Richmond City Council

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OFFICE OF THE CITY AUDITOR

REPORT # 2011-10

AUDIT

Of the

Port of Richmond
Agreed Upon Procedures Review

April 2011

OFFICIAL GOVERNMENT REPORT

Richmond City Council

OFFICE OF THE CITY AUDITOR

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Committed to increasing government efficiency, effectiveness, and accountability on behalf of the Citizens of Richmond.

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The Honorable Members of the City Council
The Honorable Mayor
The Richmond City Audit Committee

Subject: Port of Richmond Review

Note: This audit was completed on September 28, 2010. The City Council President, under advisement of the City Attorney, informed the City Auditor to delay issuance of report as the City dealt with an unfinished real estate transaction. The subsequent text of the report is left intact as it was written when the report was completed.

At the request of the City Council and the City Administration, the City Auditor's Office has completed a review based on agreed-upon procedures for the Port of Richmond (Port). This review focused on evaluating the viability of current operations and researching alternative options. The City Auditor's Office worked with the Port Commission and the City's Department of Economic and Community Development (DECD) to complete this project. The project was conducted in accordance with Generally Accepted Government Auditing Standards.

Current Organizational Structure

Currently, the Port is operated by the Commission, which was created in the 1970s with 13 members that are appointed by the City Council. Except for two City representatives participating on the Commission as voting members, the organizational structure does not allow the City to have any control over the utilization of this City property.

The Port has an Executive Director that has extensive experience in port management but he has a limited role in making significant decisions such as negotiations of long term contracts and personnel hiring. In reviewing the past two years' events, several key decisions and actions made by the Port Commission resulted in an adverse effect on the Port's operations and finances. These decisions resulted in the Port losing its major customer and operator which left the Port in a financially vulnerable situation. Neither the City Council nor Administration had the ability or opportunity to prevent these occurrences which ultimately led to the City lending the Port $1.5 million.

Operational and Financial Performance

In 2009, due to the departure of the Port's major customer, the cargo volume dropped 51% from 49,530 TEU in 2008 to 24,380 TEU. This event had a significant adverse impact on the Port's revenue and net income, which further decreased in FY 2010.

Based on a review of the previous five fiscal year's operating revenue and expenses, it appears the Port has operated at a loss of about $4.8 million.

	Dollar Amount
Revenue (FY06-FY10)	$4,942,703
Expenditures (FY06-FY10)	$9,755,257
Net Income (FY06-FY10)	($4,812,554)

Source: City of Richmond Finance Department

In addition, the Port's cash flow has been trending down since FY 2006. In FY 2010, the Port had negative cash flow of about $1.7 million. The current income stream of the Port is not assured. Further deterioration in the Port's revenue will result in additional losses and the City may be obligated to fund the Port. The Port cannot be financially independent without a reliable revenue stream. Therefore, the Port may be unable to pay their operational expenses in addition to the annual debt payment of $336,425 to the City beginning in July 2012.

Long Term Solutions

Option 1: Invite a Request for Proposal (RFP) for "Best Use" of the Property

The Port resides on a total of 121 acres of land on the James River with adjacent access to I-95 & I-64, rail service access and close proximity to Richmond International Airport. At this time, there are 12 acres of undeveloped land, 300,000 square feet of warehouse storage space, and 34 acres of open container storage. There are other ports, such as Portsmouth, VA and Albany, NY that have issued 'best-use' RFPs in the hope of receiving multiple bids from contracting and development companies that would use the land in the most financially beneficial method. The goals of the RFP would be to identify the alternative that would generate the largest number of jobs and the largest amount of annual revenue for the City, increase the value of the Port property, and contribute to the City's economic growth.

This is the most viable option since it does not require additional funding from the City. This option affords the City the opportunity of attracting major businesses, which could result in a significant economic impact.

