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2010 State of the Port Speech

By J. Stanley 'Stan' Payne, CEO, Port Canaveral

This State of the Port speech is titled from .org to .com; it is a theme you will see throughout. We're going to highlight Port Canaveral as a premier generator of jobs in a later presentation, when our new economic impact study is completed. For today, when you hear Port Canaveral, think jobs. I am going to start, as I did last year, by looking at the past, then focusing a bit on the present, and then looking at a very positive future. You may find some of these remarks a bit frank, but I am reminded of the Branch Rickey quote "Never surrender opportunity for security". I hope you will consider them in the context they are offered – what can make this port not only better, but as a model for the industry. That is the opportunity before us today. If you are looking for a cheerleader, sorry, wrong meeting. Today you'll see Port Canaveral through my eyes.

Let's start by looking at the past a bit as a starting point for this journey. Again, as I noted last year, every port, every business has its ups and downs. Port Canaveral has been no exception. We have had ups – witness the rise of the spectacular cruise business here - and we had downs – 'failures to materialize' (World City, Columbia Coastal container feeder service, Ambassador Services' North Side Development); the demises, timely or not, of Ocean Club Cruises, Premier Cruise Lines, Cape Canaveral Cruise Lines, and most recently Sterling Casino Lines, Las Vegas Casino Lines and SunCruz Casino Lines. Tenants have come and gone – here is a quick list of restaurants that have once dotted the Port's landscape – Captain Ed's, Lloyds, Schoolie's, Sailor's Choice and Mickie's Deli – several of these located in The Cove. These transitions are the normal ebb and flow of our business. I'll talk about the future of gaming ships and The Cove a bit later.

The challenges, what we have seen over the past two years now, however, are not normal. At least I hope not. The world has changed. We do not know what the "normal" world will be in the future.

Last year, we showed 2008 compared to 2006, which was a record year for the Port across the board. What we saw is a rise in costs coupled with a decrease in revenues, all generated by events largely beyond our control. We haven't seen a cement ship here since February 2008, now two years later. We brought assets online, which promptly added to our depreciation. Newspapers got smaller and so did our newsprint shipments.

In 2009, the challenges continued, remembering it was still against the backdrop of a world economy that is struggling even today. Looking at a comparison between 2006 and 2008/2009 is painful – drops in cargo, day cruises; increases in depreciation, amortization, which thankfully do not impact our cash flow.

And these challenges continued for other US ports as well, including Jaxport, Charleston, and Norfolk.

The positive news for Port Canaveral is that in 2009 we put hundreds of people to work on construction projects, such as the CT-8 garage (in a very-challenged construction industry), created permanent jobs in our security efforts, (with the first Port Police Department in Florida), secured federal stimulus funds and state funds, and despite the challenges, still generated positive net income and \$14.9 million in cash to fund the growth of the Port. We were awarded the 2013 Annual Convention of the American Association of Port Authorities, whose membership encompasses the entire western hemisphere. We saw the arrival of our first 4,000 passenger mega-ship, the Royal Caribbean Freedom of the Seas, and then our second, the largest Carnival ship ever built, the Carnival Dream, and completed the first phase of enlarging our West Turning Basin for these ships. We have other construction projects underway or that will start later this year. Here's a projected scorecard for 2009-2010.

Cruise

Cruise remains strong, both homeported and port-of-call ships, but it is a business that most never be taken for granted. And make no mistake – our cruise partners are businesses and, frankly, it benefits them that we can function as a business as well. They've said so – I believe it. You should, too.

We saw the mass migration of cruise ships to Europe a couple of years ago. We are seeing it again, but it seems in greater numbers, certainly with bigger ships. Asian and South American markets will continue to develop. And even more US ports are anxious to be players in the cruise business (Charleston, Savannah) or afraid of losing their cruise business (Jacksonville).

Cruise lines redeploy ships to the markets of greatest return. Witness the move of the Carnival Elation from Port Canaveral to San Diego amidst great fanfare, then to Mobile (it was not replaced in San Diego) just as that port proceeds with construction of a new cruise terminal.

Established ports are not immune – the NCL Epic, brand new to Miami, will now spend six months in 2011 and 2012 in Europe. The Royal Caribbean Liberty of the Seas will move from Miami to Barcelona. Costa announced plans to lay-off 150 employees in South Florida as it shifts its focus to Europe.

New ships that typically would debut here in the United States, won't – the second Carnival Dream-class vessel is going directly to Europe.

What does all this mean for Port Canaveral?

We are excited of the arrival of the Norwegian Sun later this year and our next two 4,000 passenger vessels, Disney Dream in 2011 and the Disney Fantasy in 2012. Our homeported business is growing and there are still some opportunities, perhaps in higher-end, longer and/or seasonal cruises.

