

**REVIEW AND OVERSIGHT COMMISSION ON THE STATE PORTS AUTHORITY**  
**2014 BIENNIAL OVERSIGHT REVIEW**

April 30, 2014

Article 13, Chapter 3 of Title 54 of the South Carolina Code establishes The Review and Oversight Commission on the State Ports Authority and vests with the Commission the duty to screen appointees to the State Ports Authority Board and to conduct biennial oversight reviews of the State Ports Authority and its operations.

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

1. Consider whether the authority 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 Ports Authority's Executive Director
3. Evaluate the performance of the Ports Authority Board and each of its members

On August 8, 2013 the Commission notified Mr. Bill Stern, Chairman of the South Carolina State Ports Authority Board, and Mr. Jim Newsome, Executive Director of the South Carolina State Ports Authority, that it was beginning the biennial oversight review process. In that letter, the Commission requested that the Ports Authority provide information on a wide range of topics related to the Authority's operations and information related to Board members. The Ports Authority timely responded to the request for information on September 9, 2013.

Commission staff has reviewed the information submitted by the Ports Authority and provided Commission members with a brief analysis of the submitted information.

A public hearing was held by the Commission at the Clemson University Restoration Institute in North Charleston on November 20, 2013 concerning the Ports Authority and its operations. Mr. Newsome briefed the Commission on a wide range of topics related to the Ports Authority's operations.

This is the Commission's report of its findings. The report will be published in the journals of the Senate and the House of Representatives.

**SECTION 1.**  
**OVERSIGHT REVIEW OF THE SOUTH CAROLINA STATE PORTS AUTHORITY AND ITS**  
**OPERATIONS**

**Total Cargo Volume**

Total cargo volume is broken into two components: (1) Container Volume and (2) Breakbulk Volume. The Port of Charleston handles all of the container volume for South Carolina's ports. Break bulk cargo is handled by the Port of Charleston and the Port of Georgetown. Port Royal handled breakbulk cargo until its operations were terminated in 2008.

Total cargo volume at the State's ports experienced a decline beginning in approximately FY 2007. Total cargo volume fell to its lowest point in FY 2010. The State Ports Authority steadily rebounded from the FY 2010 low.

Beginning in 2010, the Ports Authority implemented a cargo diversification plan to maximize its various resources in order to stimulate business. The plan included an increased emphasis on breakbulk cargo, increasing cruise activity, and regaining the Port's reputation as the premier container port in the Southeast. The combination of increased container volume, breakbulk tonnage, and cruise ship activity all indicate that the diversification plan has been successful to date.

**Container Volume**

- 13% increase since FY 2009
- 8% increase year over year - FY 2012 to FY 2013
- Container volumes in March 2014 reached the highest monthly levels since August 2008 and are 10% higher than March 2013
- Projected increase in the current fiscal year

**Breakbulk Volume**

- Stronger recovery than in container volume with continued strong growth expected in the last quarter of this fiscal year
- 13% increase year over year - FY 2012 to FY 2013
- Significant increases at Union Pier and gains at the Port of Georgetown

### **Port of Georgetown**

The Port of Georgetown is used primarily for breakbulk cargo related to local heavy industries. Low channel depth prevents cargo ships from calling on Georgetown. The channel is currently 19 to 20 feet deep. The federal government has authorized the channel to be as deep as 27 feet. The Ports Authority would like to dredge to that depth and is actively pursuing all available funding avenues. Because container ships require much greater depth, even if maximum depth is achieved through maintenance dredging, a new dredging project, or some combination of the two, container ships will still not be a viable option for Georgetown.

However, the Port of Georgetown is an asset to the state that should be maximized. Maintenance dredging would assist in that regard. Additional steps have been taken by the Ports Authority to maximize Georgetown's potential, including aggressively marketing the port for barge-related cargo traffic and emphasizing growth in breakbulk traffic. Georgetown's breakbulk volume during the first three quarters of the current fiscal year has increased by 10% over same period during the previous fiscal year.

