

**REVIEW AND OVERSIGHT COMMISSION
ON THE SOUTH CAROLINA PORTS AUTHORITY**

2018 BIENNIAL OVERSIGHT REVIEW

October 2018

Act 73 of 2009 established the Review and Oversight Commission on the South Carolina State Ports Authority (SCPA). Article 13, Chapter 3, Title 54 of the South Carolina Code vests with the Commission the duty to screen appointees to the SCPA Board of Directors and to conduct biennial oversight reviews of the SCPA and its operations.

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

1. Consider whether the SCPA 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 SCPA's Executive Director.
3. Evaluate the performance of the SCPA Board of Directors and each of its members.

On September 14, 2017, the Commission notified Mrs. Pamela Lackey, then-Chairwoman of the SCPA Board of Directors, and Mr. Jim Newsome, Executive Director of the SCPA, that it was beginning the biennial oversight review process. In that letter, the Commission requested that the SCPA provide information on a wide range of topics related to the SCPA's operations and information related to Board members. The SCPA timely responded to the request for information.

The Commission also desired an update concerning the progress of the proposed Jasper Ocean Terminal project. On September 6, 2018, Ms. Barbara Melvin, SVP of Operations and Terminals of the SCPA, and Mr. Jamie McCurry, Chief Administrative Officer of the Georgia Ports Authority (GPA), were asked to brief the Commission about the project during the Commission's upcoming public oversight hearing. Ms. Melvin and Mr. McCurry serve as liaisons to the bi-state Jasper Ocean Terminal Joint Project Office Board.

On October 10, 2018, a public oversight hearing was held by the Commission in Room 207 of the Gressette Building in Columbia concerning the SCPA and its operations. Port officials briefed the Commission on a wide range of topics related to the SCPA's operations and provided an update on the Jasper Ocean Terminal Joint Venture.¹

In addition, various stakeholders, including the Maritime Association of South Carolina, the Propeller Club of Charleston, and the South Carolina Trucking Association, were advised of the hearing and invited to provide the Commission, in person or in writing, with any questions, comments, or concerns regarding port activities that these organizations believed to be in the public interest. The Honorable John Tecklenburg, Mayor of the City of Charleston; the Honorable R. Keith Summey, Mayor of the City of North Charleston; and the Honorable Will Haynie, Mayor of

¹Prior to the hearing, Mr. McCurry with the GPA advised the Commission that he would not present information to the Commission and would instead defer to the SCPA.

the Town of Mount Pleasant were also notified of the meeting and invited to comment. None of the stakeholders provided information to the Commission.

Commission staff has reviewed the information submitted by the SCPA. Unless otherwise indicated in this document, this document represents staff analysis of the submitted information. Once approved by the Commission, a final report will be published in the journals of both houses and made available on the General Assembly's website and transmitted to the Governor and the SCPA Board of Directors.

SECTION 1.

REVIEW OF THE SCPA AND ITS OPERATIONS

Facilities Profile

The SCPA owns and operates eight facilities around the State and owns one facility under construction:

- *Port of Georgetown:*

The Port of Georgetown's authorized depth is 27 feet. The Office of Management and Budget requires one million tons of cargo to move through the port to qualify for maintenance dredging. Over time, volumes have declined significantly under the one million ton mark, so the channel has not been maintained. A significant portion of this cargo loss can be attributed to previous inactivity at the Georgetown Steel Mill, which had used the port. The US Army Corps of Engineers' estimated costs to restore the channel to 27 feet have increased significantly from previous estimates.

Due to these draft restrictions, the Port of Georgetown is utilized on a limited basis. Currently, it is used for container transloading of agricultural products, a bulk millscale operation, and rail transloading.

- *Inland Port Greer and Inland Port Dillon:*

These facilities provide overnight intermodal rail service to and from the Port of Charleston and expand the SCPA's hinterland.

The Inland Port Greer opened in November 2013. It is located along the Interstate 85 corridor between Charlotte and Atlanta. In FY2014, there were roughly 19,500 rail moves. By comparison, in FY2017, there were roughly 121,700 rail moves. Rail moves are down approximately 3% in 2018 with 117,812 moves.

The Inland Port Dillon opened in April 2018. The facility is located within an existing industrial park near the intersection of two CSX rail lines and Interstate 95. The SCPA anticipates year one volume to be 25,000 international containers and 10,000 domestic

containers. Phase 1 has an initial capacity of 45,000 containers with the ability to build additional phases as needed. Partners on the project include Dillon County, the Dillon County Economic Development Partnership, the City of Dillon, North Eastern Strategic Alliance, SC Department of Transportation, Duke Energy, Marlboro Electrical Cooperative, and CSX.

