#387

Report To
The Mississippi Legislature

A Program Evaluation of the Mississippi State Port Authority

December 8, 1998

The Mississippi State Port Authority, one of the smaller port facilities in the Gulf Coast region, specializes in handling commodities that serve "niche markets" at competitive rates. The port has successfully operated as a self-sufficient business enterprise during the 1990s. Its increased business activity and successful financial performance have decreased the need for state and local funds to supplement commercial port operations and have provided positive economic benefits. Casino leases of port lands have significantly contributed to the port's renewed vigor, but improved management of the commercial port operation deserves a fair share of credit for the port's revitalized condition.

The PEER Committee

PEER: The Mississippi Legislature's Oversight Agency

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

Mississippi's constitution gives the Legislature broad power to conduct examinations and investigations. PEER is authorized by law to review any public entity, including contractors supported in whole or in part by public funds, and to address any issues which may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

A Program Evaluation of the Mississippi State Port Authority

December 8, 1998

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Mississippi Legislature

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Joint Committee on Performance Evaluation and Expenditure Review

PEER Committee

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December 8, 1998

Honorable Kirk Fordice, Governor
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Honorable Tim Ford, Speaker of the House
Members of the Mississippi State Legislature

On December 8, 1998, the PEER Committee authorized release of the report entitled **A Program Evaluation of the Mississippi State Port Authority.**

Senator Ezell Lee, Chairman

This report does not recommend increased funding or additional staff.

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A Program Evaluation of the Mississippi State Port Authority

Executive Summary

December 8, 1998

Introduction

The PEER Committee authorized a program evaluation of the Mississippi State Port Authority (MSPA) in Gulfport, pursuant to the authority granted by MISS. CODE ANN. Section 5-3-57 et seq. (1972). The review sought to evaluate MSPA's operations in terms of its business activity and financial performance.

Specifically, PEER sought to answer the question of whether the port has a volume of business activity sufficient to sustain port operations and improve the facility. PEER also sought to answer the question of whether the port has achieved a financial position that minimizes the amount of state support provided and maximizes its benefits to the citizens of the state.

Background

The Mississippi State Port Authority at Gulfport is a deep water seaport which leases its facilities and land to dockside gaming casinos, maritime industries, commercial fishing firms, and shipping companies. The port is strategically located in the Mississippi Sound approximately sixteen miles from the shipping lanes of the Gulf of Mexico and five nautical miles from the Gulf Coast Intercoastal Waterway.

MSPA is a "niche market" operation specializing in handling bulk, breakbulk, and containerized cargo. This cargo includes agricultural items, concrete items, frozen items (poultry and other meats), general cargo, ilmenite ore, limestone, lumber, manufactured items (paper, textile, wood, and other products), steel items (manufactured and scrap), and tropical fruits (bananas, pineapples, and other commodities). The port's primary import and export markets are located in Central America, Asia, Europe, and South America, with an emerging North American market in Canada.

State law does not directly establish a specific mission for MSPA. However, according to MISS. CODE ANN. Section 59-5-7 (1972), the public policy for state ownership and operation of a port is *"for the benefit of the people of the State of Mississippi."* MSPA recognizes this public responsibility and has developed a mission statement that emphasizes a self-sufficient, financially successful operation providing economic benefits to the state and its residents. To accomplish this mission, MSPA must successfully operate as an enterprise fund--i.e., a business enterprise that is self-sufficient. MSPA must meet its financial obligations while generating sufficient revenues, primarily through user charges, to fund port operations and infrastructure development.

Overview

The Mississippi State Port Authority, one of the smaller port facilities in the Gulf Coast region, competes with ports that handle more cargo and have better access to landside transportation systems of truck, rail, and other means. Given this environment, the state port competes by specializing in handling bulk, breakbulk, and containerized commodities that serve "niche markets" at competitive rates.

PEER's earlier reviews of MSPA (1986 and 1990) found the state port in decline from an effective and financially self-sufficient operation entering the 1980s to an ineffective and financially dependent operation entering the 1990s. The result was a state-owned enterprise that relied heavily on state and local financial contributions to sustain its operations due to decreasing business activity in terms of handled tonnage.

Since 1989, MSPA's efforts to increase throughput tonnage for established products and to diversify its product base have resulted in increased business activity, tripling the amount of cargo handled from 879,565 to 2,497,880 short tons. The increased tonnage has generated revenues that have grown from $2,834,255 in FY 1989 to $7,338,712 in FY 1998. Also, since the beginning of FY 1994, MSPA's operating revenues have increased due to the revenue from casino property leases. These leases have generated total revenues of $35,970,651 from FY 1994 through FY 1998.

Harrison County continues to provide a direct tax subsidy to MSPA, averaging approximately $910,000 annually. Since FY 1992, MSPA has primarily used these funds to maintain and operate the port's commercial small craft harbor, whose primary users are county residents.

The Mississippi Export Tax Credit Program, designed to generate new business activity and revenues for Mississippi's ports, has essentially been a tax subsidy program that has reduced the amount of tax revenue remitted to the state by companies doing business through MSPA. Almost all tax credits originally authorized to bolster business have accrued to existing port customers, generating only minimal new business activity for MSPA. The state contributed $3,209,742 in tax credits granted in calendar years 1994 through 1997. Tax credits of $11,472 went to twenty-one new customers and $3,198,270 went to ninety-six existing port customers.

MSPA has successfully operated as an enterprise fund during the 1990s. The port's increased business activity and successful financial performance during that period have decreased the need for state and local funds to supplement commercial port operations and have provided positive economic benefits to state citizens and businesses. In a 1995 economic impact study commissioned by MSPA, the estimated total direct economic impact of port operations was set at $529.9 million in personal income, business sales, local taxes, and state taxes (excluding any impact from casino revenue). Casino leases of port lands have significantly contributed to the port's renewed vigor, but improved management of the commercial port operation deserves a fair share of credit for the port's revitalized condition.

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A Program Evaluation of the Mississippi State Port Authority

Introduction

The PEER Committee authorized a program evaluation of the Mississippi State Port Authority (MSPA) in Gulfport, pursuant to the authority granted by MISS. CODE ANN. Section 5-3-57 et seq. (1972).

Purpose

The review sought to evaluate MSPA's operations in terms of its business activity and financial performance. Specifically, PEER sought to answer the question of whether the port has a volume of business activity sufficient to sustain port operations and improve the facility. PEER also sought to answer the question of whether the port has achieved a financial position that minimizes the amount of state support provided and maximizes its benefits to the citizens of the state.

Method

In order to accomplish the project objectives, the PEER Committee reviewed the port's history, mission, operational environment, capacities and utilization, financial performance and trends, and its statutory relationship with the Mississippi Department of Economic and Community Development (DECD).

While conducting this evaluation, PEER reviewed its 1989 and 1990 reports on MSPA, state laws, MSPA financial and operational records, and articles and reports of federal agencies, state governments, private associations, and individual port operations. Further, PEER interviewed individuals at the federal, state, university, and local levels who work in or with the public port industry. PEER reviewed business activity and financial data for major port competitors from federal agencies and the American Association of Port Authorities for 1985 through 1997. PEER also reviewed DECD and MSPA information concerning relationships with the state port and port-related promotional activities from 1990 through 1998. Finally, PEER obtained business activity and financial data for 1990 through 1998 through an on-site visit to MSPA. PEER compared MSPA's business activity information to that of its major port competitors and comparable MSPA data in the 1990 PEER report on MSPA. PEER compared MSPA's financial performance data to the Port Management Control System that is used in the public port industry and selected standard business financial ratios.

Overview

The Mississippi State Port Authority, one of the smaller port facilities in the Gulf Coast region, competes with ports that handle more cargo and have better access to landside transportation systems of truck, rail, and other means. Given this environment, the state port competes by specializing in handling bulk, breakbulk, and containerized commodities that serve "niche markets" at competitive rates. (See sidebar for port industry definitions.)

Declining Business Activity and Self-Sufficiency in the 1980s

PEER's earlier reviews of MSPA (1986 and 1990) found the state port in decline from an effective and financially self-sufficient operation entering the 1980s to an ineffective and financially dependent operation entering the 1990s. The result was a state-owned enterprise that relied heavily on state and local financial contributions to sustain its operations due to decreasing business activity in terms of handled tonnage.

Increasing Business Activity and Self-Sufficiency in the 1990s

Since 1989, MSPA's efforts to increase throughput tonnage for established products and to diversify its product base have resulted in increased business activity, tripling the amount of cargo handled from 879,565 to 2,497,880 short tons. The increased tonnage has generated revenues that have grown from $2,834,255in FY 1989 to $7,338,712 in FY 1998. Also, since the beginning of FY 1994, MSPA's operating revenues have increased due to the revenue from casino property leases. These leases have generated total revenues of $35,970,651 from FY 1994 through FY 1998.

Port Industry Definitions

Bulk cargo: includes dry items like ilmenite ore or limestone, and liquid items, like oil or Scottish whiskey, which are shipped in bulk and tanker ships without any packaging.

Breakbulk cargo: includes unitized and non-unitized items such as bagged cargo, cotton bales, forest products, loose and bundled pipe, machinery, or vehicles, that are not shipped in containers.

Containerized cargo: any item, like general cargo, manufactured goods, and tropical fruit, which is packed in a container of twenty, forty, or greater foot equivalents and shipped in the unitized form.

Short ton: a standard unit of tonnage measurement equal to 2,000 pounds.

Throughputtonnage: the amount of cargo tonnage that can be or is handled and shipped through a port within a given period.

Vessel calls: the number of ships loading and unloading commodities at the port.

SOURCE: PEER compilation of information from relevant reports, articles, and information from port industry personnel, the U.S. Department of Maritime Administration and the American Association of Port Authorities.

The increase in business activity, along with lease revenue from the gaming industry, has allowed port operations to be self-sustaining in fiscal years 1993 through 1998. This financial performance enabled the port to eliminate its dependence on state general fund appropriations for operating revenue for those years and to invest additional funds in facility maintenance, improvement, and expansion.

Status of the Direct Subsidy of MSPA's Operations through Harrison County Tax Revenues

Harrison County continues to provide a direct tax subsidy, averaging approximately $910,000 annually, to MSPA. Since FY 1992, MSPA has primarily used these funds to maintain and operate the port's commercial small craft harbor, whose primary users are county residents.

Status of the Indirect Subsidy of MSPA Operations through State Income Tax Credits

The Mississippi Export Tax Credit Program was designed to generate new business activity and revenues for any port in the state by giving state income tax credits to new or existing port customers. However, it has essentially been a tax subsidy program that has reduced the amount of tax revenue remitted to the state by companies doing business through MSPA. Almost all tax credits originally authorized to bolster business have accrued to existing port customers, generating only minimal new business activity for MSPA. The state contributed $3,209,742 in tax credits granted in calendar years 1994 through 1997. Tax credits of $11,472 went to twenty-one new customers and $3,198,270 went to ninety-six existing port customers.

