Strategic Port Investment Initiative—the $35 million program—was created in fiscal year 2012–2013. The initiative is managed by FDOT staff in consultation with the Florida Ports Council, which is a nonprofit corporation that serves as the professional association for Florida's fifteen public seaports and their management. Projects to be funded under the initiative must meet the state's economic development goal of becoming a hub for trade, logistics, and exports.

Logistics Center Infrastructure Support Program

The only ongoing indirect funding mechanism used in Florida that was identified in the report is the Intermodal Logistics Center Infrastructure Support Program. It receives a $5 million annual allocation from the State Transportation Trust Fund to assist in constructing access improvements for intermodal logistics centers that are funded with private-sector funds and move freight through Florida seaports. FDOT can provide up to 50% of a project's cost.

Louisiana

Louisiana's approach is very different from Florida's. The Louisiana public ports system is comprised of 39 public authorities with wide-ranging charters. Within this group, there are six deep-draft ports handling domestic and international freight movements. There are 20 shallow-draft ports (inland and coastal) and 13 emerging ports enabled by legislation that are not developed or operational.

The 2014 Regular Session of the Louisiana Legislature established an Office of Multimodal Commerce and created a commissioner of multimodal commerce. The office will become fully effective July 1, 2016. The main focus of the newly created office, which will be under the supervision of a dedicated commissioner of multimodal commerce, is to create a better overall business, tax, and legal climate to maximize Louisiana's multimodal transportation infrastructure.

Port Construction and Development Priority Program

The main funding mechanism for direct support is the Port Construction and Development Priority Program. The purpose of the port program is to ensure that adequate landside facilities are available to meet a definite market need. The funding for the program is the Transportation Trust Fund, which was approved as a constitutional amendment in January 1990. Feasibility studies are required for proposed projects and the projects must be prioritized.

Port authorities submit applications to LaDOTD no later than the first of March, June, September, and December of each calendar year for funding or funding obligation authority in the ensuing fiscal year.

Each quarter, LaDOTD furnishes the House and Senate Committees on Transportation, Highways, and Public Works a prioritized list of projects based on the applications received during that quarter. Within 30 days of receiving each quarterly recommended list of prioritized projects for inclusion in the ensuing fiscal year program, the two committees must hold public hearings to receive public testimony regarding the list. Each quarter, the department reprioritizes the list of projects to reflect the cumulative list of projects recommended by the department. Prior to the convening of each regular session, the two committees hold a hearing for the purpose of reviewing and approving the final program for the ensuing fiscal year.

When the final construction program is presented to the legislature for funding, the legislature cannot add any projects to the final construction program. Any project recommended by the department and approved by the two committees but for which funds are unavailable in the fiscal year for which it was approved remains on the prioritized list of projects and is carried forward to the next fiscal year. A retained project keeps its place on the prioritized list of projects and will receive a higher priority over newly recommended projects in the next fiscal year.

Approved projects may receive up to $15 million over three years. The ports are responsible for engineering costs and 10 percent of construction costs. Additionally, projects must have a rate of return on the state's investment of at least 2.375 and a benefit-cost ratio greater than 1.0.

The level of funding being provided is not statutorily dedicated, so ports have no guarantee of funding levels from year to year. The amount of annual funding through state appropriations is not sufficient to fund all of the projects that meet the economic qualifications. To date, $544,804,467 has been allocated, which has allowed funding of 171 projects, of which 162 have been completed or have been substantially completed.

LA DOTD Capital Outlay Plan

The Capital Outlay Plan is a bond program that provides a source of funding for public improvement–type projects not eligible for funding through any of the dedicated funding programs. The funds are provided through the sale of state general obligation bonds and can be used for acquiring lands, buildings, equipment, or other properties, or for the preservation or development of permanent improvements.

The program requires that projects be submitted by the head of each budget unit (i.e., department secretary). However, local officials of political subdivisions may also make requests but only through the senator and representative in whose district the proposed project will be located. Each legislator forwards such requests to the Facility Planning and Control Section of the LaDOTD Division of Administration.

Projects then compete through the legislative process, and successful ones are grouped into various funding priorities and included in the approved Capital Outlay Bill. Funding for a specific project does not become available until such time as the bonds for that project are sold or an advance cash line of credit is approved by the State Bond Commission.

Seven port projects have received funding of almost $46 million under this program.

Tax Credits

Louisiana created a Port of Louisiana Tax Credits Program in 2011, but as of 2015 no businesses had received a tax credit under the program.

Other States

Other states have direct funding programs that are not as aggressive as Florida's or Louisiana's. They include Alabama, Massachusetts, Mississippi, Pennsylvania, and Virginia. The details are provided in the Policy Center report.

Conclusion

Every state handles its port infrastructure needs differently. Florida and Louisiana seem to offer the most comprehensive and effective models for channeling state funds to ports on an ongoing basis.

Channel projects are projects that occur only once in every few decades. However, they are extremely expensive. Texas navigation districts are currently expected to pay the non-federal share without state assistance.

Thank you for allowing me to submit this testimony.

Jim Kruse
Director, Center for Ports & Waterways
Texas A&M Transportation Institute
701 N. Post Oak, Suite 430
Houston, TX 77024
713-613-9210
j-kruse@tamu.edu