- *Port of Charleston:*

Charleston Harbor

Charleston Harbor currently has 47 feet of water in the entrance channel and 45 feet of water in the interior channel at mean low water (MLW). All terminals are within two hours of open ocean. Current channel depths and widths, transit times, and lack of congestion provide easy access to and from port facilities. The SCPA received its US 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. The Port of Charleston is also a national defense asset designated as a "Strategic Seaport."

Wando Welch Terminal

The Wando Welch Terminal is a container terminal and has agricultural transloading capabilities. The Wando Terminal is the SCPA's largest facility and is located in Mount Pleasant. Ships must pass under the Ravenel Bridge to access the terminal. Currently, there are no air draft restriction concerns to accommodate next generation ships calling on the Wando Welch Terminal.

North Charleston Terminal

The North Charleston Terminal is a container terminal located on the Cooper River. Ships must pass under both the Ravenel and Don Holt Bridges to access the facility. While the Ravenel Bridge is not a concern, there are air draft restriction concerns for the Don Holt Bridge.

Columbus Street Terminal

The Columbus Street Terminal mostly handles roll-on/roll-off, project, and break bulk cargo. Most of the SCPA's automotive exports are moved through this facility. The Inland Port Greer is able to send exports directly to this terminal via rail.

Union Pier Terminal

The Union Pier Terminal handles cruise and break bulk cargo. The Carnival Ecstasy ship is home-ported here. In CY2016, there were a total of 215,498 cruise passengers. In FY2017, cruise operations accounted for 4.6% of the SCPA's operating revenue and 9.8% of the SCPA's operating earnings. The SCPA continues to operate its cruise business under a voluntary agreement with the City of Charleston to limit activity to one ship at a time,

limit annual ship numbers and sizes, and provide continuous air monitoring at Union Pier. Monitoring shows no health concerns at this time. The SCPA plans to renovate and build a new cruise terminal, but legal and permitting challenges remain.

Veterans Terminal

The Veterans Terminal handles bulk and break bulk cargo. It is located on the Cooper River in North Charleston.

Hugh K. Leatherman, Sr. Terminal

The Leatherman Terminal is being developed as a container terminal and is currently under construction on a portion of the former Charleston Naval Base. The facility is designed to accommodate post-Panamax-sized container vessels and will be constructed in phases on a demand-driven basis. Phase 1 is expected to be completed in 2021. Ships will pass under the Ravenel Bridge to access the terminal. Currently, there are no air draft restriction concerns to accommodate next generation ships calling on the Leatherman Terminal.

Economic Impact

As referenced in the 2016 Biennial Oversight Report, the SCPA partnered with the University of South Carolina's Darla Moore School of Business in 2015 to study the economic impact of South Carolina's seaports on the State as a whole and on local regions within the State. The total economic impact resulting from all activities associated with the SCPA on the State is estimated to be \$53 billion annually, corresponding to 187,206 jobs and over \$10.2 billion in labor income for South Carolinians. The \$53 billion in annual economic output represents approximately 9.3% of South Carolina's total annual gross state product.

Cargo Volume

Total cargo volume is measured in two components: (1) container volume and (2) break bulk volume. The Port of Charleston handles both container and break bulk cargo. Since falling to its lowest point in volume in FY2010, the SCPA has steadily regained market share, implementing a cargo diversification plan, which is proving to be successful, in order to grow business. The Port of Charleston remains a top ten US port by container volume. Of the top ten, it has had the largest percentage of growth from 2009 to 2017, at 8%.

Container Volume:

- A record 1.25 million pier containers in FY2018, up 4%
- 2.2 million TEU in FY2018
- FY2018 recorded three highest volume months in SCPA history
- 1 million TEU increase compared to FY2009 (8% CAGR)

Break Bulk Volume:

- Pier tons at the Port of Charleston fell from 851,662 in FY2017 to 760,501 in FY2018. Since FY2013, overall pier tons at the Port of Charleston are down by 8%. Pier tons at the Port of Georgetown fell from 7,466 in FY2017 to 0 in FY2018. Since FY2013, Georgetown pier tons are down 100%.
- Commercial focus on growing automotive and ro-ro cargo.
- Exports include BMW sport-utility vehicles and Daimler AG's Mercedes-Benz vans.