General Conclusion

MSPA has successfully operated as an enterprise fund (i.e., a business enterprise that is self-sufficient) during the 1990s. The port's increased business activity and successful financial performance during that period have decreased the need for state and local funds to supplement commercial port operations and have provided positive economic benefits to state citizens and businesses. In a 1995 economic impact study commissioned by MSPA, the estimated total direct and induced (indirect) economic impact of port operations was set at $529,900,000 in personal income, business sales, local taxes, and state taxes (excluding any impact from casino revenue). Currently, the port can support its operations and is accomplishing its mission of becoming ". . .a profitable, self-sufficient port which offers world class marine terminal services and facilitates state economic growth through promotion of international trade." Casino lease income has bolstered the port's ability to sustain regular operations and provided a profit margin from which to allocate funds for maintaining and upgrading the physical plant. (The term "profit" as used in this review is defined as income in excess of expenditures and depreciation.) Casino leases of port lands have significantly contributed to the port's renewed vigor, but improved management of the commercial port operation deserves a fair share of credit for the port's revitalized condition.

Background

The Mississippi State Port Authority at Gulfport is a deep water seaport which leases its facilities and land to dockside gaming casinos, maritime industries, commercial fishing firms, and shipping companies. The port is strategically located in the Mississippi Sound approximately sixteen miles from the shipping lanes of the Gulf of Mexico and five nautical miles from the Gulf Coast Intercoastal Waterway. The port includes approximately 315 acres of landside and water areas which contain approximately 592,800 square feet of covered perishable and non-perishable storage facilities; approximately 89 acres of open storage; approximately 40 acres of gaming operations; 5,800 feet of berthing space; and, a channel depth of 36 feet. (See Exhibit 1, page 6, for a diagram of the port.)

MSPA is a "niche market" operation specializing in handling bulk, breakbulk, and containerized cargo. These commodities include agricultural items, concrete items, frozen items (poultry and other meats), general cargo, ilmenite ore, limestone, lumber, manufactured items (paper, textile, wood, and other products), steel items (manufactured and scrap), and tropical fruits (bananas, pineapples, and other commodities). The port's primary import and export markets are located in Central America, Asia, Europe, and South America, with an emerging North American market in Canada.

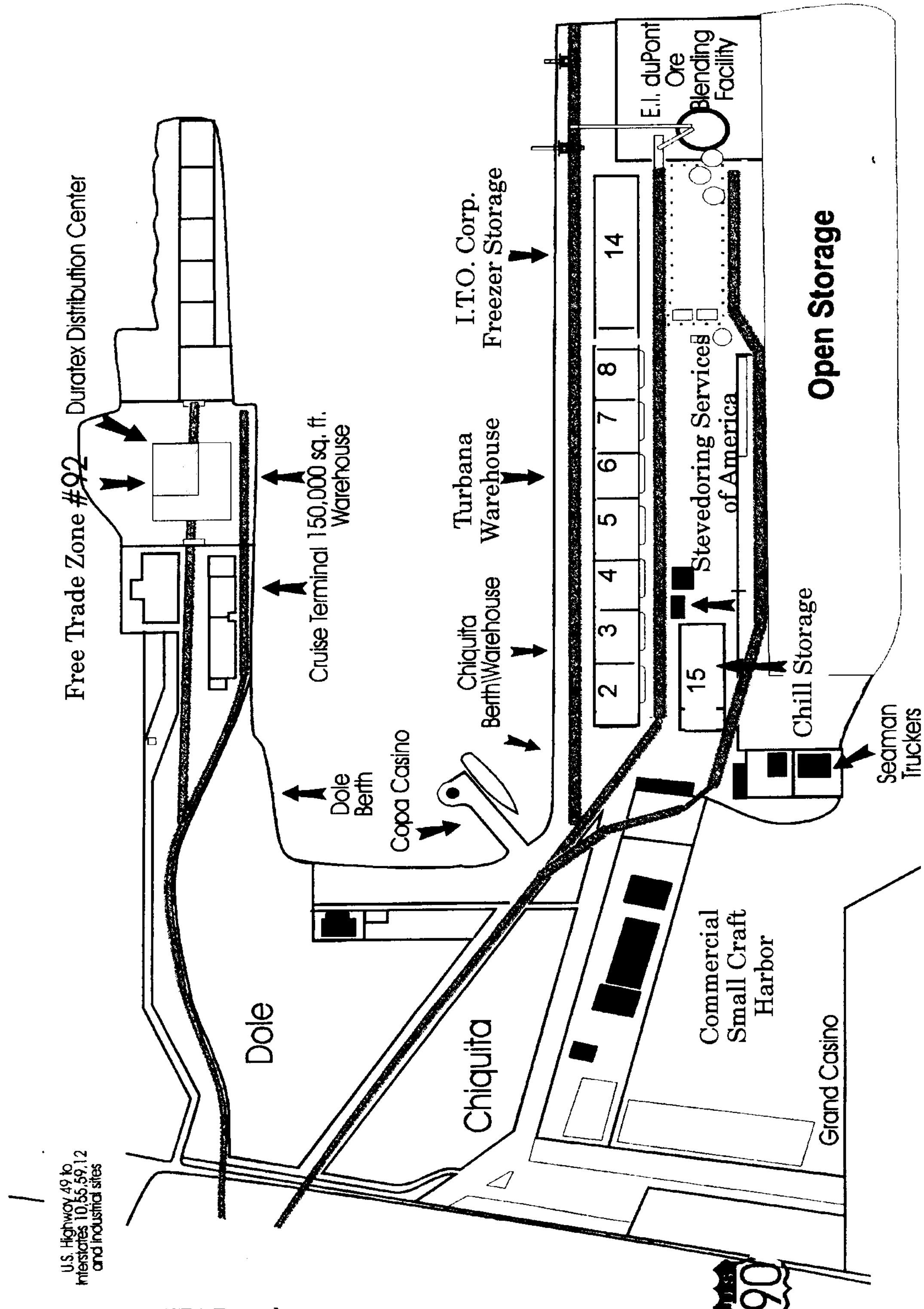
The port serves a "niche market" because its geographic location in a tidelands and tourist area has limited its operational capabilities, capacity, and space for the type of handled cargo (e.g., no liquid bulk capability for loading oil tankers). The port's location also places it in proximity to larger competitive ports such as Houston, New Orleans, and Mobile, with greater operational capabilities and capacities plus better direct rail service for moving products to market.

Mission

State law does not directly establish a specific mission for MSPA. However, according to MISS. CODE ANN. Section 59-5-7 (1972), the public policy for state ownership and operation of a port is "for the benefit of the people of the State of Mississippi." MSPA recognizes this public responsibility and has developed a mission statement that emphasizes a self-sufficient, financially successful operation providing economic benefits to the state and its residents.

Exhibit 1

1998 MSPA Diagram



SOURCE: MSPA Records

To accomplish this mission, MSPA must successfully operate as an enterprise fund--i.e., a business enterprise that is self-sufficient. The 1997 *Mississippi Comprehensive Annual Financial Report* supports this interpretation when it defines MSPA as a state operation which:

> *. . .accounts for operations of a public port providing facilities for foreign and domestic trade. Funding is provided by gross receipts from port operations, proceeds from bond issues and interest income. Expenses include port operation, construction and the payment of maturing bond interest and principal.*

MSPA, like a private business, should be self-sufficient to the point of paying all of its expenses, including debt service and depreciation. To do this, MSPA must expand its annual business activity to meet its financial obligations, while generating sufficient revenues, primarily through its user charges, to fund port operations and infrastructure development.

Relationship with the Department of Economic and Community Development

State law authorizes the Department of Economic and Community Development to oversee operations at the Mississippi State Port Authority. MISS. CODE ANN. Section 59-5-11 (1972) gives DECD state oversight responsibility for controlling and operating state ports. Furthermore, MISS. CODE ANN. Section 59-5-21 (1972) provides DECD with the authority to operate the Gulfport port facility through a State Port Authority. This governing board of MSPA is responsible solely to DECD and not to the city or county where the port is located. DECD or MSPA is authorized by the Legislature to employ personnel and make contracts and purchases as needed to operate the port [MISS. CODE ANN. Section 59-5-37 (1972)].

MSPA Management and Operational Conditions in the 1980s and 1990s

Conditions in the 1980s negatively affected the port's ability to be self-sustaining and successful in competing with other ports. The port's financial condition and viability have improved due to several changes in the 1990s.

Conditions in the 1980s

PEER performed two management and operational reviews of MSPA during the 1980s. In its 1986 report, the PEER Committee concluded that the Mississippi Agricultural and Industrial Board, the predecessor of DECD, and MSPA had not adequately supervised port activities, managed accounts receivable, nor established measurable goals and objectives for port operations. The result was a port operation that was inadequate and ineffective. In 1989, PEER found that the port had made progress since 1986 in correcting some of the administrative and financial accounting deficiencies, but operational problems remained to be addressed.

As documented in PEER's 1986 and 1989 reports, in the decade of the 1980s, MSPA was in a precarious financial position, dependent on state general funds to meet obligations. This situation existed because MSPA had not expanded its annual volume of business activity to meet its financial obligations nor generated sufficient revenues to fund future management and infrastructure needs (including its debt service and depreciation). Instead, it:

- experienced a 320,000 short ton drop (27%) in tonnage handled from FY 1980 to FY 1989, which essentially made MSPA an import operation dependent on bananas and ilmenite ore;

- steadily deteriorated from a self-sufficient income producer to an operation which required state general fund appropriations in order to pay for critical maintenance projects; and,

- accumulated $641,538 in uncollected accounts receivable which the State Auditor declared as uncollectable bad debt in FY 1987.

