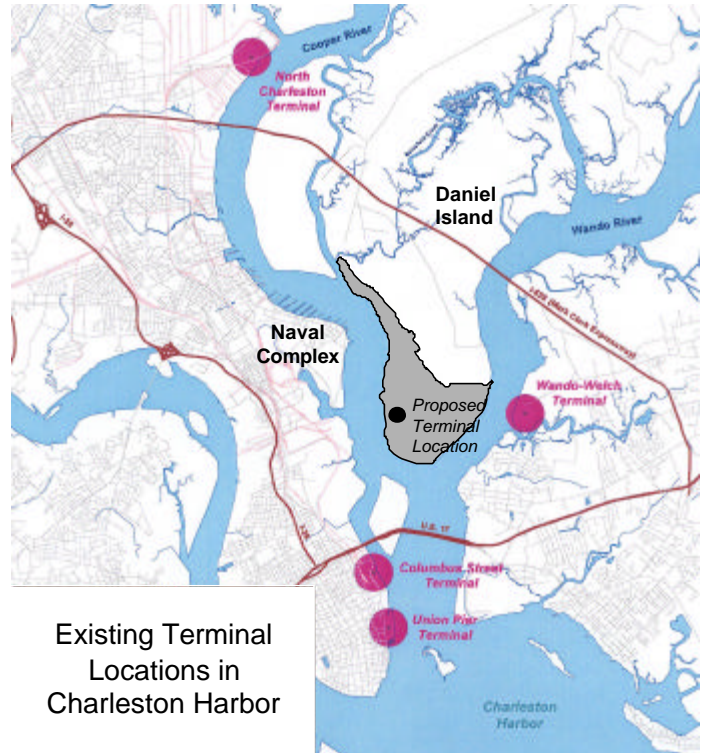


Issues Involved in the State Ports Authority's Expansion Plans

The South Carolina State Ports Authority (SPA) has been planning to build a new marine cargo terminal complex on a 1,300-acre, undeveloped piece of land it owns on Daniel Island. The full scope of the plans for the \$1.2 billion terminal, called the "Global Gateway," was unveiled in a draft environmental impact statement published in September 1999. Almost immediately the plan was opposed by environmental and citizen groups and local governments in the Charleston area.

In June 2000, the General Assembly passed a provision requiring the authority to obtain legislative approval prior to constructing a terminal or railroad on Daniel Island. In February 2001, the SPA announced it was withdrawing the permit for the Global Gateway and was planning a scaled-down terminal on Daniel Island.

Members of the General Assembly asked us to conduct a performance audit of the authority. Using available information, we reviewed the major issues involved in the proposed expansion on Daniel Island. Our purpose was to clarify the information needed by the General Assembly so that it can make an informed decision when the SPA requests permission to build a terminal on Daniel Island.



Existing Terminal Locations in Charleston Harbor

Shaded area represents land owned by the State Ports Authority.
Source: Draft Environmental Impact Statement.

ECONOMIC IMPACT OF THE PORT

The economic impact of the port is measured in terms of jobs, revenues, and taxes. The SPA has stated that port activities generated 83,085 jobs for the state's economy. However, we concluded that only 5,326 port industry jobs are directly generated by the port. These are jobs in the maritime industry, such as stevedores, truckers, and brokers, essential to handling and transporting cargo.

□ Port-related employment also includes 31,815 jobs created by manufacturers and other businesses (port users) which ship goods through the port. The SPA does not generate these jobs but rather helps firms which import or export by creating the port infrastructure. More than half of the total jobs attributed to the port are indirect, based on a multiplier effect that measures the impact on the local economy when a person directly employed at the port spends his wages.

THE ISSUE THAT WILL COME BEFORE THE GENERAL ASSEMBLY IS WHETHER TO GRANT THE SPA PERMISSION TO BUILD A NEW TERMINAL AND RAILROAD ON DANIEL ISLAND. IT MAY BE DIFFICULT FOR THE GENERAL ASSEMBLY TO MAKE AN INFORMED DECISION UNTIL THE SPA REPORTS MORE FULLY ON CRITICAL ISSUES, INCLUDING:

- THE IMPACT OF PORT TRAFFIC.
- WETLANDS MITIGATION.
- POTENTIAL COST, SOURCE OF FUNDING, AND ULTIMATE SIZE OF A TERMINAL ON DANIEL ISLAND.
- STEPS THE SPA IS TAKING TO ADDRESS THE STORAGE OF EMPTY CONTAINERS.

JOBS ATTRIBUTED TO SPA	83,085
Direct Port Industry Jobs (Maritime Industry)	5,326
Import and Export Jobs (Port Users)	31,815
Indirect Jobs Based on Multiplier Effect	45,944

□ Implementation of the SPA's terminal expansion plans is projected to increase port-related jobs to 101,784 by 2017, with an average of 91,784 sustained jobs. This job growth is projected to occur almost entirely in the direct port industry jobs and the indirect "spin-off" jobs, not in manufacturing jobs. The draft environmental impact statement projected that, without a new terminal, total direct and indirect employment attributed to the port would be 90,558.