Import/Export Balance:

- Top imports include vehicles, textiles, and machine parts.
- Top exports include paper and paperboard; logs, lumber, and wood pulp; food and agriculture products; and vehicles.
- A level amount of imports and exports improves a ship's economics, thereby decreasing fixed costs. Relatively balanced trade makes Charleston a cost-effective port for customers.
- In FY2018, loaded pier containers included 36% export and 44% import. Empty containers were 17% export and 3% import.

Capital Projects

Port of Georgetown

The SCPA operates parts of the Georgetown property on a limited basis. The extreme limitation on channel depth is a significant problem for maintaining maritime operations. Three companies use landside port facilities in Georgetown to facilitate cargo transport via truck and rail. The SCPA does not believe that the Port of Georgetown is economically feasible and is working with Georgetown officials on a redevelopment plan.²

Inland Port Greer

The SCPA is in the process of making various repairs and improvements to the inland port terminal. These include repairs to overstressed pavement areas throughout the terminal, which are projected to cost roughly \$2.25 million and should be completed by the end of winter 2018/2019. Additionally, the SCPA is in the bid stage to award contracts to construct a chassis yard outside of the existing terminal gates and complete site preparation for a yard expansion. These will be demand-driven projects. The estimated cost is \$3.5 million. The SCPA plans to construct a new maintenance building and to demolish houses on port property. This is projected to cost \$1.2 million and is scheduled to be completed in FY2019. All costs associated with these improvements are funded by the SCPA.

²While a third-party plan to redevelop the waterfront was approved by Georgetown officials, the SCPA advises that “the redevelopment plan was put on hold in 2017 due to the pending sale of the [adjacent] steel mill. Regardless of the steel mill’s future, the Port of Georgetown is not economically feasible. SCPA will continue to proactively work with the community on the eventual redevelopment of the property.” (Source: Review and Oversight Commission 2017 Biennial Report and September 2018 Presentation submitted by the SCPA)

The Inland Port Greer also needs to add two rail tracks for storage and one rail track for processing. This will cost approximately \$3 million and will be funded by the SCPA. The SCPA has applied for a federal BUILD Grant to contribute to the cost.

Port of Charleston

Harbor Deepening

Both the Suez and Panama Canal have recently undergone expansion projects that have greatly increased capacity and allowed for larger ships and decreased transit times. As the trend toward larger vessels and associated economies of scale continues, the SCPA reports:

- The average capacity of ships calling on Charleston has grown by a factor of more than one-third, from 6,850 TEU in 2016 to 9,180 TEU in 2018.
- Charleston handled its first 13,000 TEU ship in 2017. Six weekly Panama services call on South Carolina using vessels that were previously too large for the Panama Canal. This includes two in excess of 13,000 TEU.
- A successful simulation of a 19,000 TEU has been conducted in the Charleston Harbor.

Additionally, the Bayonne Bridge, which spans the channel serving the Port of New York/New Jersey, was raised in the summer of 2017. Ships carrying up to 14,000 TEU routinely pass under the bridge, making it more common for larger TEU ships to call on the East Coast.

While Charleston has one of the deepest channels in the South Atlantic at 45 feet, with time and tide windows of up to 48 feet, the US Army Corps of Engineers and the SCPA are working to widen and deepen the Charleston Harbor in order to accommodate industry growth and the trend toward increasingly larger ships, such as post-Panamax sized vessels. According to the Corps, the work, started in the summer of 2017, will:

- Deepen the existing entrance channel from 47 feet to 54 feet MLW and extend it three miles seaward.
- Deepen the inner harbor “from 45 feet to 52 feet from the Entrance Channel to the confluence of the Wando and Cooper Rivers, about two miles up the Wando River to the Wando Welch container facility and about three miles up to the Cooper River to the New Navy Base [Leatherman] Terminal.”
- Provide a depth of 48 feet over five miles from the Leatherman Terminal to the North Charleston Terminal.
- Enlarge turning basins at the Wando Welch, Leatherman, and North Charleston terminals.

As of the date of this report, the total cost of the project is an estimated \$558 million. In 2012, the SC General Assembly set aside \$300 million for the project. Initially, this money was intended to cover the total estimated state share and serve as a loan for the federal share so that the project would not be slowed due to federal appropriations issues. The federal amount was expected to be reimbursed to the State as federal monies were appropriated. Construction costs have since increased. The estimated state share is now over \$300 million. In 2018, the State included a contingency loan of up to \$50 million to be used in the case of inadequate federal funding. As of

September 2018, the federal government has appropriated \$66.5 million for construction, which is estimated to take three years.

