OLR RESEARCH REPORT

October 24, 2012 2012-R-0469

2012 CONNECTICUT PORT STUDY

By: Paul Frisman, Principal Analyst

This report summarizes the recommendations of *Connecticut's Deep Water Port Strategy Study,* conducted for the Office of Policy and Management (OPM) and published in September, 2012.

SUMMARY

The study was conducted for OPM by Moffat & Nichol, a California-based consulting firm, in association with the Beta Group, a New England based-engineering firm. OPM and several state agencies requested a marketing and economic development study to help them develop a long-term strategy for the state's three deep water ports: Bridgeport, New Haven, and New London.

The report's authors say its main focus is a market analysis to determine the best uses of the three ports. It also addresses development of a marketing plan, identification of state infrastructure investments needed to make the ports more competitive, and development of a grant program to address needed improvements at the three ports.

The report, noting that the three ports have declined in recent decades, lists eight "market-based" strategies to help stem this decline, and five government actions and policies to support these strategies. The "more difficult improvements," the report cautions, involve state-level governmental support.

The eight market-based strategies include retaining and expanding the following four business lines:

- Liquid bulk and related energy uses (e.g., fuel oil) at all three ports;

- Private ferry services at Bridgeport and New London;

- Shipyard and repair services at all three ports; and

- Dry bulk and "break bulk" cargoes at New Haven and New London (break bulk cargo includes items such as construction equipment, which is too heavy or big to be shipped in containers, and is usually loaded individually).

It also includes expanding two "niche" export and two "niche" import opportunities for new business:

Exports

- Scrap metal from New Haven
- Wood pellets from New London

Imports

- Break bulk lumber, copper, and steel to New Haven and New London

- Fresh food to New Haven and New London

Table 1 below presents these recommendations.

Table 1: Recommended Market-Based Strategies

Retain or Expand Business Lines					***Niche Cargo***			
Port	***Liquid Bulk/Energy***	***Ferry Service***	***Ship Repair***	***Dry Bulk***	***Scrap Metals***	***Wood Pellets***	***Break Bulk***	***Fresh Food***
Bridgeport	x	x	x					
New Haven	x		x	x	Export		Import	Import
New London	x	x	x	x		Export	Import	Import

The report recommends the following government actions and policies to help implement these strategies:

- Maintenance dredging at New Haven harbor and numerous small marinas;
- State Pier (New London) solicitation;
- Former Derecktor Shipyard (Bridgeport) solicitation;
- A statewide capital or grant-in-aid program based on complementary private investments and the purchase of "public benefits;" and
- Revising the ports' governance structure to reduce regulatory risk and provide a stable investment climate, possibly through a dedicated state port development agency.

BACKGROUND

The report notes that the state's deep water ports and their related industries have "not fared well in recent decades," and that the volume of exports has "grown modestly, while import volumes have declined by nearly 80% since 2006."

The reasons for the decline include some factors specific to Connecticut, such as the loss of a major Bridgeport banana importer. Other factors are beyond the state's control, such as the collapse of the real estate market and subsequent drop in demand for building materials, and the economies of scale that favor large U.S. ports with massive port-related infrastructure, such as Los Angeles and New York.

The report acknowledges that Connecticut's ports cannot compete at the same level as these large ports, but sees an opening for its three ports to succeed in smaller, "niche" markets peculiar to the ports and their locations.

"The appropriate strategy," the report states, "is to aggressively support the retention and expansion of existing business lines, and…identify niche opportunities to introduce new business lines that will help diversify and grow Connecticut port-related and overall economies."

The study recommends eight market-based strategies, which it breaks down into four “retention and expansion efforts” and four niche cargo opportunities. It suggests five government actions and policies to support these efforts.

The report recommends that the state focus its investments and attention on New Haven. “Implicit in these strategies,” it says, “is an acknowledgement that…New Haven serves the strongest consumer market, has the most varied cargo mix, and is the only port [of the three] that has attracted significant private investment.”

We summarize the report’s recommendations below.

RETAINING AND EXPANDING EXISTING BUSINESS LINES

Liquid Bulk and Energy Uses

The report notes that the flow of petroleum products through the state’s three ports is “critical to Connecticut’s economy and its energy future.” About one-third of the land area of each port is devoted to energy-related uses; in 2010, New Haven had the fifth largest volume of domestic trade of gasoline and other petroleum products. Given the major changes in the global energy markets, the report says, the state should “define, protect, and enhance” these uses at all three ports to help address energy security and electric rate issues.