Trend in Tonnage Handled from Port Creation in 1961 to 1989

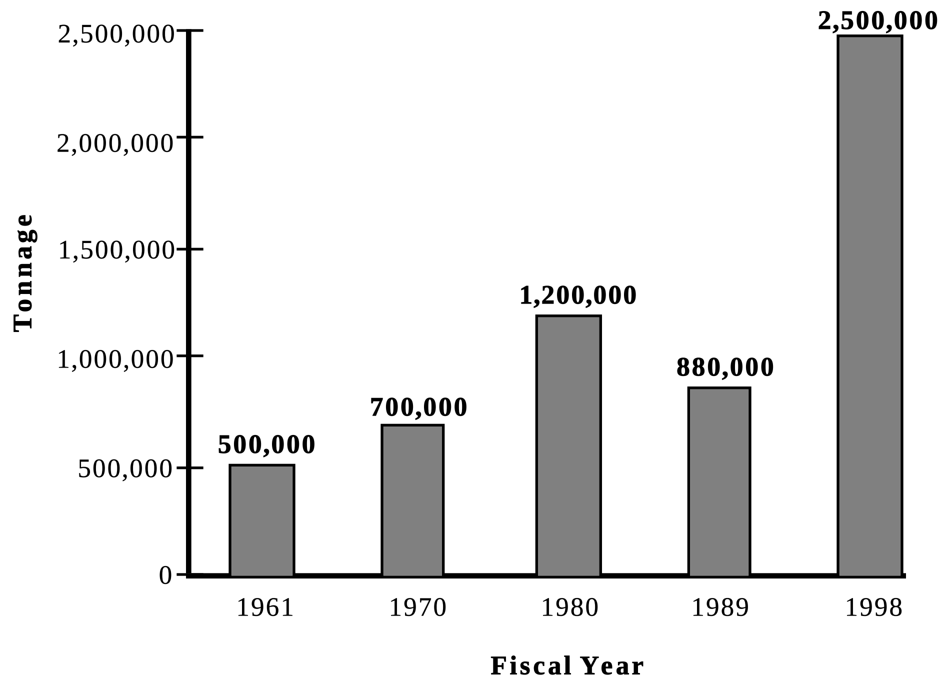
After becoming a state port in 1961, the MSPA operation steadily increased its annual total business activity (handled tonnage) from approximately 500,000 to 1,200,000 short tons in FY 1980 (see Exhibit 2, page 9). The port's business activity decreased to approximately 880,000 short tons in FY 1989. At that time the port was an import operation dependent on two products: bananas and ilmenite ore.

Changes in MSPA's Operating Environment and Management in the 1990s

In the early 1990s, the United States Army Corps of Engineers and the State of Mississippi funded and completed a project to deepen (from thirty feet to thirty-six feet) and straighten the two ship channels used for passage from the Gulf of Mexico to the MSPA docks. This project was officially completed on January 1, 1994. It provided MSPA with the channel capability to increase the number of world fleet vessels which could use the port and created an additional twenty-nine acres of MSPA container storage with materials that were removed in deepening the channel. The port used this new land area to increase its practical container storage capacity by 774,220 short tons.

Exhibit 2

MSPA Business Activity Tonnage Trend Since State Ownership In 1961



SOURCE: 1989 and 1998 PEER project records.

Also, MSPA made the decision to lease port property to two dockside gaming operations starting in 1993 in order to generate additional operating revenues. The twenty-year leases contained a five-year base period with three renewal periods of five years each. The annual lease revenues consisted of a fixed monthly cost plus contingency revenues of three percent of all non-gaming revenues and five percent of all gaming revenues over $25,000,000. These leases have generated $35,970,651 in MSPA operating revenues for fiscal years 1994 through 1998. While casino lease revenue has made a significant contribution to the port authority's ability to reverse the port's downward trend of the 1980s, it has not been the only factor in the port's resurgence.

The reversal in MSPA fortune from the 1980s to the 1990s can, in part, be traced to improved management of the commercial port operation. A significant factor in improved management is that MSPA implemented a planning process to make the port a successful competitor in the environment of worldwide maritime operations. This process has produced business marketing plans, five-year capital improvement and maintenance plans, and five-year strategic plans designed to:

- establish an ongoing marketing and promotional effort to increase and diversify the port's business activity;
- improve or maintain the port's equipment and facilities in order to reduce operational costs, prevent service delays, improve customer service, retain existing port industries, and attract new port industries and users; and,
- increase cargo throughput capacity by maximizing use of existing space.

The port has used these plans as a basis for strategically allocating resources to meet future needs. The port has invested about $18 million to upgrade and add storage areas and plans to invest an additional $39 million over the next five years to develop new and improved facilities.

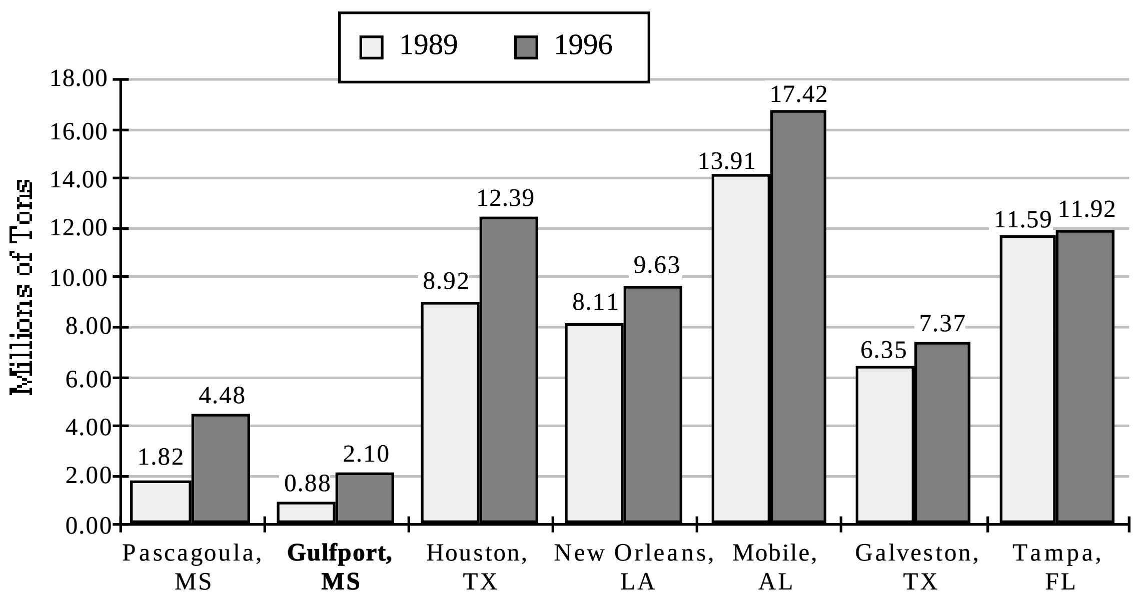
Conclusions

Business Activity

Since 1989, has MSPA realized more income by tripling the tonnage of cargo handled and reducing dependence on two core products (bananas and ilmenite ore) by diversifying its cargo product mix.

Since 1989, MSPA has increased the amount of cargo handled relative to comparable Gulf Coast region ports (see Exhibit 3, below). (More detailed tonnage data is included in Appendix A, page 27.) MSPA built its total business activity from approximately 880,000 short tons in FY 1989 to 2,500,000 short tons in FY 1998. This increase in cargo tonnage, however, makes up only a small portion of the total amount handled by these comparable ports. For this reason, the growth in MSPA business activity should be considered modest in the context of the total volume handled by other ports.

Exhibit 3
Comparison of Total Tonnage Handled By Gulf Region Ports
(1989 Versus 1996)



SOURCE: Compiled by PEER.

During the 1990s, several factors contributed to the port's ability to handle more cargo tonnage. The port increased its handling capacity and more efficiently used available cargo storage space, and in FY 1994, deepened its channel to accommodate larger vessels. In addition to these changes, the port utilized additional capacity by expanding the number of product lines handled and diversifying its cargo mix.

Increased Throughput Tonnage

From fiscal years 1989 to 1991, total tonnage handled through the port remained relatively unchanged (see Exhibit 4, page 13). In FY 1992, the amount of tonnage handled began to increase due to increased imports of existing products (bananas and ilmenite ore), jumping from approximately 690,000 tons in FY 1991 to 890,000 tons in FY 1993.

In FY 1994, the port dredging project came to completion. During this same time frame, the port also increased storage area by reacquiring leased property in default and expanding land area through dredging activities. MSPA increased its tonnage handling capacity by acquiring additional storage facility space on the port property for new customers. In FY 1997, a port user could not meet its financial obligations for a dockside facility that the state built for it through bond money with loan repayment by the company. MSPA negotiated the port's purchase of the remaining sixteen years of the lease period from the company. This action allowed the port to use this facility for new customer tonnage (approximately 114,685 short tons) and to recover its settlement price of approximately $350,000, plus generate an additional $978,659 in net port revenues from new users in fiscal years 1997 and 1998.

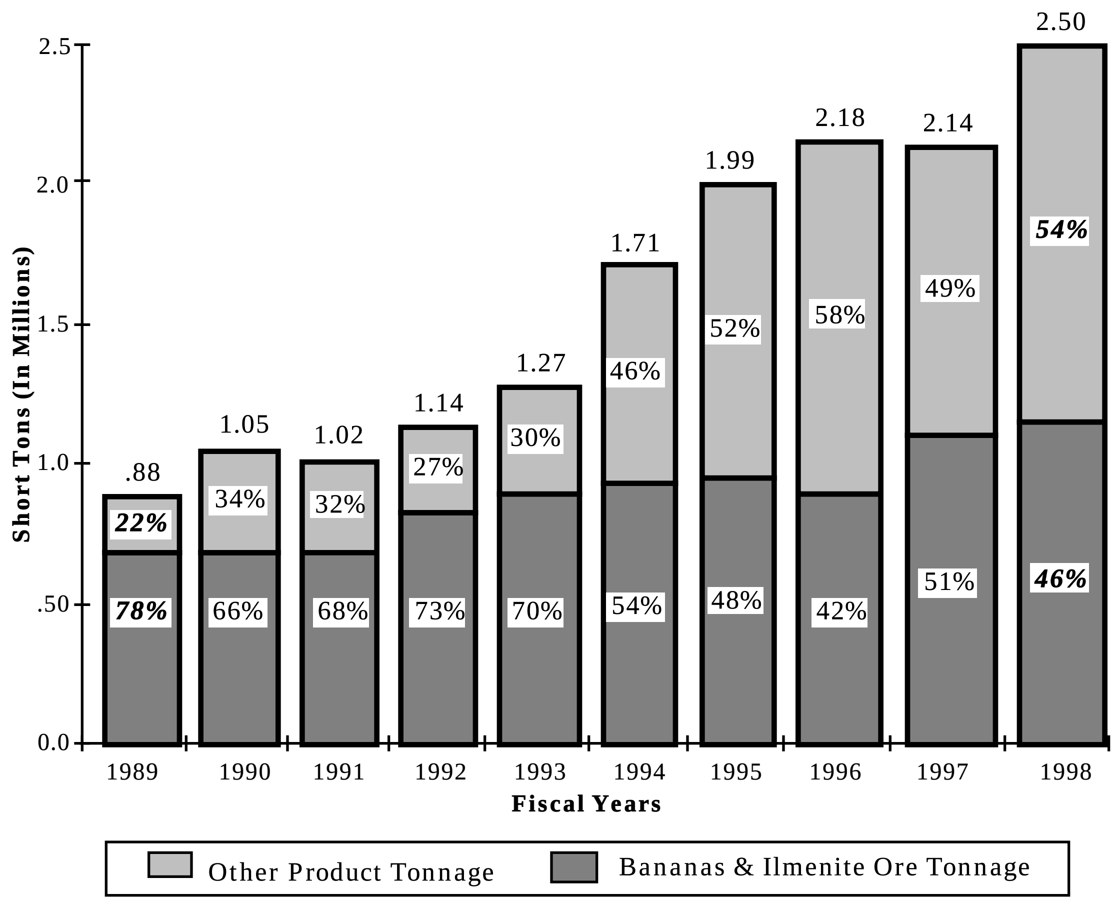
With a deeper channel and additional land and warehouse storage area available, the annual number of vessel calls increased from 193 to 340. At the same time, the port expanded its annual number of import and export product lines from seventeen to twenty-three, contributing to increases in other product tonnage.