The SCPA is working with the State's Congressional Delegation to secure additional federal funding. The SCPA believes that the project will qualify for federal reimbursement and will seek reimbursement when appropriate. The next construction funding opportunity is the FY2019 US Army Corps Work Plan, scheduled to be released at the end of 2018.

Wando Welch Terminal

Since the 2016 Biennial Report, significant improvements have been made to the Wando Welch Terminal. Structural renovation of the previous wharf was necessary to accommodate larger vessels and taller ship-to-shore cranes. SCPA capital funds provided for the nearly \$50 million cost for wharf improvements. These are now complete, and all three berths are operational.

Additional improvements are ongoing, including retrofitting existing ship-to-shore cranes or purchasing new cranes in order to service neo-Panamax vessels. Changes to traffic flow patterns and the chassis yard will improve safety and maximize throughput. Work is also planned to install a sub-aqueous steel toe wall in front of the Wando wharf to accommodate harbor deepening.

The SCPA also plans to make improvements to the container yard to maximize efficiencies. First, a phased reconfiguration of the container storage yard will improve functionality and significantly increase container storage capacity. This reconfiguration, combined with the additional capacity of the Leatherman Terminal at full build-out, has the potential to expand Charleston's total capacity from an originally estimated 4.2 million TEU to 5.2 million TEU. Second, the SCPA is in the early stages of developing a barge operation to move containers between the Wando and Leatherman Terminal to areas closer to rail yards. Application has been made to the US Maritime Administration for an American Marine Highway designation to make the program eligible for federal funding. Finally, the SCPA will make improvements to traffic flow and install a new 35-acre chassis yard.

North Charleston Terminal

Structural renovations will be made to the existing wharf for new ship-to-shore cranes on an as-needed basis. These renovations will be paid for by SCPA capital funds.

Columbus Street Terminal

Last year, the SCPA spent roughly \$15 million to improve 50 acres of cargo storage area. This included raising the surface elevation and installing new asphalt pavement.

Union Pier Terminal

The existing cruise terminal at Union Pier opened in 1973. The SCPA has plans to renovate Union Pier and build a new cruise terminal there; however, legal and permitting challenges continue. In

the meantime, the SCPA plans to make interior improvements to the cruise terminal building. These improvements are projected to cost \$1.2 million and should be completed by spring 2019.

Hugh K. Leatherman, Sr. Terminal

The SCPA 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. Construction is under way and will be developed in phases on a demand-driven basis.

- Phase 1:
 - Approximately 60% of total project costs (\$720 - \$760 million). These costs include site development and potential access road shortfall.
 - 1,400 continuous feet of berth space.
 - 140 improved acres.
 - Estimated completion: March 2021.
 - Cost-to-date: \$342 million.
- Phases 2 and 3 are projected to cost \$213.57 million and \$322.03 million, respectively. Current projections are that phases 2 and 3, if and when needed, will be completed in 2026 and 2032.
- The SCPA has included in its CAPEX plan the total costs to fund Phase 1 of the Leatherman Terminal.

Leatherman Terminal Port Access Road

This is a new interchange with Interstate 26 to provide direct access between the Leatherman Terminal and Interstate 26. The cost-to-date is \$161 million, with a projected total of \$332 million. This project is funded by the State of South Carolina and federal grant funds. The SCPA is responsible for any shortfall. The SCPA estimates its share to be \$112 million. The estimated state share is \$220 million. Ground improvement, foundation, and substructure work is ongoing. Construction is expected to be completed in September 2020.

Concord Street Headquarters Sale and Headquarters Relocation

The 6.5-acre property includes both 176 Concord Street and 186 Concord Street. The \$38 million sale to Lowe Enterprises closed in January 2017, and the SCPA is leasing the building from Lowe until its new headquarters building is completed. A new, larger headquarters is being built at the Wando Welch Terminal in Mount Pleasant. The larger corporate office was expected to cost approximately \$40 million and should be ready for move-in by January 2019. In July, the SCPA Board of Directors allowed expenses of \$44.5 million for the project.

Business Development

The SCPA has a business development plan that identifies three areas upon which to focus its efforts: deploying a regional sales force to recruit cargo that is inland-favorable to the SCPA, recruiting and routing discretionary cargo through SCPA facilities, and developing a larger cargo base.

An example of inland-favorable cargo is the State's agri-business that would typically go through the domestic market. The SCPA works with companies to stuff containers with South Carolina-grown logs and grain and export from the Port of Charleston.