Private Ferry Services

The ferries running from Bridgeport and New London to Long Island, New York, carry nearly two million people and more than 500,000 motor vehicles a year. Although the number of ferry service employees has dropped from a high of 917 in 2001, it remains relatively stable at 830 people. The ferries also provide a public benefit by removing motor vehicles – and the pollution they cause – from state roads.

Perhaps most notably, the report says, “the private ferry services…do not require a public subsidy. This is a rarity in the U.S. and a condition worth protecting and promoting.”

It recommends that the state support a plan to build a new ferry terminal at Bridgeport's Barnum Landing, and integrate the ferry relocation with the plan to open a Bass Pro Shops store at Steel Point. The report notes that a recent Superior Court decision upholding Bridgeport's denial of the ferry relocation is "a cause for concern," but speculates that the issue may be resolved by revising the Bridgeport and Harbor Commission master plans.

The firms operating the Bridgeport-Port Jefferson and New London-Orient Point ferries say they need additional parking; the New London ferry service says that its long-term future depends on parking availability and affordability. The report recommends that the state support a New London parking study.

Shipyard and Ship Repair Services

Statewide shipbuilding and repair services employ 118 people, and pays higher-than-average industrial wages, according to the report. The private Thames Shipyard in New London is the largest non-cargo employer among the three ports.

The report, citing industry representatives who say that consulting fees for required permits can cost more than 3% of their gross receipts, recommends that the state streamline the regulatory process. It also says the state should continue to support the Bridgeport Port Authority in its efforts to retain ship repair services at the former Derecktor shipyard, in which the state has a significant financial interest.

Increase Dry Bulk and Break Bulk Cargoes

The report recommends that the state take advantage of competitive markets to increase its trade in such products as ferrous metal imports and exports, wood pellet exports, and copper and lumber imports.

It recommends spending up to:

- $11 million for increased rail spurs and related Waterfront Street improvements for New Haven,
- $14 million to expand New Haven's North Yard on land identified in the New Haven Port Authority strategic land use plan, and
- $40 million for capital incentive improvements in New London.

However, the report is very clear in saying the state should require matching private investments and long-term business commitments before committing any public money. “Market needs and economic viability should drive these types of infrastructure investments, not the reverse,” it advises.

NICHE CARGO OPPORTUNITIES

Scrap Metal Exports

According to the report, Connecticut’s single largest export by weight is scrap metal. The state generates about 900,000 tons of scrap metal a year, with half that amount sent to China, Egypt, Saudi Arabia, and Turkey and the rest sent, largely by truck, through New Jersey, Pennsylvania, and Rhode Island.

The report says the state can increase scrap metal exports through New Haven by:

- partnering with the state’s three large scrap metal processors, and developing a statewide brokering system to encourage smaller dealers to export their product through New Haven;

- capturing a larger share of the wider regional scrap metal production through that partnership; and

- offering incentives to send state and regional scrap metal through New Haven by barge rather than by truck.

It says the last of these recommendations would call for “public benefit” grants of up to $400,000 a year. (A public benefit is one that benefits state residents, but is not necessarily reflected in the costs to the parties directly involved. For example, shipping more cargo by barge rather than by truck would reduce highway congestion and emissions and improve safety on the state’s highways.)

Wood Pellet Exports

According to the report, the global demand for hardwood and softwood pellets, which today is about 15 million tons, is projected to grow to between 45 and 60 million tons by 2020. The report acknowledges that Maine ports have an advantage in this market, but notes that the New England Central Railroad (NECR) provides direct access from New London’s State Pier to Canadian and northern New England forestry centers.

The report said that specialized handling equipment and improvements can be installed for between $2 million and $12 million. However, it said, any such investment should require matching private investments and long term contractual and business commitments to wood pellet exports as part of a larger contract or concession to manage and market the State Pier in collaboration with NECR.

Lumber, Copper, and Steel Imports

The report states that the poor economy and lack of rail access to the ports have contributed to the decrease of imports of these products from 286,000 tons in 2005 to 71,000 tons in 2011.

It says growth of these commodities should be rewarded or encouraged as part of larger contract or concession to manage and market New London's State Pier in collaboration with the NECR. In New Haven, growth in these goods should be required for specific capital investments, such as an on-dock rail spur, matched by private investment and long term business commitments.