In concert with this growth, MSPA increased its overall port capacity utilization rate from 42% to 73%, while its overall cargo capacity increased 592,739 short tons.

Tonnage handled has increased in all three categories of cargo (breakbulk, bulk, and containerized) handled by MSPA (see Exhibit 5, page 14). Compared to other Gulf Coast region ports, the Gulfport port handles a relatively small part of breakbulk and bulk cargo. However, MSPA's increase in containerized cargo tonnage handled has moved it to the third largest of the seven comparable ports.

Exhibit 4

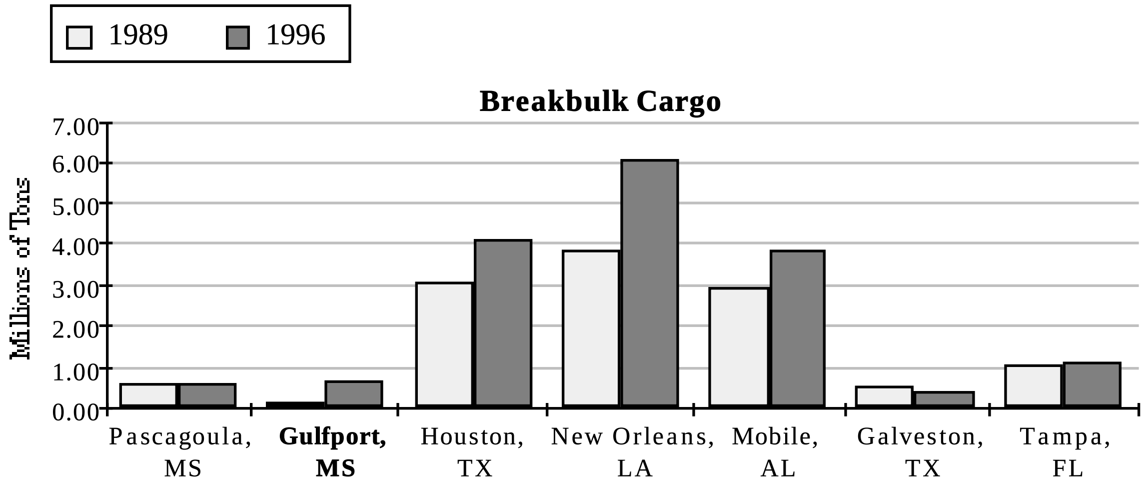
MSPA's Business Activity Tonnages and Percentages of Other Products Versus Bananas/Ilmenite Ore During FYs 1989-98

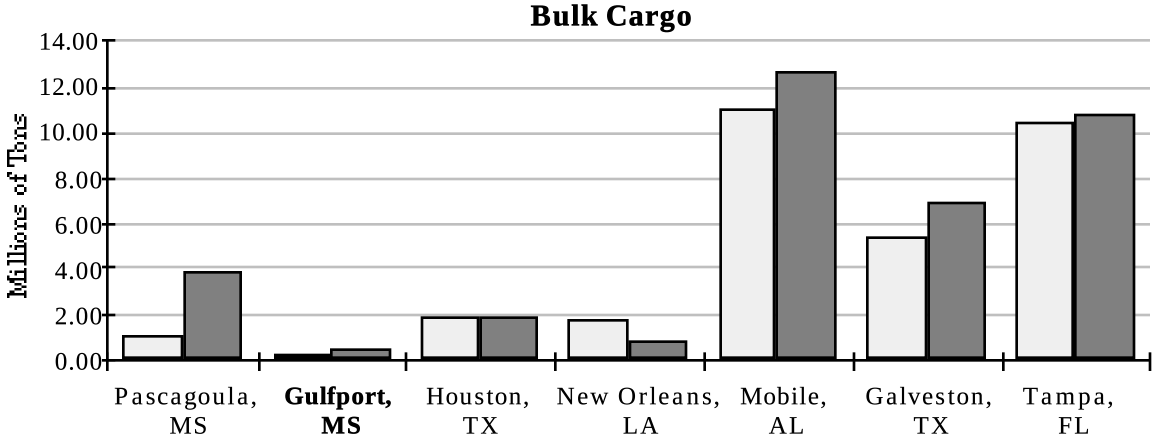


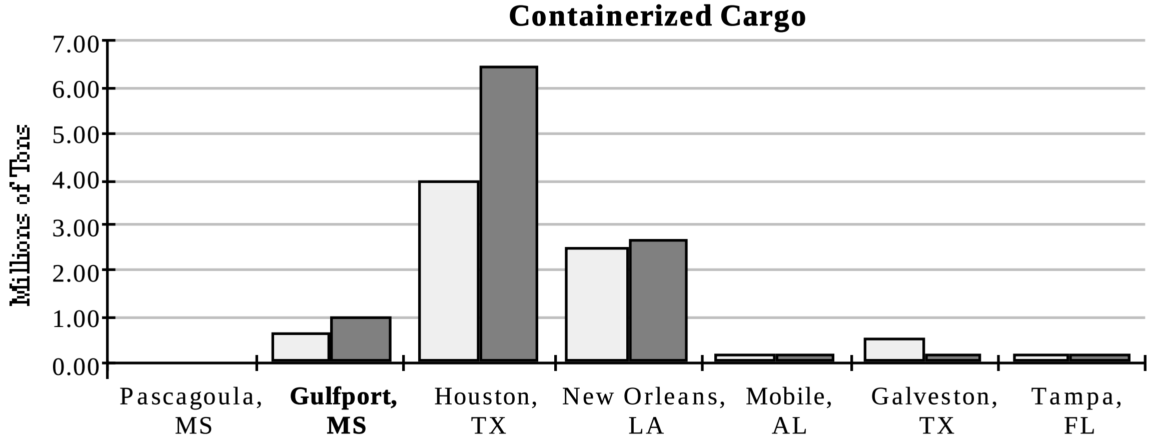
PEER Note: During the 1990s, MSPA has increased its business activity in its "other product" cargo approximately 1,157,900 million short tons and its two core products of bananas and ilmenite ore approximately 460,415 short tons from FY 1989 to FY 1998. This change in cargo mix has produced a more diversified product base for MSPA operations and reduced the port's dependency on its core products to maintain and sustain its financial profitability and self-sufficiency.

SOURCE: MSPA Financial and Operational Records.

Exhibit 5
Comparison of Breakbulk, Bulk and Containerized Tonnage Handled By Gulf Region Ports (1989 versus 1996)







SOURCE: Compiled by PEER.

Diversified Cargo Mix

From FY 1989 to FY 1998, MSPA diversified the mix of types of cargo handled by adding five export product lines. Up through FY 1993, the port was largely dependent on shipments of two products (bananas and ilmenite ore). Beginning in FY 1993, the amount of other product tonnage handled grew from 380,000 tons to 1,350,000 tons in FY 1998, exceeding banana and ilmenite ore tonnage (see Exhibit 4, page 13).

Over the ten-year period, tonnage handled in its "other product" cargo category increased six times (or 1,157,900 short tons), while tonnage for bananas and ilmenite ore increased approximately 460,415 short tons. While other products made up 22 percent of the tonnage handled in 1989, now this group accounts for 54 percent of the total tonnage handled (see Exhibit 4, page 13).

Change in Proportion of Tonnage Handled (Market Share)

In terms of the Gulf Coast region port environment, MSPA at Gulfport accounts for a relatively small portion of the total tonnage handled. However, from 1989 to 1996, MSPA's share of the tonnage handled almost doubled. MSPA is compared to other ports on the basis of the major modes of cargo handled: breakbulk, bulk, and containerized, as previously presented in Exhibit 5, page 14. If the six comparable Gulf Coast region ports are included, the share of total tonnage handled increased from 1.7 percent to 3.3 percent from 1989 to 1996 (see Exhibit 6, page 16).

In 1997, MSPA handled sufficient tonnage of individual products to be considered one of the leading importers or exporters of such products. During 1997, MSPA's handled product tonnage that compared favorably with the other 185 United States and twenty-one Gulf Coast region deep water ports. Among all United States ports, MSPA ranked number 1 in bananas (with a 18.9% market share) and frozen poultry (with a 17.5% market share), and number 2 in titanium ores (with a 29.6% market share). Among the twenty-one Gulf Coast region ports, MSPA also ranked high in the following products:

#2 in prepared meat and fish (26% market share);

#4 in plastic products (2.1% market share);

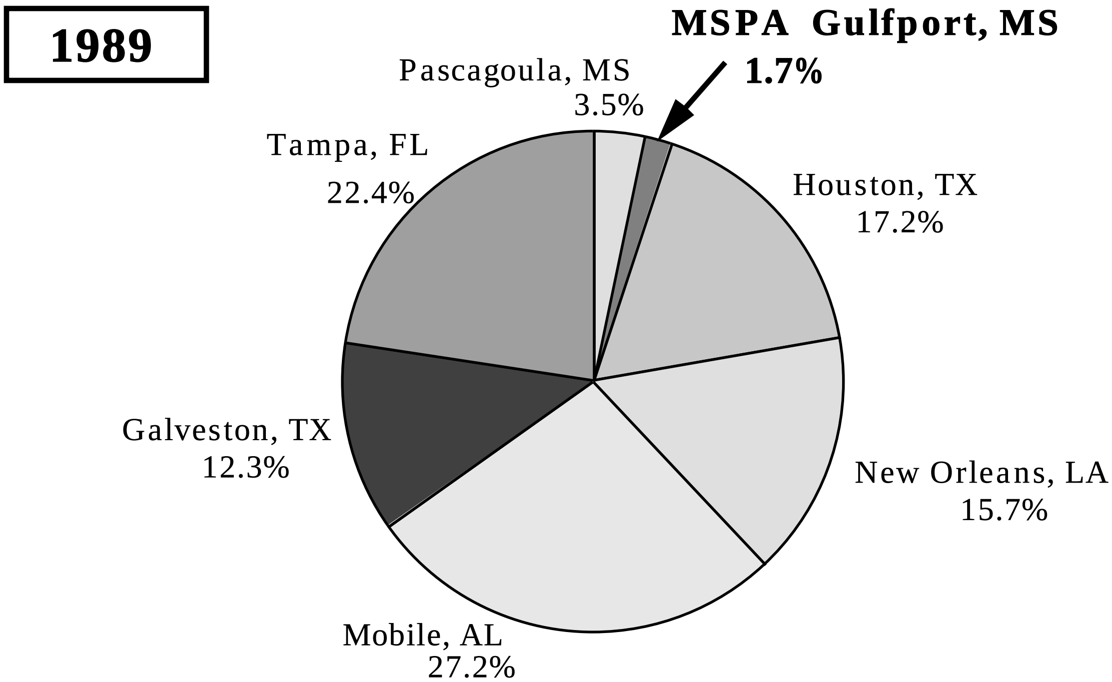
#5 in paper and paperboard (9.6% market share);