Discretionary cargo originates inland and can be transported to various ports via rail or truck. The SCPA's increased use of rail has allowed it to recruit cargo that would have gone to another port. Intermodal rail shipments increased 170% since 2011, due in large part to the Inland Port Greer and the RapidRail dray service. Bulk transload operations, which involve shifting products such as plastic resin and agricultural goods from rail to container for export, have also increased significantly.

Finally, by expanding the freight base, the SCPA is able to capitalize on new manufacturing and distribution facilities to increase long-term job growth and port volume. The SCPA works actively with state, regional, and local economic developers to land projects across the State.

Financial Position

See <http://www.scsipa.com/wp-content/uploads/scpa-annual-report-fy2017.pdf> for the SCPA's most recent annual report. The SCPA is approaching \$85 million in operating cash flow. It has a \$180 million capital expenditures plan for the purpose of making heavy investments to modernize infrastructure and maximize capacity. Both S&P's Ratings Direct report³ and Moody's Investors Service Credit Opinion⁴ have reaffirmed the SCPA's bond ratings.

Outstanding Litigation

Preservation Society of Charleston v. SC Ports Authority (SC Supreme Court)

³"S&P Global Ratings assigned its 'A+' long-term rating to the South Carolina State Port Authority's \$293 million series 2018 revenue bonds. At the same time, we affirmed our 'A+' long-term rating on the port's outstanding revenue bonds. The outlook is stable. The ratings reflect our opinion of the port's very strong enterprise risk profile and strong financial risk profile. The very strong enterprise risk profile reflects the port's strong market position, which is bolstered by the Port of Charleston's competitive position and its importance to the regional economy as an import/export hub for manufacturers and other businesses in South Carolina and neighboring states. This is partly offset by our view that the port authority is exposed to volatility in activity levels related to fluctuations in economic conditions and international trade.

"The strong financial risk profile reflects SCSPA's debt service coverage (DSC) metrics, which we expect will consistently fall within a range we consider to be strong as the authority's debt burden rises according to the funding plan for a large, demand-driven capital improvement plan (CIP). Similarly, although we expect SCPSA's debt burden will rise substantially from current levels, we expect revenue growth will mitigate the rising debt burden, enabling the authority to maintain what we view as very strong debt and liabilities capacity." May 11, 2018

⁴"The credit profile (senior revenue bonds A1 stable) reflects the authority's strong cargo volumes, benefiting from favorable demographic and industrial trends in the South Carolina and Southeast economies; the authority's competitive infrastructure and operating model, which supports high productivity and low port charges; the high degree of volume risk in the authority's operating model and customer contracts; strong historical financial metrics but growing financial leverage and reduced financial flexibility as the authority implements a large capital program to enhance its competitive position in the Southeast port market; and the significant capital, economic development and planning support provided by the State of South Carolina (Aaa stable)." May 17, 2018

The Preservation Society of Charleston and various groups challenged the DHEC permit issued for certain work necessary to improve the cruise terminal at Union Pier. The Administrative Law Court granted summary judgment in favor of the SCPA and dismissed the challenge in April 2014, following the SC Supreme Court’s decision in *Carnival Corporation v. Historic Ansonborough Neighborhood Association*⁵ that these groups do not have standing in part because they do not have an “injury” distinct from the general public. The Court of Appeals affirmed the decision in October 2017.

The SC Supreme Court accepted a petition from the cruise opponents and will re-hear arguments.

SC Ports Authority v. S&ME, Inc. (Charleston County Circuit Court)

The SCPA filed an action against Moffatt & Nichol, Inc. and S&ME, Inc. over a failure to properly design a fill containment structure for the Leatherman Terminal. The SCPA resolved its claim against Moffatt & Nichol but continues to pursue its claim against S&ME. S&ME has filed a counterclaim because the SCPA refuses to allow it to provide SCPA professional services on SCPA projects.

The case is scheduled to be tried before a jury for a date to be set no sooner than December 1, 2018.

Property

Port Royal

The sale of Port Royal closed in September 2018 for just over \$9 million. The SCPA’s share of \$8.7 million will be used for capital plans including the Leatherman Terminal.

Daniel Island

The SCPA acquired a parcel from the City of Charleston to add dredge disposal capacity in 2017. The SCPA is developing a saltwater mitigation bank on a parcel, and another parcel has been leased to the SC Department of Parks, Recreation, and Tourism to be used as a public space. The SCPA plans to offer North Island for sale.