Option 2: Transfer Operating Control of the Port to the Virginia Port Authority (VPA)

The VPA has proposed taking operational control and authority of the Port from the Commission and the City for a cost of $1 per year for five years, with three renewal options of five years each. In return, the VPA would be responsible for the following items:

- Maintaining the current infrastructure/equipment;
- Marketing the Port;
- Increasing utilization at the Port;
- Incorporating the Port within the VPA's network of ports;
- Providing security at the Port, and
- Meeting with DECD to increase jobs and revenue for the City.

It is not clear if the VPA would make all the needed improvements to the Port property so it is more marketable to potential clients. To make this option more attractive, it is preferable to require the VPA to make all improvements needed to the property to operate it effectively as a port. Currently, the VPA is seeking a 20-year lease, including options, for $1 annually. However, a much shorter term lease is more desirable for the City. Once the lease term is over, the City might be in a position to operate it as a port or lease it to the VPA at market value.

Option 3: Operate the Port as a City Department

The major advantages of this option are to:
- Allow greater control to the CAO over their finances and operations;
- Market the Port in conjunction with other economic development opportunities;
- Lease unused warehouse space on the Port property to generate additional revenue;
- Develop or sell 12 acres of land currently unused on the property to generate additional resources; and
- Allow the DECD to market the Port

However, disadvantages of this option that may outweigh the advantages are:

- Incurring operating and capital costs of the Port and
- Assuming the risk that marketing efforts may not generate an adequate volume of business to assure profitability and leave the additional City funds at risk.

The City Auditor's Office appreciates the cooperation of the Port Commission members, its staff, and the DECD staff. Please contact me for questions and comments on this report.

Umesh Dalal, CPA, CIA, CIG
City Auditor

Cc: Mr. Byron C. Marshall, CAO

Introduction

The Port of Richmond (Port) is owned by the City; however, the management of the Port has been the responsibility of the Port Commission (Commission) appointed by the City Council. The Port has been self sustaining with no operational funding provided by the City until the City provided a $1.5M loan in response to a request for funding by the Port in June 2010. Prior to the agreement, the Commission had the responsibility and authority to take actions (with the exception of Procurement Services) on behalf of the Port without consulting the City's administration. The following are the terms and conditions included in the Memorandum of Understanding (MOU) signed in July 2010 between the City and the Port:

The City agreed to loan $1.5 million in cash and services to the Port to alleviate their financial difficulties

- Provided $1 million appropriation and $500,000 in services to be performed by the Department of Public Works. All funds are to be distributed directly to the Port vendors and not the Port administration.
- Set specific standards for the Commission that requires prior approval by the CAO regarding business development decisions and other contractual or financial obligations for the Port. In addition, financial reports are to be sent to the CAO on a monthly, quarterly and annual basis.
- Outlined the schedule and requirements for the Port to repay the City. The Port is required to reimburse the City $28,035 per month including interest at the rate of 2.6% beginning in July 2012.

Agreed-Upon Procedures

At the request of the City Council and the City Administration, the City Auditor's Office has completed a review based on agreed-upon procedures for the Port. These procedures were conducted to assess the

Port's financial viability and evaluate alternative options to utilize the Port in the future. The agreed-upon procedures were conducted in accordance with Generally Accepted Government Auditing Standards. The scope of the procedures included activities between January 2008 and August 2010. In addition, auditors performed a five year financial analysis.

Agreed-Upon Procedures

The City Auditor's Office agreed to evaluate Port operations using agreed upon procedures

- Evaluate the current organizational structure;
- Evaluate actions/decisions made recently regarding Port operations;
- Analyze the Port's operations and financial information;
- Assess the current condition of assets;
- Assess current operations and potential for regaining business; and
- Research alternative uses for the Port property.

Methodology

The auditors performed the following procedures:

- Interviewed Port staff, Commission Chairman, and the former Port operator and customers;
- Analyzed financial results for the period of FY 2006-FY 2010;
- Researched other ports for comparisons;
- Reviewed the minutes for the Port Commission and Executive Committee meetings since July 2008;
- Consulted with the City's Department of Economic and Community Development (DECD); and
- Performed other procedures, as deemed necessary.