#8 in woodpulp (1% market share);

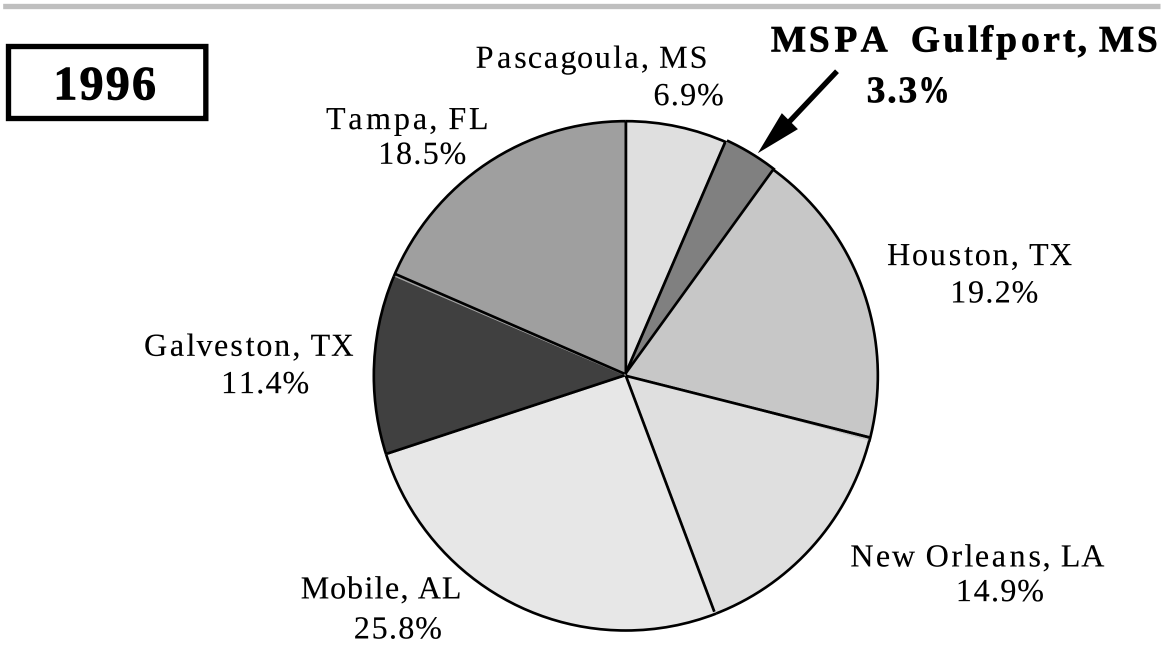
#9 in wood (1.3% market share); and,

#12 in limestone (1% market share).

Exhibit 6
Comparison of Total Tonnage Handled By Gulf Region Ports
(1989 Versus 1996)



Total Tonnage = 51,738,241



Total Tonnage = 64,561,239

SOURCE: Compiled by PEER.

Impact of Increasing Business Activity on MSPA

MSPA has realized a positive growth rate and a favorable market share change relative to its major Gulf Coast region port competitors. Its increased business activity has exceeded the projected annual growth rate range for throughput tonnage in the 1994 MSPA Strategic Plan that the planners deemed necessary for a self-sufficient port operation until 2010. Correspondingly, the port has significantly reduced its excess capacity to a reasonable level of approximately 27%.

Financial Performance

Due to increases in the annual volume of business activity in the 1990s, MSPA's financial performance has improved. The additional income realized from increased activity allowed the port to become self-sustaining (eliminating its dependence on state appropriations), to invest profits in maintaining and upgrading its facility, and to better meet its day-to-day financial obligations.

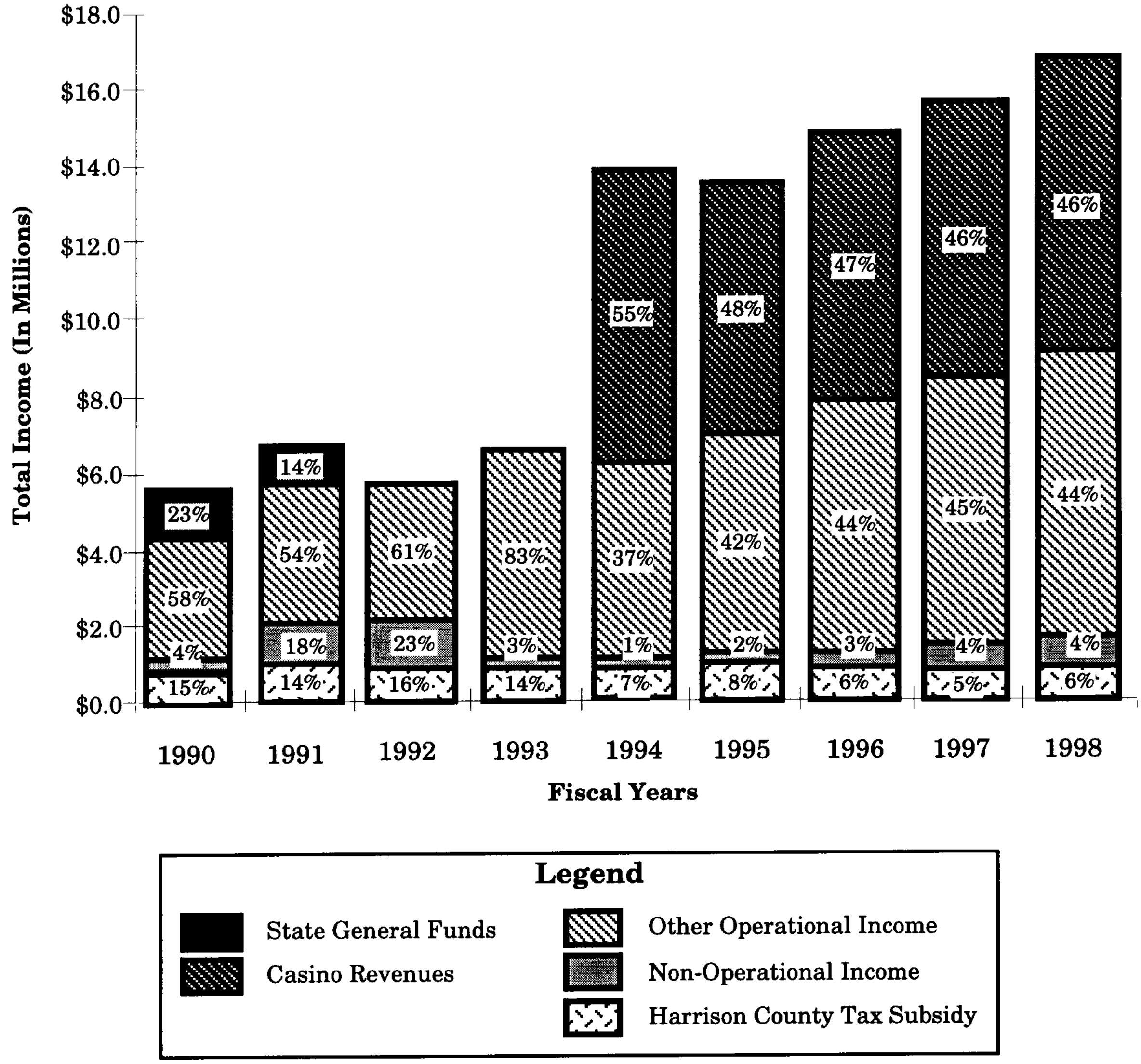
Since 1989, the port's increased business activity has contributed to more annual income from maritime operations, allowing the port to gain control over expenses. The port's ability to sustain operations improved, allowing it to eliminate dependence on state general funds after 1991. Since 1994, the port has allocated additional revenue received from casino leases to fund infrastructure development. The overall increase in the port's level of income has improved its ability to meet regular financial obligations and defray annual costs of infrastructure development.

- *Since 1989, the port has eliminated its reliance on state general funds for operations.*

In examining actual revenues flowing into the port operation since 1989, PEER found that general fund support for the port has been eliminated (see Exhibit 7, page 18). MSPA generated the necessary revenues to become a self-sufficient operation beginning in FY 1992--i.e., it paid all port expenses including debt service and depreciation expense.

The port earned a net income of $212,000 beginning in FY 1992 that climbed to $8.3 million in FY 1998 (see Exhibit 8, page 19). If casino lease revenues for fiscal years 1994 through 1998 are excluded, MSPA financial performance has been self-sustaining for six of the past nine years, with losses occurring in 1991, 1994, and 1995. After excluding casino lease revenue, the port's ability to support itself is primarily due to a $2,087,965 increase in net income from maritime activities during this period. The annual tax subsidy from Harrison County (approximately $910,000 annually) has remained at a constant level throughout this period.