S.C.'S SHARE OF THE CARGO SHIPPED THROUGH THE PORT

The SPA has stated that state businesses would lose revenues if the SPA was unable to implement its terminal development strategy. Statistics from an import/export data service used by the SPA show that approximately 32% of the cargo in the port of Charleston was destined for or originated from a South Carolina business.

It is extremely difficult to quantify economic impact on S.C. businesses should the SPA be unable to build a terminal on Daniel Island. Charleston is a regional port that serves businesses in neighboring states, as well as South Carolina. It is no longer necessary for a business to be located close to a port in order to reduce shipping costs.

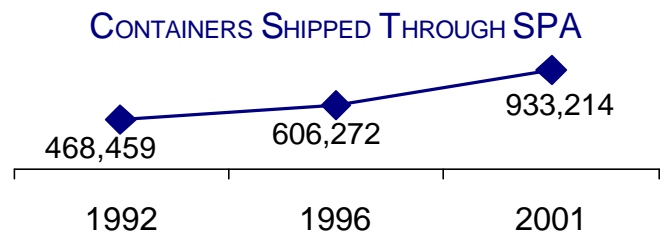
SPA officials fear the loss of a major containership contract to the port of Savannah, their closest competitor, if expansion plans for Daniel Island are not realized. However, the SPA cannot document that containership lines which have relocated services to Savannah did so because of uncertainty about the SPA's ability to expand.

ENVIRONMENTAL AND COST ISSUES

One audit objective was to review the draft environmental impact statement (DEIS) regarding impacts of the proposed Global Gateway project on Daniel Island. The SPA initiated the DEIS process by applying to the U.S. Army Corps of Engineers for a federal permit to develop the new terminal. The permitting process allows the public and state agencies to comment on the DEIS. The SPA hired and paid for engineering firms to conduct the required environmental and other studies.

GROWTH PROJECTIONS FOR CONTAINER VOLUME

The SPA's 1998 business projections showed a 5.8% annual growth in the numbers of containers shipped through Charleston. We found no evidence that contradicts this projection. Similar rates of growth are projected across different trade routes and for different ports.



- One measure of port asset utilization is throughput or the number of containers per acre of storage space; containers are expressed as "TEUs," meaning "twenty foot equivalent units." The SPA has increased average throughput from 2,817 TEUs per acre in 1997 to 3,731 TEUs per acre in 2001.
- The SPA is trying to improve efficiency at existing terminals through its \$320 million capital improvement plan, but port officials say this will only serve to maximize capacity up to the limits projected in its 1998 business plan.
- Also, the SPA could improve its use of terminal space by better management of empty containers. The SPA has not enforced contract provisions regarding the length of time empty containers remain in the common user areas of the terminal yard.
- Projections are that the increase in global container trade will create enough demand so that both the Charleston and Savannah ports will be operating at full capacity within the next few years.

The Corps of Engineers does not conduct an independent review of the work. Therefore, the comments of state agencies are critical in assessing which issues require further investigation.

The DEIS contained a discussion of potential environmental consequences, including traffic, railways, dredging, air quality, water quality, and wetlands. Because the SPA terminated the permit application, several issues were never resolved.

TRAFFIC

The amount of increased traffic generated by a new terminal is still unknown. The S.C. Department of Transportation has commented that “...the proposed cargo terminal is a massive undertaking and will have major impacts on existing highway infrastructure with or without natural and planned development in the area.”

COST AND TERMINAL FINANCING

The SPA has not yet fully reported the potential costs of a new terminal on Daniel Island. Costs for the first phase could be more than \$500 million for a 200-acre terminal, in addition to costs for the railroad, mitigation of wetlands, and highway improvements. Financing for a new terminal has not been established. It may not be feasible to attract private sources of capital, SPA’s own revenues are inadequate, and the possibility of state general obligation bond financing seems remote.

WETLANDS

The impact of the scaled-down terminal on both freshwater and saltwater wetlands is unknown. The DEIS indicated the Global Gateway project would have impacted 67 acres of saltwater wetlands and 127 acres of freshwater wetlands. This could increase by 24% the amount of saltwater wetlands impacted in the entire state from 1990–2000.

DREDGING AND AIR AND WATER QUALITY

Current information is inadequate to assess the impact of port expansion on water quality in the vicinity of Daniel Island. Regarding air quality, Charleston County is currently not identified as an area of concern. However, if the impact of increased traffic was underestimated, the impact on air quality may also be underestimated. Finally, the issue of potential toxicity of dredge material is still unresolved.