I believe future growth will come, as well, not necessarily from more ships immediately, but bigger ones as lines spread their smaller ships to new markets or markets with physical restrictions. The Carnival Dream and Freedom of the Seas followed this pattern, as will Disney's two new vessels.

We still hold out hope for the promise of the other end of the spectrum, overnight cruises to nowhere, two day cruises to Freeport, perhaps similar to Celebration Cruise Lines in Palm Beach, or fast ferry service to the Bahamas. Maybe even a dinner cruise. Things change – opportunities arise.

Homeported cruise, in whatever form, is strong and will remain so.

Second, our port-of-calls which peaked at 60 last year will grow even more as ships continue to be deployed up the US East Coast – our region simply offers so much for one-day visits. In an era of rising fuel costs, our short distance from the main North/South shipping routes makes Port Canaveral an economical choice. (And our port-of-call excursion options are clearly growing with Legoland, the Wizarding World of Harry Potter and Disney World's Fantasyland expansion.)

Cargo

Cargo has been and is a challenge. We are taking steps to address that challenge. We have two new initiatives that should give us much better direction for development of the Port's North Side, one an extension of the 2005 pre-recession Norbridge study and a second to look at container flows to and from Florida, piggybacking on a statewide study now in progress. The bigger challenge is that there are four piers on the North Side, two that will serve Morton Salt and Eukor and Seaport Canaveral and two others that border on our shipping channel, have ship size restrictions, one encumbered with a cement unloader. Building new docks is expensive, as I'll discuss later.

The North Side lends itself to bulk, vehicles and equipment, lumber, and in some areas, container operations, and perhaps warehousing and an expansion of the Port's cold storage and freezer capabilities. We'll be looking at the berth capacity issue as well as likely as searching for a North Side development and operations partner in the near future.

This is what the 2005 Norbridge study envisioned the future North Side could look like.

We clearly have opportunities and challenges. Meanwhile, Seaport Canaveral is now filling its tanks. Let me try to better reflect the impact of this \$120 million private investment on the Port. In 2009, our cargo revenues for the entire port were \$3.8 million. Assuming a once a month turn for Seaport Canaveral's tanks, this facility will alone generate \$4.9 million per year. With two turns it could generate \$9.9 million per year.

The Southside cargo operations of the Port have certainly not flourished over the past two years, and this is the operation that has established infrastructure in place, ample dock capacity and traditionally has handled most of the Port's general cargo. There is certainly potential for growth in cargo on the Southside, or at least a return to some sense of normality. It is an area of concern and one that we are monitoring closely.

Gaming Vessels

We had two companies go bankrupt in 2009, victims of, "choose for yourself" – the economy, pari-mutuels, the Tampa Hard Rock Casino, undercapitalization, flawed business models or arcades. I had said repeatedly "it is an industry in flux" and "do not base any long-term decisions on its continued viability". The collapse of SunCruz in its entirety confirmed this beyond any doubt.

It is no longer an industry in a state of flux. Simply look around Florida today and you know that the previous business model for the industry has ceased to exist. I believe there still is a market at Port Canaveral for a ship with amenities, of appropriate size to sail smoothly in our winter months, with investors who can support not only the capital costs of the vessel but with cash to sustain the inevitable challenges in operations. I believe we will have a new operation before the end of the year.

One more comment about gaming.

We looked at dockside gambling last year, an idea that developed no momentum.

A recent newspaper article caught my eye. Some have advocated full-fledged casino/resorts. My thought is this - if the State wants a pilot program to test on the impact of such an operation, we have 26 acres here waiting to be developed, and our local economy needs jobs. With one stipulation – a convention center must be part of the package.

Some Issues Facing the Port in the Future

First, our channel must be widened; Period. This is one of the most important challenges facing us today. The delay surrounding full consideration and approval of the Section 203 study is unacceptable. Despite Congressional directives to the contrary, it is my strong belief that the Corps of Engineers has not given appropriate consideration to our study because our project would primarily benefit cruise and tourism, rather than cargo. The latest Corps of Engineers publication, from 2003, does not even mention cruise.

Well, the Seaport Canaveral tank farm will change our landscape, fill it with larger ships, but even if it did not, it seems to me that since Florida's economy is based to a large degree on tourism, the Federal Government should do all it can to support our major industry. We will continue to work with our congressional delegation, especially Congressman Posey, to make this happen.