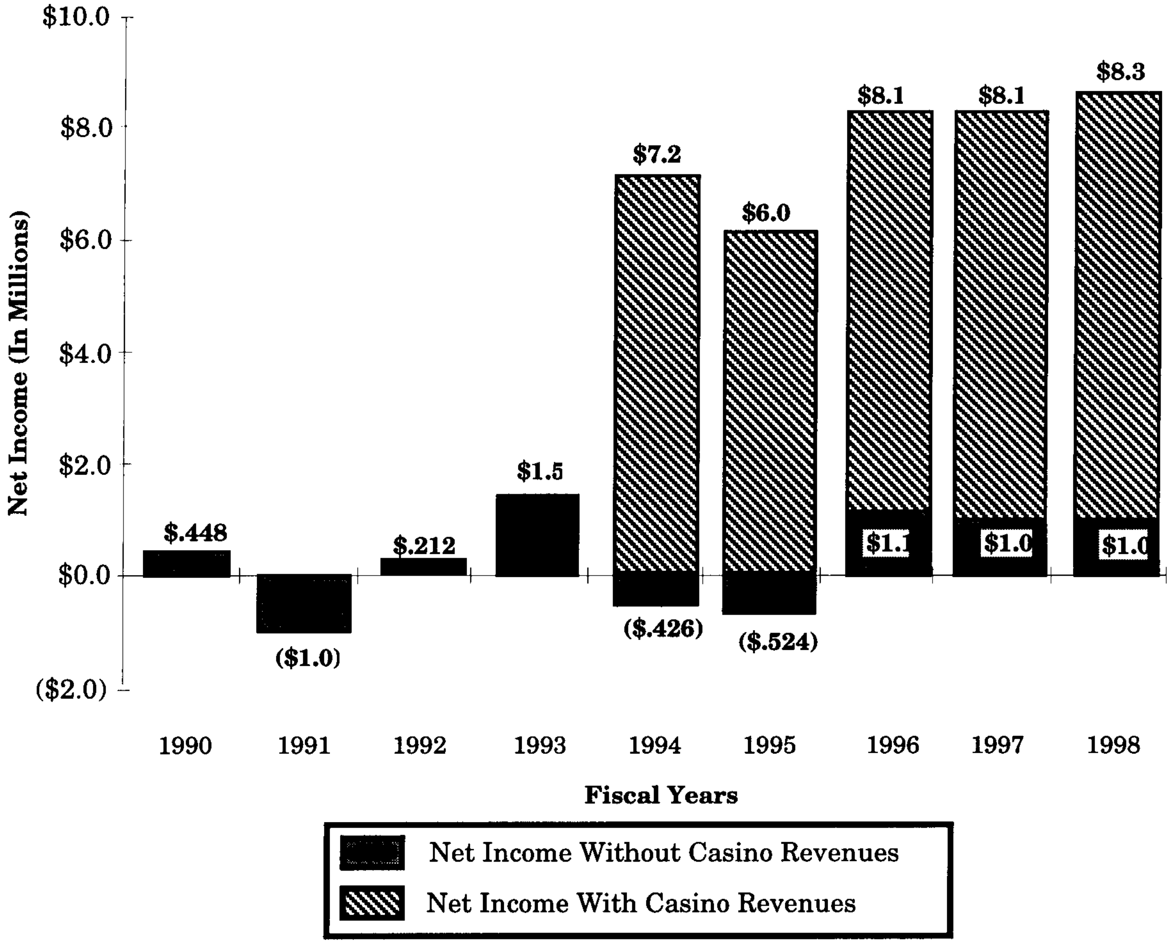
Exhibit 7
MSPA Revenues By Income Sources
(For Fiscal Years 1990 Through 1998)



SOURCE: MSPA Audits and Financial Records.

Exhibit 8

MSPA Net Income
(For Fiscal Years 1990 Through 1998)



PEER Note: This chart depicts MSPA's annual net income (including the annual tax subsidy from Harrison County) after subtracting expenses. These expenses include the port's debt service for long term debt and its depreciation cost for its buildings, equipment, furniture, and any other depreciable assets.

"Net Income Without Casino Revenues" excludes any offsetting revenues for other port uses of the property leased to the two casinos, and approximately $517,795 in operational port expenses for the casino properties (audit fees, dredging costs, and legal fees).

SOURCE: MSPA Audits and Financial Records

- *Additional income from casino lease revenue has provided a profit margin that the port has reinvested in maintaining, upgrading, and expanding its facility.*

Using revenue from operational income, the Harrison County tax subsidy, and casino lease of dock space (beginning in 1994), MSPA has been able to pay operational costs since FY 1991. Income from these sources has bolstered the port's ability to sustain operations and has provided a profit margin which could be invested in upgrading the physical plant. MSPA has generated annual revenues sufficient to fund the cost of its long-term debt infrastructure development and defray these costs using cash assets or state revenue bonds backed by port revenues.

In 1994, MSPA established an infrastructure development plan which addressed completing needed maintenance, upgrading existing facilities, and developing new facilities at a total cost of $57 million. At present, MSPA has completed $18 million in projects to expand storage space and $39 million of improvements in design or under construction over the next five years.

- *Increases in annual income improved the port's ability to meet its regular financial obligations.*

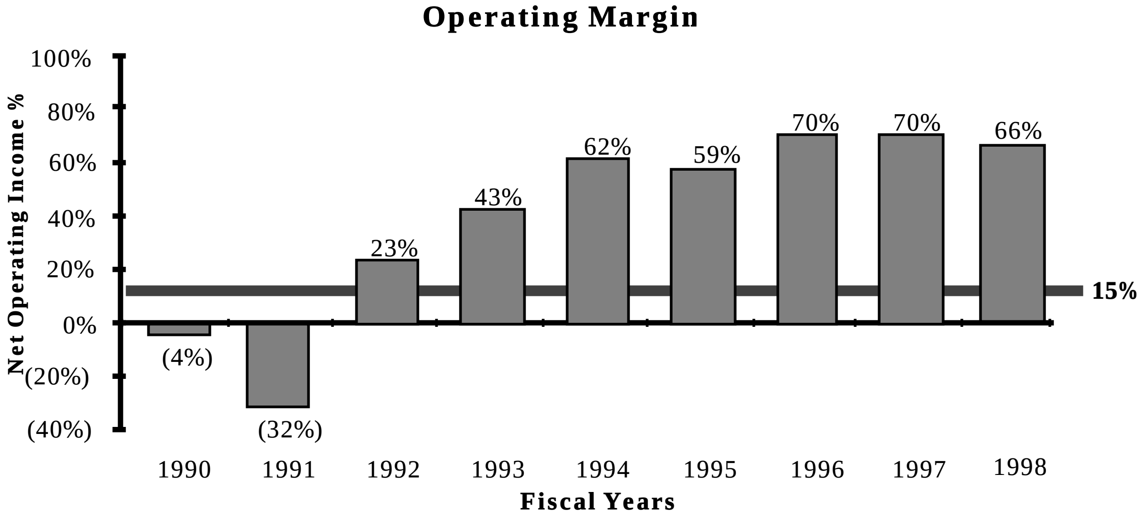
PEER used a system of seven financial performance measures, "the Port Management Control System," to gauge the success of MSPA's financial performance in the 1990s. This simplified financial performance measurement system for public port operations was developed in the 1980s through the joint coordination of the University of Washington, the American Association of Port Authorities, and more than seventy public port authorities in the United States and Canada.

Two of the more important measures include the Operating Margin and Operating Ratio, which measure how much port income ends up as operating revenue and operating expenses, respectively. When casino revenues are included, MSPA achieved an Operating Margin measure of 15% or more and Operating Ratio measure of 85% or less for fiscal years 1992 through 1998. These measures of operational performance are depicted in Exhibit 9, page 21. Both of these measures fall within accepted ranges for the past seven years.

The port also received positive results when applying five other financial performance measures. These performance measures gauge the port's ability to generate earnings, to produce positive returns on investments to satisfy current liabilities, and to collect actual income earned during any given fiscal year. These ratios and performance standards are presented in Appendix B, page 28.

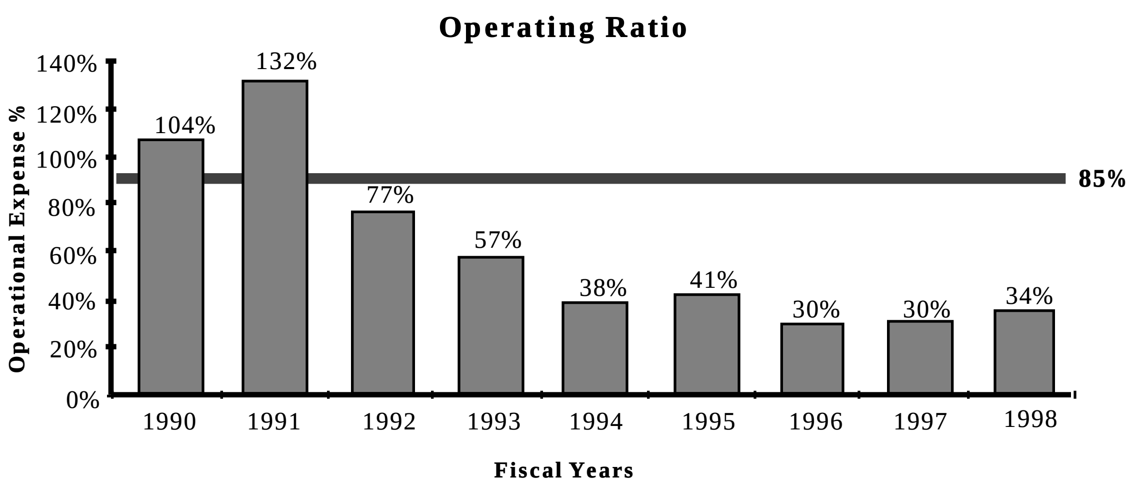
Exhibit 9

MSPA Operational Profit And Expense Percentages Of Gross Operating Revenues With Casino Lease Revenues



PEER Note: The Operating Margin is the percentage of gross operating revenues that eventually ends up as MSPA Net Operating Income. The port has exceeded the standard of 15% or more for the last 7 fiscal years.

Operating Revenues include all income from the use or rental of the port's equipment, facilities, land, or services in the MSPA's operating revenues (including the casino lease revenues).



PEER Note: The Operating Ratio is the percentage of gross operating revenues that is expended on MSPA Operating Expenses. MSPA has met the standard of 85% or less for the last 7 fiscal years.

Operating Expenses include all port expenditures for personnel, travel, contractual services, and commodities. They do not include any expenditures which are categorized in the MSPA budget as capital outlay expenses and subsidy and loan expenses like debt service (principal and interest), bad debts, or other non-operational expenses.

Source: MSPA Audits and Financial Records.

Based on MSPA's performance on seven Port Management Control System financial indicators, PEER concludes that MSPA's financial operation has been stable since FY 1991. Analysis of the port's indicator results (with casino revenues) shows that the port has the ability to control its expenses, generate earnings which also cover the cost of its annual depreciation, satisfy creditors' demands for payments in a timely manner, and annually collect the actual revenues needed to defray operational expenses.