“WE CONTEND THAT THE DEIS DOCUMENT DOES NOT CONTAIN SUFFICIENT JUSTIFICATION FOR SELECTION OF THE PROPOSED PROJECT (DANIEL ISLAND) AS THE LEAST DAMAGING ALTERNATIVE FROM EITHER A NATURAL RESOURCE OR SOCIAL PERSPECTIVE.” (WRITTEN COMMENTS OF S.C. DEPARTMENT OF NATURAL

ALTERNATIVE TERMINAL SITES

Prior to 1992, the SPA actively considered other sites in the Charleston area for the new container terminal. However, further study of other sites, except for the former Navy Base, was not seriously pursued after the land on Daniel Island was purchased in 1992. Alternatives such as the Naval Complex and the Jasper County Savannah River site were measured by different standards than those used by the authority to choose Daniel Island as the “best” site. We concluded that a plan to locate a terminal on the Savannah River in Jasper County does present a realistic alternative to Daniel Island.

COMPARISON OF JASPER COUNTY AND DANIEL ISLAND SITES

CRITERIA	SAVANNAH RIVER IN JASPER COUNTY	DANIEL ISLAND IN CHARLESTON HARBOR
Availability	Not currently available; owned by Georgia and under litigation	Available; owned by SPA
Size of Property	1,776 acres	1,300 acres
Navigational Access	7 miles to sea	8 miles to sea
Soil Conditions/ Construction Requirements	Sandy soil conditions	Soil quality poor; would require landfill and stabilization before building could occur
Need for Highway & Rail	Current 2-lane road to existing highway system needs to be widened; 10 miles from abandoned railway spur that connects to CSX railroad	New access road of 2.4 miles needed to connect to existing interstate; 13-mile railway needed to connect to existing system
Environmental Impact	Unknown at this time	Potential impacts to 67 acres of saltwater wetlands and water quality
Traffic Impact	No severe impact projected; area is rural	Area is urban; traffic already congested and severe impact projected
Funding for Terminal	Private sources	Unknown; possibly a mix of public and private funding
Economic Impact	Creation of jobs, sales revenues, and shipping opportunities for S.C. businesses	Creation of jobs, sales revenues, and shipping opportunities for S.C. businesses

ACCOUNTABILITY AND PERFORMANCE MEASURES

We reviewed the extent to which the State Ports Authority is accountable to the General Assembly and the public. The Freedom of Information Act (FOIA) is a critical accountability tool because the SPA is making decisions that affect public policy and have local and statewide impacts lasting 20 years or more. We examined all FOIA requests received by the SPA from November 1999 through October 2001. Although the SPA responded to all requests received, FOIA requesters were billed for government information in the amounts of \$2,545, \$2,621, \$3,594, and \$7,389. Even if the SPA does not collect these amounts, the size of the bill might discourage FOIA requesters.

The authority is self-funding through fees and charges assessed on those who use the port and its related services, and does not receive an appropriation from the General Assembly. However, the authority receives state funds for the non-federal share of dredging costs.

The SPA provides annual financial reports to the General Assembly but does not otherwise specifically report to the General Assembly.

We compared the SPA with other East Coast ports on several performance measures (see tables below).

CONTAINER TRAFFIC IN TEUS						
	1995	1996	1997	1998	1999	PERCENT INCREASE
PORT AUTHORITY OF NY / NJ	2,262,792	2,269,500	2,456,886	2,466,013	2,828,878	25%
SC STATE PORTS AUTHORITY	1,023,903	1,078,590	1,217,544	1,277,514	1,482,995	45%
VA PORT AUTHORITY (HAMPTON ROADS)	1,077,846	1,141,357	1,232,725	1,251,891	1,306,537	21%
GA PORTS AUTHORITY (SAVANNAH)	626,151	650,253	734,724	730,611	793,165	27%
PORT OF MIAMI, FL	656,175	656,798	761,183	813,761	777,821	19%
JACKSONVILLE, FL PORT AUTHORITY	529,547	613,448	675,196	753,823	771,882	46%
PORT EVERGLADES, FL	632,789	701,281	719,685	704,390	715,585	13%
NC STATE PORTS AUTHORITY (WILMINGTON)	104,038	103,579	105,786	112,940	133,926	29%

2000 PROFITABILITY STATISTICS OF PORTS			
	OPERATING REVENUE	NET INCOME	NET PROFIT RATIO
	(IN THOUSANDS)		
SC STATE PORTS AUTHORITY	\$97,504	\$20,834	21.4%
VA PORT AUTHORITY (HAMPTON ROADS)	129,312	(11,615)	-9.0%
JACKSONVILLE, FL PORT AUTHORITY	26,502	(7,954)	-30.0%
PORT AUTHORITY OF NY / NJ	114,290	(6,062)	-5.3%
PORT OF MIAMI, FL	72,539	2,713	3.7%
PORT EVERGLADES, FL	74,332	33,701	45.3%
GA PORTS AUTHORITY (SAVANNAH)	88,270	1,071	1.2%
NC STATE PORTS AUTHORITY (WILMINGTON)	25,870	(1,933)	-7.5%



This document summarizes our full report, *Issues Involved in the State Ports Authority's Expansion Plans*. A response from the SPA is included in the full report. All LAC audits are free of charge. Audit reports and information about the LAC are also published on the Internet at www.state.sc.us/sclac. If you have questions, contact George L. Schroeder, Director.