Moving on, if we look at the Port geographically, without Jetty Park, the Southside represented about 27% of our revenues in 2009, including SunCruz. Looking at the third segment of the Port's business, leases, and heart of The Cove in particular, and we see that our entertainment district represents less than 1% of our total operating revenue. It looks much the same way it did six years ago when I came – a few nice additions, a few additions that have come and gone, a sad building that was formerly Frankie's Wings and Things. And a lot of undeveloped acres.

Here is the bottom line for the development of The Cove and our Banana River Site – if there is to be substantial commercial development, private money, there must be a critical mass of visitors, many more than now, more than even our cruise business can provide. And if you attract that critical mass via a museum or an observation tower, or a Ferris Wheel, whatever, you will see commercial developers willing to invest more money, more quickly to help it fulfill its potential. And this would create enormous economic spin-off for both the Port and its tenants, local hotels and restaurants.

Or you could look at Southside Development concept from a strictly business standpoint. Without subtracting acreage out for the features themselves or roads or associated parking, our now undeveloped land could generate nearly \$5 million per year with development, or 10 times the current revenue generated by The Cove. Take out 12 acres for the museum and related facilities; you will end up with \$3.35 million. Add back in some upside in development south of George King Boulevard, and you could be back up to \$6.25 million. And there is substantial interest in an amphitheatre, which is not part of these calculations. These numbers are very, very general and are really used only to illustrate the fact that there are strictly commercial reasons to continue to explore development of the Cove, quite aside from the jobs and economic spin-off generated. If development would generate both revenues and jobs, then it seems to be a win-win situation.

In any event, the Museum/Observation Tower concept has spurred interest and dialogue and an exchange of ideas, which is very positive for the future of this area.

So we have made our journey through Port Canaveral today and here's the bottom line – the future of this Port is very bright and filled with wonderful opportunities. Nothing else needs to be said.

Let's look at some other issues outside the Port before I return to talking about Port governance. Regionalization – I have heard pros and cons about the concept of regionalism. For me there is no debate – our primary cargo market, for building products now and perishables and containers in the future, is Orlando and Central Florida. Our cruise success is built upon Orlando, the world's pre-eminent tourist destination and its wonderful airport. This Port is a conduit to the Central Florida region and part of that region. Complement it, don't compete with it, embrace it as a partner. If you don't want to embrace Central Florida as a partner, then embrace it as a customer. Simple as that.

A word about high speed rail – I attended a briefing on high speed rail in Lakeland last week and came away full of admiration for what Central Florida has done and will do to move to a regional transportation system. I continue to get a lot of questions about its impact here. I believe the Space Coast needs to be part of that system and perhaps even a hub, with lines to Orlando/Tampa, Jacksonville and Miami. But, at the very least, Phase Two of the Orlando-Miami project should follow a course through Brevard rather than down the Florida Turnpike.

Port Governance

Let's talk about the challenges and opportunities of Port governance. This is the elephant in the room, the one that no one wants to talk about but recent events make it necessary to address. I suspect it is the reason many of you are here today.

Last year, I talked about a port in transition, from government to business, chiefly as a result of the Port's own vow of self-sufficiency, to stop collecting taxes in 1986, but also because the dictates of the competitive market we're in, of limited resources other than our own revenues, in an industry where privatization and public/private partnerships are emerging trends.

Why are ports across the nation struggling with how to finance the maintenance, rehabilitation and construction of infrastructure? Because port capital needs are expensive. JaxPort alone needs \$100 million to keep its aging terminals functioning. In 1999, a consultant opined that the Port Canaveral's docks needed significant rehabilitation – \$40.2 million worth. We started the process in 2005 and have already spent \$28.7 million. New docks are enormously expensive – \$25,000 per lineal foot. A berth large enough for a 600 foot cargo ship, not large by any means, would have a price tag of \$25 million. One berth only and that does not include back-up areas. So, without a tax base, Port Canaveral is a business, with revenues, expenses, and what is left over is used for infrastructure, very expensive infrastructure. And that is why we must operate not simply as a business, but a well-run business. We have no choice if we are to stay competitive.

Here are some interesting figures –

From 1946 – 1986, citizens in the Port District paid \$18,017,829 in taxes to support Port Canaveral.

In 1999, adjusting for inflation, this amounted to \$59 million. In 2010 dollars, this figure is nearly \$78 million.

As a comparison, the Seaport Canaveral Tank Farm represents an investment, in those same 2010 dollars, of over \$120 million, or larger than the 40-year investment of taxpayers.

During the past five decades, Port revenues have increased dramatically. In the 1960's the Port generated \$5.6 million in revenues. In the 2,000's, it was over \$400 million (These are not inflation adjusted but the increase is dramatic).

My point – taxpayers could not sustain Port Canaveral today. Only our success as a business can sustain Port Canaveral. Ports that don't grow, that cannot grow, become irrelevant and economic wastelands. To use an over-used word, this is 'sustainability', but of the economic kind.