### **Navy Base Terminal**

The terminal is the only permitted new container terminal on the U.S. East and Gulf coasts. The Port has completed preliminary demolition, site preparation and construction of the containment wall. At final build-out, the 280-acre facility will boost the Port's capacity by 50 percent. The Ports Authority has set December 2019 as the target date for the completion of Phase 1 of the new terminal. Upon completion of Phase 1, the new terminal will be a fully operational cargo terminal with three berths and landside infrastructure. On a demand driven basis, the Ports Authority will undertake Phases 2 and 3 which will provide additional container yards and dock space.

### **Inland Port**

Located along Interstate 85 and Norfolk Southern's main line, the South Carolina Inland Port opened in October of 2013. Its Greer, S.C. location -- halfway between the Atlanta and Charlotte markets -- extends the Port's operational reach some 212 miles inland. The Port-owned and operated SCIP offers shippers a way to increase efficiency by speeding and simplifying international freight movements between the Port

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of Charleston and companies in the Upstate and throughout the Southeast. This forward-thinking concept provides Port customers with access to nearly 95 million consumers within a one-day haul.

By partnering with Norfolk Southern, the Port estimates that as many as 20,000 container movements may be converted from highway to rail the first year. As is noted on the Inland Port's website, "[r]ail service maximizes tonnage moved per gallon of fuel for importers and exporters, helping them save costs and lower their carbon footprint." The inland port also has another advantage: access to empty container boxes, which shippers can pick up in Greer and use to move goods throughout the region.

### **Panama Canal Expansion**

During late 2015 to early 2016, an expansion of the Panama Canal is expected to be completed. The expansion will allow larger cargo vessels (commonly referred to as "post-Panamax" ships) to pass through the canal and call upon ports on the East Coast. Currently, the majority of the post-Panamax sized ships only call on West Coast ports. This provides the Port of Charleston with an extraordinary opportunity to increase its cargo volume. At its current depth, and with tidal influences, the Port of Charleston can accommodate some post-Panamax ships. For example, this summer, the Port of Charleston welcomed the MSC Bruxelles, the first 9,000+ TEU<sup>1</sup> ship to call on the East Coast. The Ports Authority has been preparing to aggressively pursue the new business and has taken, or is in the process of taking, the necessary steps to be successful in its pursuit.

- **Harbor Deepening.** The Ports Authority has commenced the second phase of the harbor deepening project. The project will deepen the harbor to fifty feet (+) so that post-Panamax ships can call on Charleston on a continuous basis regardless of tidal influence.
- **Navy Base Terminal.** The Navy Base will not come online until after the expansion project in Panama is completed. However, it is a vital long-term component of the Port of Charleston's ability to maximize the positive effect post-Panamax vessels can have on the State's economy.
- **Landside Equipment.** Post-Panamax ships require larger cranes to load and offload cargo. The Ports Authority already has the necessary cranes in place, and all other landside infrastructure, at each of its operational terminals. The larger cranes and landside infrastructure will be in place at the Navy Base when the new terminal comes online.

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<sup>1</sup> TEU is an acronym for twenty foot equivalent unit. The TEU is the standard unit for describing a ship's carrying capacity, or a shipping terminal's cargo handling capacity. A standard forty foot (40 x 8 x 8 feet) container equals two TEUs (each 20 x 8 x 8 feet).

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- **Memorandum of Understanding.** The Ports Authority has entered into a Memorandum of Understanding with the Panama Canal Authority to jointly market the East Coast as a destination for post-Panamax vessels.

### **Harbor Deepening**

The U.S. Army Corps of Engineers has begun its Charleston "Post 45" project to deepen the Charleston Harbor. Once completed, the Port of Charleston will secure its position as the premier deep-water ocean terminal in the Southeast. The Ports Authority has identified this harbor deepening project as its number-one strategic initiative. Completion of the deepening project is vital to the continued growth of the Port of Charleston. Projects of this magnitude often take as long as fourteen years to complete. However, the Post 45 project is moving more quickly. Among the key factors that has accelerated the completion time table is the State's financial commitment, the Ports Authority's strong working relationship with the Corps of Engineers and other stakeholders, and support from both the Obama Administration and Congress.