Jasper Ocean Terminal⁶

Property Overview

The proposed Jasper Ocean Terminal (JOT) includes the construction and operation of an eight berth marine container terminal on a roughly 1,500-acre site along the South Carolina side of the

⁵753 S.E.2d 846 (2014).

⁶The Jasper-specific report that the SCPA presented to the Commission is attached to this report as an addendum. The SCPA shared the report with GPA prior to the meeting but received no comment. Additional information about the project can be found at the Joint Venture’s website (<https://www.portjasper.com/>) and at the USACE’s project EIS website (<http://www.jasperoceanterminaleis.com/>).

Savannah River in Jasper County. At full build out, it will be the largest contiguous container terminal in North America and is projected to hold seven million TEU. It is a part of a larger tract of land owned by the Georgia Department of Transportation. The US Army Corps of Engineers has a perpetual easement on the proposed JOT site for dredge disposal material. The GPA currently operates the Garden City Terminal approximately eight miles up the river from the proposed site. The SCPA and GPA own the land jointly as cotenants in an undivided interest in the land.

Brief History

In the 1990s, the State of Georgia purchased land on the South Carolina side of the Savannah River from private landowners. Jasper County attempted to condemn the property so that it could lease it to a private company for construction of a marine terminal and a 40-acre business park. In 2003, the South Carolina Supreme Court ruled in *Georgia Department of Transportation v. Jasper County* [355 S.C. 631 (2003)] that the condemnation was unlawful because it was not for a public use. In October 2004, Jasper County Council voted to establish its own ports authority for the purpose of acquiring the JOT site.

In January 2005, the SCPA Board of Directors approved a resolution to undertake efforts to acquire the site and begin a condemnation action. In 2006, the South Carolina Supreme Court ruled in *South Carolina Ports Authority v. Jasper County* [368 S.C. 388 (2006)] that the SCPA has superior condemnation rights over the county but does not have the exclusive authority to develop a port or terminal on the Savannah River. The SCPA began condemnation proceedings against the Georgia DOT for the property; however, this action was abandoned after the Governors of South Carolina and Georgia agreed to the construction of a joint port. The Corps of Engineers agreed to release the easement on the site for the purposes of a joint project; however, the Commission is not aware of any documentation memorializing this agreement.

In 2007, the General Assembly passed Act 56 to conclude the condemnation action and to begin activities necessary to construct a joint port. This legislation also created the Savannah River Maritime Commission and the Jasper County Port Facility Infrastructure Fund. The Georgia DOT conveyed the property to the GPA and SCPA. In 2008, the Joint Project Office was created. In 2009, in Act 73, language was included to require the JOT to be developed expeditiously in accordance with the Intergovernmental Agreement between the GPA and SCPA. The legislation also includes a provision to transfer the property to Jasper County for the purpose of developing the port in the event that the parties do not meet their obligations to develop the property.

In 2015, the intergovernmental agreement was dissolved and replaced by a Joint Venture Agreement between the parties. In November 2015, the project was formally submitted to the USACE Charleston District to begin the regulatory review process in accordance with the National Environmental Protection Act. In the 2016 Biennial Report, the SCPA estimated a capacity need for the JOT to be sometime between 2030 to 2035. Roughly six months after that report, then-Governor Nikki Haley cited a 2013 Moffatt & Nichol report that said that capacity would be needed in 2025 and called for the project to be completed by 2023.

In July 2017, the Feasibility Study for Channel Modifications to the Savannah River began. The Joint Venture Office anticipates that regulatory review and permitting efforts will take approximately six years to complete.

Current Status

As of the date of this report, the SCPA predicts a capacity need for the JOT to be between 2035 and 2037. This prediction is based upon current global trade growth (at approximately 4%); projected trade growth, reaching 80 to 85% of total capacity in Charleston; and the premise of no economic recessions.

While the GPA was not represented at the October 10, 2018 ROCSPA meeting, it is reasonable to conclude that the GPA's capacity needs align with the SCPA's capacity needs, based upon the GPA's publicly announced capacity plans and assumptions that it has between eight to ten million TEU of capacity. In the meantime, the SCPA and the Joint Project Office have identified significant infrastructure work that must be completed in preparation for opening Phase 1 of the JOT.

Generally, South Carolina is responsible for state land infrastructure, but it is possible that Georgia can contribute to port-specific infrastructure. The SCPA is working to identify these projects. Infrastructure projects include further deepening and widening the channel, dual rail access on the terminal, and sufficient highway access.