Port Canaveral has been in transition for decades, moving from a small village of tenants to a modern Port. Here are the Port's projected top revenue sources for this year, 2010. These account for approximately 85% of the Port's revenue.

The issue, the elephant in the room, the point to ponder, is this, given the change in the character of Port Canaveral, "How do you reconcile a politically-elected board of commissioners for an organization that must function as a business not simply to prosper, but to survive, on which tens of thousands of jobs depend?"

And the struggle is defining the nature of governance with an elected commission, whose campaigns can be financed to a significant degree by tenants and Port users, whose personal relationships, in our small culture here, can span decades, but whose citizens deeper inland in the Port District, while certainly interested in the economic benefits of the Port, are adamant that it be run well so that they never see a tax bill again.

And here we are as staff, trying our best to determine how to allocate our own limited resources, frustrated as more and more time and energy and focus is spent on issues that are not critical to the overall viability and survival of the Port and wondering what is going to slip through the cracks, when will we lose a major customer, or fail to seize a significant opportunity because of misplaced or misdirected priorities.

This is not about tenants versus cruise lines, as some would suggest in their own interest – it is about realizing the potential of this Port so that all will prosper.

Here are some things to consider:

1. In 2003, before I arrived, the Commission passed an Ethics Policy by resolution very specifically to keep Commissioners from directing and influencing staff in the day-to-day operations of the Port. It was a problem in 2003 and before, and has remained a problem since.

This is a policy that needs to be strengthened, because if not, your next scandal may not stop at the Commission level but entangle the staff. If you want a glimpse at what that looks like, I suggest you consider the federal investigation that consumed JaxPort a few years ago. That scandal should have been warning enough.

2. The Port, perhaps by statute, or at least by resolution, should better define its constituency, which in the minds of the staff, are the citizens of the entire Port District. And to the extent that there is an overlap between a being a constituent and a port user/customer/tenant, as frequently happens, the integrity of the business relationship should prevail absent extraordinary circumstances.
3. I certainly am not an advocate of campaign contributions influencing arms-length commercial negotiations and transactions as has happened here in Port Canaveral. But because of the themes reflected in the June 12, 2009 edition of the Orlando Business Journal, coupled with the publically surrounding current FDLE Investigation, I assume there will be intense public interest and scrutiny during this election campaign as a check-and-balance.

One thing must be clear in this political environment – security must not be compromised, as it could have been a few years ago when access to our Facility Security Plan, a very sensitive document, was published in Florida Today.

4. I wrote a dozen more pages for this speech. None of those thoughts seem to matter much until the issues mentioned above are dealt with firmly and resolutely.

One thing does stand out:

We do need to freshen our focus –

- We need master and strategic plans for the Port – there are tough decisions that are going to have to be made in the future. We need a map to guide us.
- We need an organizational plan to make sure we have the foundation in place to succeed.

With this caveat – such plans have little value if not fully embraced and supported by staff and Commission alike, supported on their technical merits.

Port Canaveral has the potential to be a model for this industry. We need to be strong, we need to grow, for the sake of jobs and economic well-being for the people of this community – truly, our rising tide will help lift all boats.

But the issues raised today – of relationships, of constituencies, are not going away. I have thought about my dear friend Rodney Ketcham, often as I have watched the Port grow despite continuing controversy. I know he would simply smile and say “Stan, my friend, stay the course”.

Now let’s end on a positive note:

First, we have many unsung heroes. Today, in recognition of all our employees outside of the Maritime Center, we salute our terminal support staff that keep our terminals “world class” clean. We have a tribute to them outside.

Next, it has been my personal dream to capture pieces of the history of Port Canaveral for posterity, for the museum we have talked about a bit today. And so I pressed on, to capture the images, and thoughts, and memories of forty-two years worth of Port Canaveral’s leadership. And we finally accomplished this last month with a taped interview and a photo session. Glen Cheek passed away a few short weeks after that, and I know he would have been so pleased by this. God bless Glen Cheek.

Next, remember the 60 port-of-call figure I mentioned a moment ago. Today it is my pleasure to announce that this year, 2010, we expect a record year for port-of-calls with 102 ship visits carrying an estimated 242,000 passengers. But, I’ll go one step further – in 2011, we have 126 committed ship visits, bringing in an estimated 310,000 potential visitors.

And one last announcement, on March 30, 2011, Port Canaveral will proudly have an audience with the Queen – the Queen Victoria, that is, of Cunard Cruise Line.

Thank you for coming.

Media Contact: Rosalind Harvey, 321/783-7831, ext. 242 (o) 321/403-7245 (mobile)