According to the report, an investment of up to $11 million may be needed at either New Haven or New London. But it says that the state should not provide incentives for these imports if they would give an advantage to one port over the other.

Fresh Food Imports

The 2008 move to Philadelphia, Pennsylvania from Bridgeport of Turbana, a banana importer that at its peak employed 100 people, was a "major loss for the city and the state," the report acknowledges. But it sees a potential replacement "fresh food anchor" in the state's scallop and shellfish fleet. The shellfish catch that arrives at New London docks is currently brought to New Bedford, Massachusetts for processing and distribution. "The Thames River Seafood Cooperative would actively support future landside investments in ice and refrigeration equipment and welcome an increase in scallop and shellfish fleets with New London as home port," the report says. "They envisage the development of an industrial condominium to support this increased fishing fleet with its own processing and distribution capabilities." The report recommends that the Department of Economic and Community Development (DECD) commissioner "work with the ports of New Haven and New London to identify market opportunities for fresh food imports, including scallops and other seafood and shellfish."

POLICIES AND ACTIONS TO SUPPORT A MARKET–BASED STRATEGY

The report identifies five separate state actions to protect and expand the eight businesses described above. We summarize these below.

Infrastructure Investment and Improvement Recommendations

New Haven Maintenance Dredging, Small Marina Maintenance Dredging, and Environmental Restoration. The report states that New Haven, the most important cargo facility in the state, is threatened by shoaling and poor channel maintenance. Additionally, the possible closing of open water disposal sites in 2013 could lead to increases in the cost of dredge disposal after 2014.

According to the report, the U.S. Army Corps of Engineers needs to commit $10 million for maintenance dredging by federal fiscal year 2014 to avoid those costs. While it appears the Corps will commit that money, the report says the state should pay for the dredging if the Corps does not. The report notes that dredging is also needed at a number of smaller public and private marinas, and recommends that the state set aside about $1 million a year for this purpose and to explore opportunities for wetlands creation and environmental remediation with disposal materials from these sites.

Revise State Pier Solicitation. According to the report, public entities have spent more than $58 million in support of New London port facilities, including $43 million for emergency repairs to the State Pier. Since the early 1980s, the report says, the State Pier has been operated by a private stevedoring company paying rent based on a percentage of gross receipts under leases averaging seven years long. The report states these short-term leases and the rent structure do not encourage cargo growth.

It notes that total tonnage at the State Pier is now about one-third of its 2004 levels, and recommends that Connecticut seek a long-term lease that (1) rewards cargo growth appropriate to New London and (2) leverages public investments with private investments. The report says the state should not make additional investments without securing complementary investments from the private sector.

It recommends that the state engage in a public-private partnership with the goal of:

- a long-term lease of about 30 years;
- an advance capital investment by the lessee; and
- a potential state capital investment (e.g., in infrastructure or specialized equipment) linked to specific long-term cargo commitments, such as in steel imports or wood pellet exports.

It suggests the state invest up to $10 million, depending on the specific cargo commitments.

Bridgeport/Derecktor Shipyard. According to the report, public entities have invested more than $43 million in Bridgeport waterfront enterprises, including more than $20 million in the Bridgeport Regional Maritime Complex, which incorporates the now bankrupt Derecktor shipyard. "The state has a financial interest in returning economic activity to the Derecktor shipyard and attracting a tenant that does not harm adjacent uses in either Bridgeport or the existing [Connecticut] shipyards," the report says.

The report says Bridgeport has sought and received proposals to use the property, but not the existing improvements, which are tied up in bankruptcy. The Bridgeport Port Authority is working on a temporary agreement with a major ship repair business that is using the shipyard to carry out overhaul work on U.S. Coast Guard vessels, and is seeking to negotiate a long-term lease agreement. The report recommends that the state continue to play a supporting role in the city's efforts to retain ship repair services, and says it should invest up to $5 million, depending on specific business commitments.

Financial and Institutional Recommendations

Create a Market-based Grant-In-Aid Program. "The state has a number of infrastructure and grant programs that have supported Connecticut deep water ports and their related industries," the report states. The state's challenge, it says, is to "create a transparent framework for market-based planning, capital investments and grants-in-aid" that:

1. leverage private investment;

2. respond to changes in cargo and non-cargo markets;

3. implement a long term transportation, economic and environmental vision for the state;

4. fund infrastructure and capital investments only when complementary private investments or business activities are committed; and

5. fund the purchase of public benefits (e.g., reducing pollution and traffic congestion by diverting trucks from I-95).