Pre-permitting efforts began in 2017. Roughly \$17.6 million has been contributed to the project by both parties to-date. A large portion of the Joint Venture's FY2019 budget is allocated for a transportation study to establish existing conditions, determine current needs, and study the impact that the JOT will have on traffic to determine future needs.

Potential Legal Challenge

On October 1, 2018, the Jasper County Council unanimously voted to give Stephen Spitz of Stephens and Lee Law Firm permission to file suit against the SCPA over delays in permitting and construction of the JOT.⁷ As of the date of this report, the lawsuit has not yet been filed.

Quality of Life

The SCPA is engaged in many activities within and around its facilities to engage and educate the community about port activities and improve quality of life. These activities include:

- The Community Giving Program, which has provided \$103,000 in grants to 56 charitable organizations in 2017. It supports port-related maritime commerce; economic development; and environmental, educational, and community needs.
- The free community tour program, which enables the public to visit the SCPA's Wando Welch, Columbus Street, and Union Pier Terminal.
- A port-designed maritime education curriculum for fifth and sixth-grade students.

⁷ See <http://www.blufftontoday.com/news/20181006/jasper-county-council-plans-lawsuit-against-sc-ports-authority>

- A \$5 million land protection fund for the Cooper River Corridor.
- Funding to the Charleston Waterkeeper to support water quality monitoring in the Charleston Harbor.
- The restoration of 22 acres of salt marsh on the southern tip of Drum Island to improve water quality and provide wildlife habitat.
- Electrification, which has eliminated diesel emissions associated with agricultural transloads.
- Continuous air quality monitoring conducted at Wando Welch, with data available to the public via the SCPA website. The SCPA reports that its activity has not exceeded health standards.
- An MOU with SC DHEC, which commits to emissions reductions strategies.

Personnel

Management:

- James I. Newsome, President and CEO
- Paul G. McClintock, SVP, Marketing & Sales
- Barbara L. Melvin, SVP, Operations & Terminals
- Jordi Yarborough, SVP, External Affairs
- Robert R. Mozdean, SVP, Human Resources
- Stanley R. Van Ostran, SVP, Finance & Administration

The SCPA directly employs 623 people (Charleston-569; Inland Ports-53, Georgetown-1). This is an increase of 104 employees since FY2016. Maintenance and heavy equipment departments account for 60% of the SCPA's employees, and growth is primarily in these areas. Employment growth is expected to continue due to heavy volume as well as inland port growth.

The SCPA completed its Vision, Values, and Culture Transformation Initiative in June 2017. The SCPA has identified six values: safety first, adaptability, business-minded, customer focus, decisiveness, enthusiasm, and faith in each other. Leadership has presented values workshops to employees and provides a Vision & Value Workshop for new employees.

Labor

The SCPA remains an operating port, meaning it owns and maintains infrastructure, including a yard management system, and manages vessel, yard, and gate operations within SCPA facilities. SCPA employees operate major equipment, such as cranes and container handlers during vessel operations. Members of the ILA perform stevedoring vessel functions to move cargo between the vessel and the yard using a yard tractor. The SCPA manages gate operations and outsources gate labor to Charleston Gate, LLC. This company employs ILA workers.

The SCPA reports that labor relations are stable. A six-year master contract deal between the ILA and stevedores was tentatively agreed to in June 2018 and, once approved, will run through 2024.

SECTION 2.

REVIEW OF EXECUTIVE DIRECTOR⁸

Mr. Newsome was hired by the SCPA Board of Directors on September 1, 2009. Prior to his position with the SCPA, he was President of Hapag-Lloyd (America) Inc., an international shipping company. Mr. Newsome has spent his entire career in international shipping. He received a bachelor's degree in Transportation and Logistics and an MBA in Transportation and Logistics from the University of Tennessee in Knoxville.

Prior to Mr. Newsome's hiring, cargo volume had been steadily declining, and the Port of Charleston was losing market share. Under his leadership, the SCPA enacted a new strategic plan that included aggressive sales and marketing, a reorganization of management structure, and a cargo diversification plan. Mr. Newsome has identified the Charleston Harbor deepening project as the most important project necessary to ensure that the Port of Charleston continues to grow and regain lost market share. He has demonstrated that he has a long-range vision for the SCPA.