- *Inconsistent practices of collecting accounts receivable have had minor effects on the port's ability to meet financial obligations.*

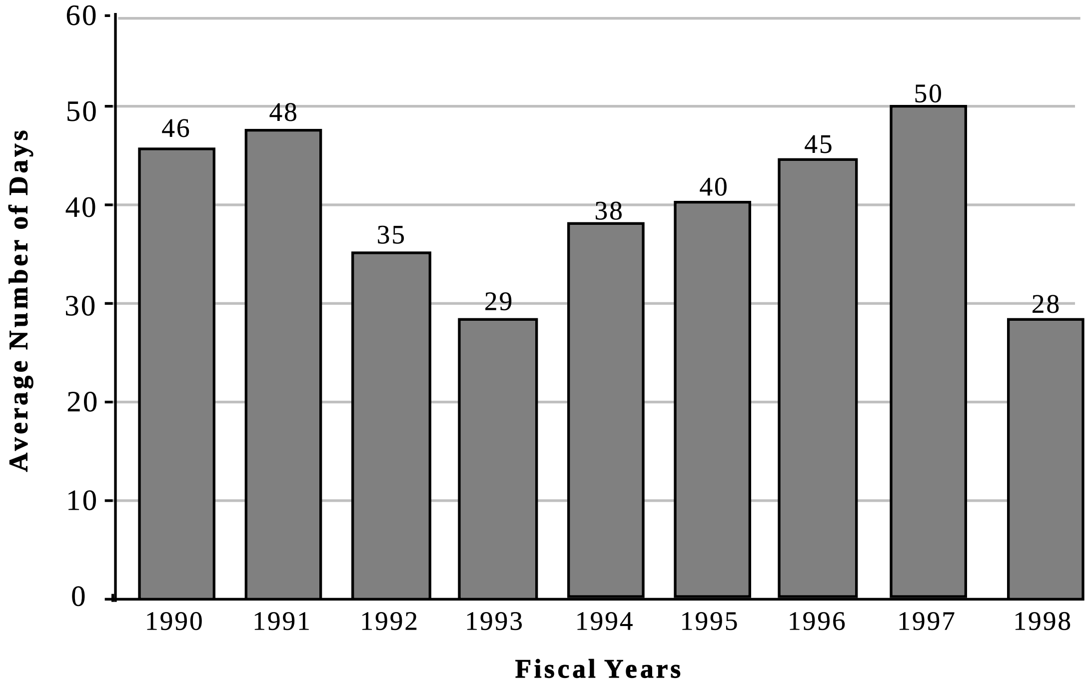
Unlike the 1980s, collection of accounts receivable has not significantly impacted the financial position of the port in 1990s. However, it has contributed to the governing board of MSPA declaring an additional $141,858 as uncollectable accounts receivable. This amount includes $130,064 in accounts receivable that the port did not collect from FY 1990 to FY 1994.

Using the standard accounting industry ratios of Average Receivable Turnover Rate and Average Number of Collection Days, PEER determined that MSPA has not collected its accounts receivable in a consistently timely manner during the 1990s (see Exhibit 10, page 23). From FY 1990 to FY 1997, the MSPA did not properly record the aging of individual accounts receivable, underestimating the age of accounts from 1 to 30 days. During this seven-year period, the port's average number of collection days fluctuated from 29 days to 50 days. In FY 1998, MSPA began using new accounting software which more accurately records and reports its accounts receivable aging information. Based on the accurately reported data for FY 1998, the port reduced the average number of collection days to approximately 28.

Impact of Direct and Indirect Contributions to Port Operations

Several direct and indirect contributions to port operations have an impact on its financial performance and affect, to varying degrees, the port's ability to maintain a self-sufficient operation. Throughout the 1990s, Harrison County has contributed tax revenues directly to the port for use in supporting the small craft harbor. Since 1994, the port's income has been directly affected by annual revenue from casino leases which have served as a major source for funding infrastructure development. Also, since 1994 the port has granted tax credits to businesses that use the port facility.

Exhibit 10
MSPA's Average Number of Accounts Receivable Collection Days for Maritime Operational Accounts During The Decade of The 1990s



NOTE: The average number of collection days indicates the port's diligence or laxness in its debt collection practices within the port-established "current-debt" credit terms of 60-days.

Source: MSPA Financial Records

Impact of Casino Lease and Harrison County Tax Revenues

The port now has a long-term direct source of income in casino lease revenues that can be used as dedicated funding for the necessary improvements and maintenance to the port infrastructure. As a result, the other operating revenues can be used to enhance port operations and services in other necessary areas and to generate annual cash surpluses. Further, the port has the revenue stream to remain self-sufficient while successfully supporting the financing for long-term debt, such as the $40,000,000 bond issue which was recently sold to help fund the five-year work plan for infrastructure development. Furthermore, the port can provide a visible return to the Harrison County taxpayers on their direct investment in port facilities and services through the use of tax revenues to support the commercial small craft harbor operation.

Impact of the Mississippi Export Tax Credit Program

The Mississippi Export Tax Credit Program was designed to generate new business activity and revenues for any port in the state by giving state income tax credits to new or existing port customers. The tax credits are limited to one-half of MSPA's maritime tariff charges for receiving, handling, and wharfage, but the state caps the credit at $1,000,000 per customer for the life of the program.

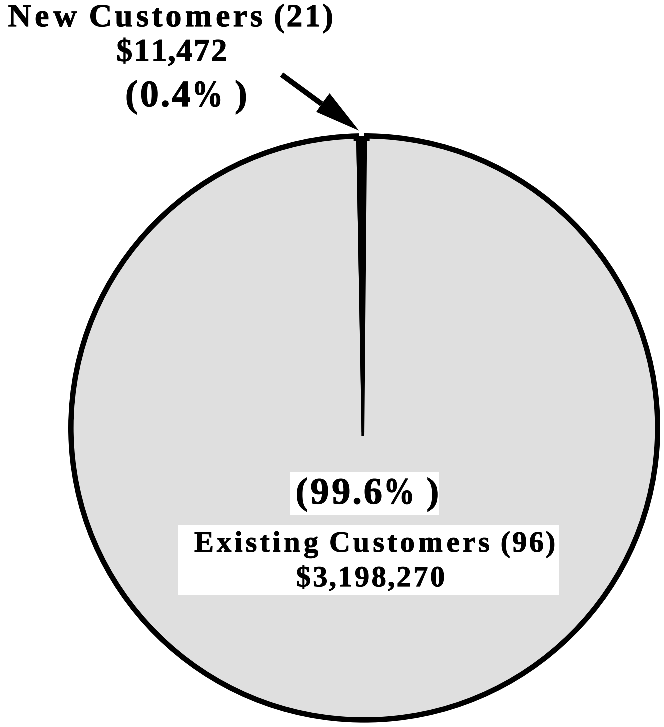
While this program was designed to generate new business activity and revenues, it has essentially been a tax subsidy program for existing MSPA customers while generating some new business activity and income for MSPA. As a result, the state has indirectly subsidized new customer business with $22,944 (.04%) and existing customers by $3,198,270 in tax credits (see Exhibit 11, page 25).

The state tax credit program for calendar years 1994 through 1997 generated a total of $3,209,742 in allowed tax credits, which represented $6,419,484 of the $24,072,625 in total maritime revenues (27%), or an average of $1,604,871 annually.

Estimate of Economic Impact and Benefits

During 1995, LCC, Inc., a private company, performed an economic impact study to estimate the direct and induced economic and employment impacts of the port. The company used a modified version of the United States Department of Maritime Administration methodology for measuring a port's direct economic impact to derive an estimate of $342.9 million in calendar year 1994: $52.9 million in personal income, $255.7 million in business sales, and $34.3 million in state and local tax revenues for the State of Mississippi and its people. Direct impacts for the port industry include revenues for services and supplies associated with vessel calls, charges for physical transfer and storage of products at the port, and inland transport charges. LCC estimated an additional induced (indirect) impact of approximately $187 million. These estimates of economic impact include the economic activities of not only the port, but entities that assist in the transfer of cargo and transportation equipment between the vessel and point of origin or final destination.

Exhibit 11
Tax Credits Awarded To MSPA Customers
(For Calendar Years 1994 To 1997)



TOTAL = $3,209,742 (117 Customers)

SOURCE: MSPA business development records.

Summary Conclusion

MSPA's growth during the 1990s has produced a state port operation that has the financial and operational resources to maintain self-sufficiency and provide benefits to the citizens of the state. Over this period, MSPA has increased business activity (tripling the tonnage handled) and reduced its dependence on two products. It has diversified cargo handling into other product areas that now account for 54 percent of the total tonnage handled. While MSPA remains small relative to other comparable ports in the Gulf Coast region, its market share of tonnage handled has doubled over the past ten years.

As a result of this increase in the annual volume of business activity, MSPA's financial performance has improved. The additional income realized from increased activity has allowed the port to become self-sustaining (eliminating its dependence on state appropriations), to invest profits in maintaining and upgrading its facility, and to better meet its day-to-day financial obligations.