Background

The Port property has certain advantages as well as disadvantages due to its location

The Port is located in the southeast end of the City on the James River (the River), approximately 80 miles inland from the Atlantic Ocean. The Port is at a strategic location due to its proximity to roadways (I-95 and I-64), railways and Richmond International Airport. This location is enticing to customers who want to avoid the congestion and the weight limit (80,000 pounds of gross vehicle weight) of I-64. Customers can store goods at the Port's three warehouses or 34 acres of container storage space. In addition, the Port property has 12 acres of undeveloped land.

However, factors that have an adverse impact on the Port's appeal include: the sharp and narrow turns in the River, the River's shallow water that limits all ships to a 25 foot draft, and the narrow width of the River, which limits a ship's ability to easily turn around. In addition, the Port's roadway access is limited by the low height of the overpass on I-95 near the Port. This overpass restricts oversized cargo from entering and leaving the Port.

Organizational Structure

The Port is operated by the Commission, which was created in the 1970s with 13 members that are appointed by the City Council. According to §70-93 of the City Code, the Commission is responsible for:

- Management and control of the Port's finances;
- Management of Port operations;
- Capital improvements to the Port's land and structures; and
- Utilization of the Port.

These duties and functions are expected of the Commission as a whole and are not assigned to a particular individual. The Commission members are appointed by the City Council based on experience and expertise for a term of three years. The 13 Commission members are required to meet at least bi-monthly to discuss matters related to the Port's activities. All Commission meetings are required to be documented with the exception of closed sessions that include sensitive financial or personnel matters. The Commission has annual elections for the positions of Chairman, Vice Chairman, and Secretary. Compared to this structure, the Port of Beaumont, TX only has six commission members while the Port of Albany, NY has five members. Both Ports have a manager or director to supervise the Port's day-to-day activities with the Commission acting only in an oversight capacity.

The Port is operated by a 13 member Commission with only two City representatives on the Commission

The Port has an Executive Director that has extensive experience in port management, who is expected to manage the Port's operations and finances on a daily basis. However, based on the review of records and interviews with clients, it appeared that the Executive Director had a limited role in making significant decisions such as negotiations of long term contracts and personnel hiring. These decisions appeared to be directed by the Commission leadership.

The Port's Executive Director had a limited role in making significant decisions impacting the Port

Except for two City representatives participating on the Commission as voting members, the above organizational structure does not allow the City to have any control over the utilization of this City property. Prior to the current MOU, the City was not involved in the financial and operational decisions made by the Port; therefore, the City was unable to prevent losses or liabilities that were incurred by the Port. While the City was not involved in the decisions associated with the Port, the City may become financially responsible for the Port's losses. The impact of the lack of the City's control can be observed in the recent decisions made by the Commission.

Recent Decisions

In reviewing the past two years' events, several key decisions and actions made by the Port Commission resulted in an adverse effect on the Port's operations and finances.

Relationship with Major Customer, Independent Container Line (ICL):

Recent decisions had an adverse impact on Port operations and finances

ICL, a Richmond, VA based company, had been transporting cargo to the Port since they began operations in 1985. In recent years, the cargo transported by ICL represented the majority of the total cargo received by the Port. Over the years, according to the company, they custom-built three ships to accommodate the unique restrictions of the James River related to its depth and width. ICL's business model focused on visiting smaller or 'niche' ports that larger companies could not accommodate. The transportation of cargo down the James River to the Port provided a unique financial and competitive advantage for ICL. As a result of this unique advantage, ICL was concerned when the Port entered into an agreement to operate with the James River Barge Line (JRBL). The JRBL transported cargo from the Port of Norfolk to the Port of Richmond, which created direct competition with ICL.