The project is nearing the completion of the second of five phases of development. A draft feasibility report is expected to be completed by the end of the summer, and finalized next summer. At that point, the Corps of Engineers will be in the third phase of the project, during which detailed engineering and design plans are developed, project specifications are identified, and other preparations are made. The final two phases consist of actual dredging and then ongoing operations and maintenance.

The Corps of Engineers has established a website dedicated to the Post 45 project. The website is a central location where the public can keep up to date with all of the developments relating to the project.

The website address is: <http://www.sac.usace.army.mil/?action=programs.post45>

### **Cruise Operations**

The cruise industry has a long history of operating out of the Port of Charleston. As part of its business diversification plan the Ports Authority has sought to enhance cruise operations in Charleston. Part of this plan includes the construction of a new, state-of-the-art cruise terminal at Union Pier. Those plans had been delayed due to lawsuits filed in the South Carolina Supreme Court, state administrative law court, and federal district court. The Supreme Court and the Administrative Law Court dismissed the suit in

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favor of the Port's Authority. The plaintiffs in the Administrative Law Court matter are appealing the decision. The judge presiding over the matter on the federal level told the Corps of Engineers that it needs a more complete record for the matter to proceed. Regarding permitting, the Ports Authority does not have a federal permit but is in the process of determining how to proceed to secure that permit.

The increased cruise activity led to a heated debate about the appropriate role that the cruise industry should have in the Ports Authority's business portfolio. Concerns have been raised about potential negative environmental impacts that will result from the increased cruise operations. The Ports Authority reports that federal and international standards governing cruise operations provide adequate protection to Charleston's environmental assets.

Concerns were also raised locally about the visual impact that the ships will have on the aesthetics of Charleston's historic district. The Ports Authority believes that the new cruise terminal, in conjunction with new development at the old terminal location, will provide a net-benefit to the aesthetics and charm of the historic district.

To address the concerns of local leaders, the Ports Authority reached an agreement with the City of Charleston to place a voluntary limit on the number of ships and the size of ships calling the city, and agreed to a formal consultation process should the Ports Authority's plans change.

### **Jasper Ocean Terminal**

The Ports Authority has continued to work in good faith within the framework of the intergovernmental agreement with Georgia through its seat on the Joint Project Office to construct a new ocean terminal in Jasper County. The Joint Project Office is nearing completion of the feasibility stage of the project. The Joint Project Office is undertaking a capacity study of the Savannah River to determine whether the river can support the additional shipping traffic that a new port would produce. Following the capacity study, a navigational depth study will be conducted to determine the extent that the river will need to be modified to accommodate the expected ship traffic resulting from the new port. When these studies are complete, the JPO can draw the feasibility stage of the new terminal to a close. The JPO, or its successor, will then look to begin the lengthy permitting process for the new ocean terminal.

When the intergovernmental agreement was executed, it was intended to be a temporary working agreement between Georgia and South Carolina to ultimately be replaced with a bi-state compact

addressing long-term development and operational matters. A compact of that nature requires action by the General Assembly of Georgia and South Carolina, and approval by Congress. Neither state has initiated the process. To keep moving forward, the Ports Authority initiated discussions with Georgia about entering into another agreement which would provide for the development and operational model without the necessity of a congressionally approved compact. The Ports Authority presented a draft to Georgia for consideration in January. Georgia officials have acknowledged receipt of the draft and are in the process of reviewing it now that their legislative session is complete.

### **Land Sales**

1. **Port Royal.** Section 54-3-700 of the South Carolina Code requires the State Ports Authority to sell its property at Port Royal. The Ports Authority has been unable to complete the sale to date within the statutorily mandated parameters. Market conditions and other factors have impeded efforts to complete a sale. However, legislation is pending in the General Assembly ease the statutory conditions for the sale and a proviso is currently in the State Appropriations Bill to direct the sale of the property to the Town of Port Royal and/or Beaufort County.
2. **Daniel Island/Thomas Island Properties.** Section 54-3-119 of the South Carolina Code requires the State Ports Authority to sell certain of its properties on Daniel Island and Thomas Island. As with Port Royal, market conditions and other factors, including the nature of the property to be sold, have prevented the Ports Authority from selling the property within the statutorily mandated parameters. Legislative initiatives to ease the restrictions on the sale or otherwise provide for the disposition of the property in a manner beneficial to the State and local residents have been proposed but to date have not been enacted.