Appendix A

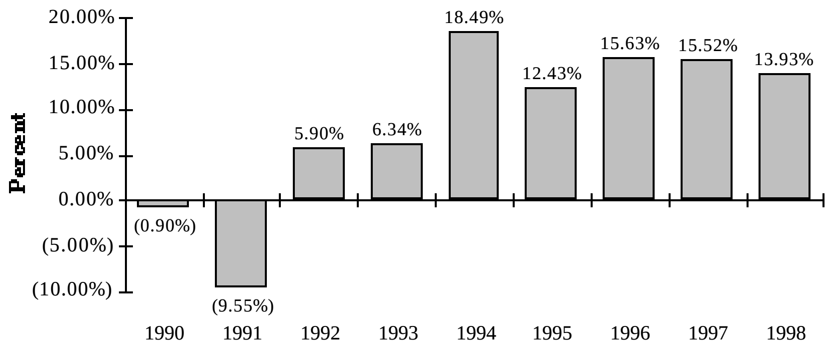
The Increase (Decrease) In Business Activity Tonnage And Percent Of Change For MSPA And Its Gulf Region Port Competitors By Type of Cargo From CYs 1989 To 1996														
			Business Activity in CY 1989				***Business Activity in CY 1996***				***Business Activity Increase (Decrease)***			
	Port Facility		BreakBulk	Bulk	Containerized	Total	BreakBulk	Bulk	Containerized	Total	BreakBulk	Bulk	Containerized	Total
1	Pascagoula, MS	Tonnage	629,000	1,189,000	No	1,818,000	581,419	3,896,032	No	4,477,451	(47,581)	2,707,032	No	2,659,451
		% of Tota	5.19%	3.74%	Cargo	3.51%	3.47%	10.42%	Cargo	6.94%	(7.56%)	227.67%	Cargo	146.28%
		Rank	5	6	Tonnage	6	6	4	Tonnage	6	6	1	Tonnage	1
2	***Gulfport, MS***	Tonnage	***62,565***	***190,402***	***626,598***	***879,565***	***664,184***	***432,251***	***1,008,397***	***2,104,832***	***601,619***	***241,849***	***381,799***	***1,225,267***
	MSPA	% of Tota	***0.52%***	***0.60%***	***8.02%***	***1.70%***	***3.96%***	***1.16%***	***9.68%***	***3.26%***	***961.59%***	***127.02%***	***60.93%***	***139.30%***
		Rank	***7***	***7***	***3***	***7***	***5***	***7***	***3***	***7***	***1***	***2***	***2***	***2***
3	Houston, TX	Tonnage	3,052,000	1,898,000	3,974,000	8,924,000	4,073,888	1,852,385	6,459,822	12,386,095	1,021,888	(45,615)	2,485,822	3,462,095
		% of Tota	25.19%	5.97%	50.90%	17.25%	24.31%	4.95%	62.02%	19.19%	33.48%	(2.40%)	62.55%	38.80%
		Rank	2	4	1	3	2	5	1	2	3	6	1	3
4	New Orleans, LA	Tonnage	3,856,755	1,744,364	2,511,647	8,112,766	6,055,982	929,556	2,648,874	9,634,412	2,199,227	(814,808)	137,227	1,521,646
		% of Tota	31.83%	5.48%	32.17%	15.68%	36.13%	2.49%	25.43%	14.92%	57.02%	(46.71%)	5.46%	18.76%
		Rank	1	5	2	4	1	6	2	4	2	7	5	4
5	Mobile, AL	Tonnage	2,933,058	10,979,383	149,302	14,061,743	3,855,184	12,623,973	181,820	16,660,977	922,126	1,644,590	32,518	2,599,234
	Alabama State Docks	% of Tota	24.20%	34.51%	1.91%	27.18%	23.00%	33.77%	1.75%	25.81%	31.44%	14.98%	21.78%	18.48%
		Rank	3	1	5	1	3	1	4	1	4	4	4	5
6	Galveston, TX	Tonnage	552,967	5,289,428	506,019	6,348,414	430,492	6,877,462	66,477	7,374,431	(122,475)	1,588,034	(439,542)	1,026,017
		% of Tota	4.56%	16.63%	6.48%	12.27%	2.57%	18.40%	0.64%	11.42%	(22.15%)	30.02%	(86.86%)	16.16%
		Rank	6	3	4	5	7	3	5	5	7	3	6	6
7	Tampa, FL	Tonnage	1,031,660	10,521,478	40,615	11,593,753	1,099,119	10,773,027	50,895	11,923,041	67,459	251,549	10,280	329,288
		% of Tota	8.51%	33.07%	0.52%	22.41%	6.56%	28.82%	0.49%	18.47%	6.54%	2.39%	25.31%	2.84%
		Rank	4	2	6	2	4	2	6	3	5	5	3	7
	TOTAL	Tonnage	**12,118,005**	**31,812,055**	**7,808,181**	**51,738,241**	**16,760,268**	**37,384,686**	**10,416,285**	**64,561,239**	**4,642,263**	**5,572,631**	**2,608,104**	**12,822,998**
		% of Tota	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	38.31%	17.52%	33.40%	24.78%

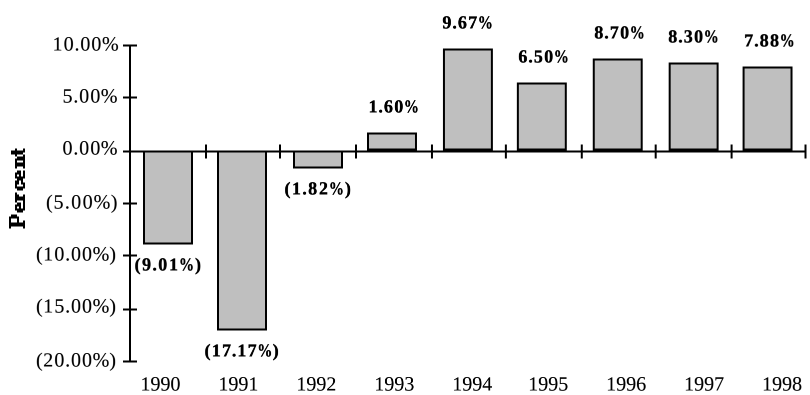
PEER Notes	
1	The "Bulk" category includes Automobiles plus Dry Bulk short tons. Since MSPA does not have tanker loading capability, the competitive port's tonnage for Liquid Bulk is excluded from the port comparison.
2	The percentages in the CYs 1989 and 1996 sections are the percent of the port's market share for each type of cargo and overall tonnage.
3	The percentages in the 1990s section are the percent of change in the port's tonnage for each type of cargo and business activity.
4	The numbers 1-7 are the rank order of each port from highest to lowest percentage in total tonnage for each cargo category in CYs 1989 and 1996 and the ports from highest to lowest net increase in the Business Activity.
5	The reported cargo tonnage includes only cargo going through the public docks. No private terminal tonnage is included according to the information which was provided by the individual ports.

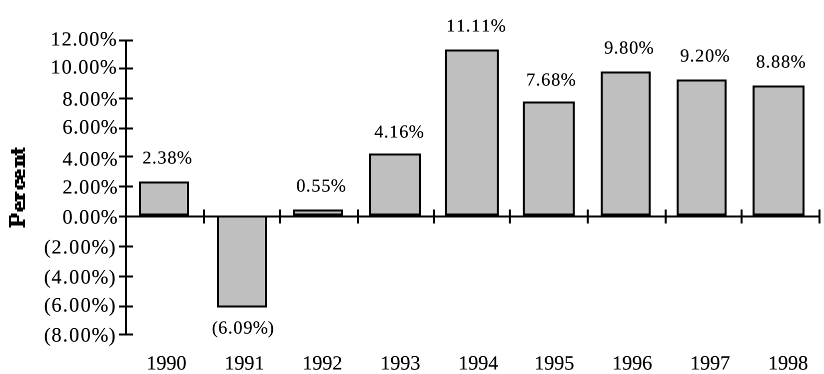
SOURCE: PEER survey of individual ports.

Appendix B

MSPA's Financial Performance Measures Using the Financial Indicators in the Port Management Control System

<table>
<tr><th></th><th>Name of
Performance Indicator
(Description)</th><th>Performance Standard</th><th>Financial Performance Measure
(FY 1990 to FY 1998)</th></tr>
<tr><td>1</td><td>Net Operating Income Return on Net Capital Asset Investment
Determines the port's ability to generate earnings after including all revenues and expenses except for tax revenues & depreciation.</td><td>The investment return should be a positive rate consistently over time.</td><td>
</td></tr>
<tr><td>2</td><td>Return on Total Asset Investment After Depreciation

Determines the port's ability to generate earnings after including all revenues and expenses but prior to tax revenues.</td><td>The investment return should be a positive rate consistently over time.</td><td>
</td></tr>
<tr><td>3</td><td>Return on Total Asset Investment After Tax Revenues

Determines the port's ability to generate earnings after including all revenues and expenses including tax revenues.</td><td>The investment return should be a positive rate consistently over time.</td><td>
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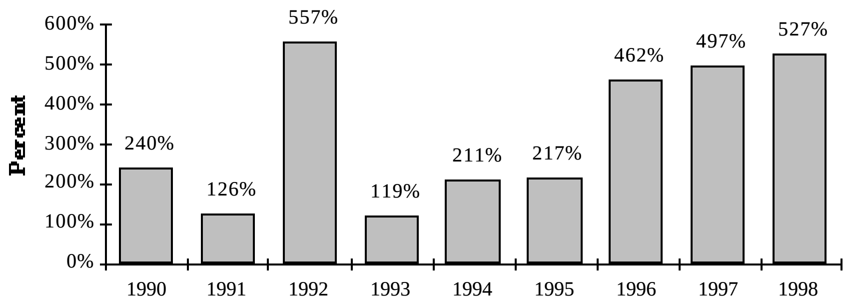
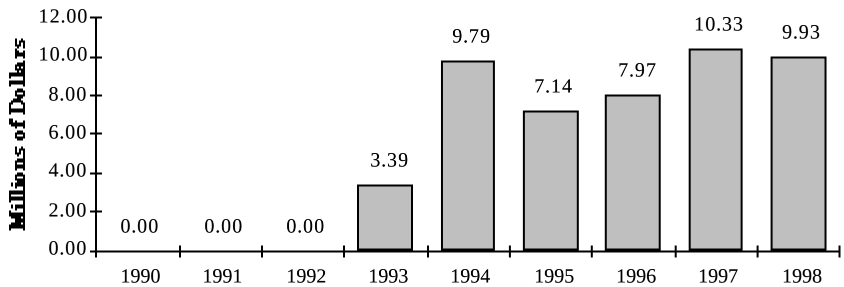
Appendix B (Continued)

MSPA's Financial Performance Measures Using the Financial Indicators in the Port Management Control System

<table>
<tr><th></th><th>Name of Performance Indicator (Description)</th><th>Performance Standard</th><th>Financial Performance Measure (FY 1990 to FY 1998)</th></tr>
<tr><td>4</td><td>Current Ratio

Measures the port's ability to satisfy immediately any creditor's demand for payment of the port's current liabilities.</td><td>The liquidity rate should be a positive rate consistently over time.</td><td>
</td></tr>
<tr><td>5</td><td>Cash Flow from Operating Activities

Measures the actual collected revenues in a given fiscal year which are expended on operational expenses during that year.</td><td>The port should produce a consistent cash surplus over time.</td><td>
</td></tr>
</table>

SOURCE: The Institute of Marine Studies at The University of Washington in Seattle
MSPA Financial Audits and Records

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT

December 8, 1998

Mr. Larry Whiting
Principal Analyst
P. E. E. R.
P. O. Box 1204
Jackson, MS 39215-1204

Dear Mr. Whiting:

I would like to take this opportunity to thank you for the excellent "Executive Summary" regarding your program evaluation of the Mississippi State Port Authority. The executive summary reflects the professionalism with which you conducted the evaluation. In addition, it acknowledges the issues the Port faces on a day to day basis.

In addressing the Mississippi Export Tax Credit Program, the Port Authority utilizes this program to enhance our ability to retain current customers in an extremely competitive industry. Your findings indicate that we have been successful in utilizing the program in this manner. As a niche port, we believe it is imperative that we maintain our current customer base as well as use the tax credit program to encourage new customers to the Port of Gulfport.

The accounts receivable aging issue that you discussed in the exit conference has already been addressed with the implementation of new accounting software in Fiscal Year 1998.

The Mississippi State Port Authority certainly plans to maintain its current mode of operation in order that it may continue to fulfill its mission to be a profitable, self-sufficient port providing world class marine terminal services to present and future customers and to facilitate the growth of Mississippi through the promotion of international trade.

Once again, I would like to thank you for your interest in the Port and for the proficient manner in which you conducted the program evaluation of the Mississippi State Port Authority at Gulfport.

Sincerely,

Anthony J. Taormina
Executive Director

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