Significant accomplishments in FY2018 include:

- Achieved record container volume in the history of the SCPA.
- Began successfully handling 13,000 TEU ships.
- Completed Wando wharf refurbishment.
- Oversaw first 155-foot lift height cranes in operation.
- Achieved 18 of 26 weekly services with bigger than 8,000 TEU ships.
- Sold the SCPA's 176 Concord office and 838 Morrison Drive.
- Redefined capacity at existing and new Charleston container terminals, gaining 1.0 million TEU of capacity (4.2 million to 5.2 million TEU).
- Ordered new rubber tire gantry cranes (RTGs) to convert to an all RTG loaded operation.
- Completed fill phase of the Leatherman Terminal.
- Began harbor deepening construction/secured more federal funding.
- Reached 118,000 rail lifts at Greer.
- Increased plastics transloading activities.
- Increased reefer racks to grow reefer business (refrigerated cargo).
- Re-affirmed credit rating with Moody's and S&P.
- Received successful \$300 million bond offer in support of capital plan.
- Maintained high visibility for the SCPA in trade and business media.
- Maintained high visibility for the SCPA in trade/industry organizations.
- Maintained strong relationships with industry stakeholders, including ILA.

⁸ From S&P's May 2018 report: "The authority's managerial and governance, in our view, is very strong. This reflects our view of SCSPA's strategic positioning; risk management and financial management; and organizational effectiveness. SCSPA's management annually reviews and updates long-range capital plans, which are largely modular and demand-driven, an approach we consider prudent given, in particular, the exposure of ports to fluctuating economic conditions and trends in international trade. We believe management is experienced and has strong knowledge of the markets and industry in which it operates. Management is focused on enhancing the port's competitive position through capital investment. Although this entails substantial additional borrowings, we note management's track record of successfully operating the port facilities and managing the authority's finances, and we expect management will be able to successfully manage its current CIP. In addition to enhancing its competitive position, SCSPA maintains business interruption, property, and liability insurance to protect against loss."

- Bought 1,000 acres of land in Ridgeville for future logistics infrastructure.
- Progressed pre-permitting phase of JOT JV.
- Continued successful Rapid Rail program.
- Engaged with the GPA in development of a new chassis concept.
- Inculcated mission and values in the SCPA organization.
- Began the process of defining the next generation of leadership in the SCPA.

SECTION 3.

REVIEW OF BOARD AND BOARD MEMBERS⁹

The SCPA Board of Directors 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 are:

- Bill H. Stern, Chair, Columbia
- David J. Posek, Vice Chair, Pawleys Island
- Kurt D. Grindstaff, Treasurer, Hilton Head
- Willie E. Jeffries, Secretary, Elloree
- Whitmarsh S. Smith, III, Charleston
- Pamela P. Lackey, Columbia
- William W. (Wes) Jones, Bluffton
- Kenneth R. Jackson, Blythewood
- C. Dan Adams, Travelers Rest

The two non-voting members are:

- Robert Hitt, Secretary of Commerce
- Christy Hall, Secretary of Transportation

As part of this review, Commission staff attended multiple meetings of the SCPA Board of Directors and various port-related functions. Staff reviewed minutes and spent additional time in professional settings observing and interacting with each member of the SCPA Board of Directors.

⁹ From Moody's May 2018 report: "Management and Governance - The authority is a critical piece of South Carolina's economic development and transportation planning, and benefits from strong explicit and implicit state support, a credit positive. This support manifests in the form of extraordinary aid for dredging, and access roadway improvements and a new near-dock intermodal container transfer facility at Hugh K. Leatherman; construction and funding of the replacement Cooper River Bridge; and economic development incentives supporting the location and expansion of major port customers in the state. Additional support is provided in the form of close coordination/involvement in economic development and transportation planning with state agencies.

"The state has also supported the authority with the Jasper Ocean Terminal (JOT) joint venture, which is a partnership between the authority and the GPA to jointly develop, own and operate a 1,500-acre, state-of-the-art marine container terminal on the north bank of the Savannah River, in Jasper County, South Carolina."

Each has demonstrated knowledge of substantive port issues and the ability to apply that knowledge to address issues facing the SCPA. Members are inquisitive and critically analyze 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 member has demonstrated the temperament and demeanor necessary to be an active, productive member of the Board.

Continued growth at the SCPA suggests 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.

Significant actions by the Board:

- Ensuring that preparations for post-Panama Canal expansion are on target.
- Overseeing the development of the Hugh K. Leatherman Terminal.
- Overseeing the Charleston Harbor deepening project.
- Implementing plans to build a new Union Pier cruise terminal.
- Approving funding and the implementation of funding for the Inland Port Greer and Inland Port Dillon.

- End -