### **SECTION 2**

#### **PERFORMANCE REVIEW OF EXECUTIVE DIRECTOR JIM NEWSOME**

Mr. Newsome was hired by the State Ports Authority Board on September 1, 2009. Prior to his current position with the Ports Authority, he was President of Hapag-Lloyd (America) Inc., an international shipping company. Mr. Newsome has spent his entire career in international shipping.

When Mr. Newsome took the helm at the Ports Authority container and breakbulk volume had been steadily declining and the Port of Charleston was losing market share. Under his leadership, the Ports

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Authority has embarked on a new strategic plan that includes aggressive sales and marketing, a cargo diversification plan, and actions to enhance the Port of Charleston's reputation in the shipping industry. Mr. Newsome has identified the Post 45 project as the key strategic project necessary to ensure that the Port of Charleston can grow and regain lost market share. Mr. Newsome has also acted to maximize the use of the Port of Georgetown. He has demonstrated that he has a long-range vision for the Ports Authority and has taken commensurate actions regarding personnel and has made other key decisions to bring that vision to fruition.

Key actions during Mr. Newsome's tenure include:

- Overhauling the Ports Authority's sales and marketing staff and program
- Rebuilding relationships with shipping lines that had become frayed under previous leadership
- Diversifying the Ports Authority's cargo portfolio through maintaining and pursuing new cargo lines, increasing emphasis on breakbulk cargo and modernizing cruise capabilities
- Developing a strong working relationship with state and local leaders
- Working closely with Charleston Mayor Joe Riley concerning cruise lines
- Initiating the construction and operation of the new Inland Port
- Leading the effort to deepen the Charleston Harbor

Mr. Newsome recently agreed to a contract extension with the Ports Authority Board that will keep him with the Ports Authority for at least another seven years.

**SECTION 3**  
**PERFORMANCE REVIEW OF THE SOUTH CAROLINA STATE PORTS AUTHORITY**  
**BOARD AND BOARD MEMBERS**

The South Carolina State Ports Authority Board is comprised of nine voting members appointed by the Governor with the advice and consent of the Senate, and two non-voting members<sup>2</sup>. The two non-voting members are the Secretary of Commerce, or his designee, and the Secretary of Transportation, or his designee.

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<sup>2</sup> The legislature added the two non-voting members in Act 73 of 2009 to better facilitate communication and to increase coordination between the Ports Authority and the departments of Transportation and Commerce. The legislature recognized that increased coordination would foster a more efficient allocation of state resources and assist with economic development.



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The nine voting members of the State Ports Authority Board are:

- Mr. Bill H. Stern - Chairman
- Mr. John F. Hassell, III - Vice Chairman
- Mr. Michael Sisk - Treasurer
- Mr. Willie E. Jeffries - Secretary
- Mr. Whitmarsh S. Smith, III
- Mr. David J. Posek
- Ms. Pamela P. Lackey
- Mr. Patrick W. McKinney
- Mr. Henry D. McMaster

The two non-voting members of the State Ports Authority Board are:

- Mr. Robert Hitt, Secretary of Commerce
- The seat reserved for the Secretary of Transportation is vacant. The office of Secretary of Transportation is vacant as of the date of this report.

Staff has observed that each voting member of the Board of Directors has demonstrated knowledge of substantive port issues and the ability to apply that knowledge to addressing issues facing the Ports Authority. The voting members of the board are inquisitive and critically analyze the 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 of South Carolina. Each voting member of the board has demonstrated the temperament and demeanor necessary to be an active, productive member of the board.

The positive developments at the Ports Authority evidences the fact 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.

Key actions taken by the Board:

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- Ensuring preparations for post-Panama Canal expansion are on target
- Oversight of the development of the Navy Base terminal
- Oversight of the Post 45 project
- Agreeing to voluntary commitments to implement the Cruise Management Program
- Approving funding and implementation of the Inland Port