The challenge, it says, is in whether the state, which traditionally plans for the long-term, can "respond to market opportunities in real time," as private markets do. Connecticut, it says, may have to become comfortable setting aside bonds and general funds "for projects or programs that may or may not happen."

Revise and Improve Governance Structure. According to the report, Connecticut ports are the only east coast deep water ports without dedicated state-level financial and institutional support.

"In Connecticut, these responsibilities have fallen to two small financially distressed localities and a branch of the state DOT," the report says. "Each has performed its task well, but none is properly equipped to compete in the global economy or even against other east coast ports. Participation in the capital intensive global supply chain requires both significant capital investment and state-level institutional support that creates a stable investment climate for public and private investors." The "more difficult improvements," the report says, "are in areas of institutional support."

"In order to grow, the institutions governing Connecticut deep water ports require a major cultural change – away from building a piece of infrastructure and more toward building a business…The capital investments [the report recommends] will not show positive returns without institutional structures committed to, and capable of, building and growing a business."

Reducing Regulatory Obstacles. The report says that "multiple layers of regulatory oversight" present a significant barrier to private investment. Businesses, it says, may require regulatory approvals from multiple local, regional, state, and federal agencies.

To reduce regulatory risk and provide a stable investment climate, the report says, the state must address these overlapping layers. For example, it could seek to resolve air emission and water discharge regulatory issues for shipyards, and address the problems caused by conflicting land uses, confined land areas, and complex land use approvals in and around New Haven.

Governance Structure—Two Approaches. The report says Connecticut can revise how it oversees the three ports by taking either a market-based approach or by creating a statewide port authority.

Market-Based Strategy. A market-based strategy would follow the strategies the report recommends, together with supporting policy and institutional changes at the Port of New Haven and among several state agencies.

According to the report, the following tasks "will not happen naturally, but will require hands-on executive leadership:"

- revising the State Pier solicitation process in New London;
- supporting the Bridgeport Port Authority in its efforts to retain ship repair services at the former Derecktor Shipyard;
- ensuring channel maintenance dredging at New Haven harbor;
- strengthening and streamlining the New Haven Port Authority's access to capital, its ability to enact its master plan (including expansion and adjacent land uses), and its ability to create a stable investment climate;
- reviewing Department of Energy and Environmental Protection (DEEP) regulations affecting shipyard operations;

- guiding a “culture change” at DECD towards “building a business;” and
- having OPM guide a multi-agency (DEEP, DECD, and the Department of Transportation) capital and grant-in-aid programs in support of solicitations, and time-sensitive cargo prospects.

“This type of management challenge is significant, and does not lend itself to easy exposition or spread sheet analysis,” the report states. “However, without active, executive-level management and leadership, the market-based approach to governance cannot succeed.”

Statewide Port Authority. An alternative to the market-based strategy, the report says, is a statewide port authority, such as most east coast states have. The advantage of this approach, the report says, is “the development and implementation of a long-term vision for all three… deep water ports…and their related industries.”

Such a statewide port authority could lead and manage the capital and grant-in-aid programs on behalf of the State. “While perhaps less nuanced and less responsive [than the market-based program] to the real-time needs of the global marketplace, a statewide port authority could help to reverse the decline and improve the competitiveness of the deep water ports of Connecticut,” the report says

It suggests as a possible model for such an authority the state’s Capital Region Development Authority (CRDA). CRDA “has strong financial backing from the State, can issue bonds, can acquire and improve land, and can lead a streamlining of the regulatory processes—all part of creating a stable investment climate for public and private investors.”

Another possibility, the report says, would be to give the Connecticut Airport Authority statutory responsibility for ports as well. It says several states, including Massachusetts, have similar structures.

The report does not explain the roles, if any, of the Bridgeport Port Authority, New Haven Port Authority and New London Port Authority in such a structure.

The real challenges for the state and the three ports, the report concludes, “lie in the decentralized structure of [state] government, and the need for an overall system of port leadership that is committed to ‘building a business’ of ports and related industries – and not by simply managing episodic port infrastructure improvements.”

PF:ts