Due to the success achieved by ICL, their business was pursued by the Port of Wilmington, NC. According to an ICL representative, the Port of Wilmington offered ICL substantial financial and other incentives including lower wharfage rates to relocate. Prior to considering the move to North Carolina and beginning in July 2008, ICL asked the Port for the following financial concessions in order to continue operating at the Port:

The Port lost its major customer due to the delay in making a competitive offer to retain them

- To provide a maintenance facility on a portion of the Port's unused land for their ships. This had a one-time cost to the Port of approximately $300,000 to $500,000 and
- To reduce wharfage fees by 6% to be competitive with the offer from Wilmington, which ICL estimated would have cost the Port approximately $150,000 to $200,000 annually.

Retaining their major customer and pursuing additional customers with increased marketing would have been beneficial for the long-term revenue growth for the Port. Retaining ICL's business was critical for the Port operation as it represented a major source of income for both the Port and the Port's operator Federal Marine Terminal (FMT).

The Port offered the land to ICL for the maintenance facility but did not provide funding for this facility. In addition, the Commission offered a $150,000 financial incentive to FMT in December 2008. The purpose of this incentive was to pass through the savings to reduce the wharfage rates between ICL and FMT. ICL decided to move to Wilmington mainly due to:

- the Port not making a timely offer;
- the large financial consideration offered by the Port of Wilmington, and
- their concern regarding the Port's involvement with JRBL.

ICL formally notified the Port in January 2009 of their intention to leave at the end of their contract in March 2009. According to ICL management, ICL would have considered staying in Richmond if the Commission had been more willing to negotiate these terms and been more accommodating to their requests throughout their tenure.

Relationship with the previous Port Operator, Federal Marine Terminal (FMT):

The operator did not renew its contract due to the loss of the Port's major customer

In 2004, the Port signed a five year lease contract with FMT to operate the Port of Richmond. FMT was responsible for marketing, security, receiving/handling cargo, and owned/operated all Port equipment. FMT had communicated to the Port in May 2008 a desire to extend their contract that expired in the spring of 2009. The Commission approved the FMT contract renewal in July 2008 and notified FMT that the approval was contingent upon the City Council's approval. Due to the delay in finalizing the renewal documentation, the lease renewal could not be presented to the City Council in a timely manner. In January 2009, after ICL issued their formal notice to leave the Port, FMT rescinded their previous offer to renew their existing leasing contract for an additional five years as the Commission had not obtained the City Council's approval. Subsequently, FMT expressed a desire to work with the Port and offered to renew the leasing contract for two years provided the Port offered a financial incentive of

$250,000 for the first year and $150,000 for the second year of the renewal. This was necessary for FMT to recoup a partial loss of revenue due to ICL's departure. In return, FMT would continue to operate the Port and market it to gain new customers to replace ICL.

The Port Commission did not accept the operator's offer to operate and market the Port for additional financial incentives

However, according to the Commission Chairman, under advisement from the City Attorney's Office, the Port could not entertain FMT's offer for a two year leasing renewal. The City Auditor's Office did not find any documentation supporting this statement nor could the City Attorney's Office confirm it. Instead, the Commission requested a seven month operating contract with FMT. The Commission wanted an operating contract over a leasing contract because an operating contract would allow the Commission to lease land or warehouse space to third parties for additional revenue. Under the previous five year leasing contract with FMT, the Port could not lease land or warehouse space to third parties without FMT's approval. FMT rejected the seven month extension and insisted on the two year contract. In April 2009, FMT announced their decision to leave the Port, effective May 2009.

Equipment Purchase

The Port was compelled to purchase equipment for $3.5 million from the former operator

The contract with FMT required them to own and operate the equipment at the Port. When FMT announced they were leaving the Port, the Commission decided to negotiate the purchase of the equipment from FMT. The Chairman of the Commission along with the Vice Chairman led the negotiations for the equipment purchase agreement. The equipment was purchased from FMT for $3.5M after an appraisal by a third party. The Commission paid cash for the equipment from the Port's $5 million reserves. The City Procurement Services Department was not asked to assist with this purchase.

The Port Commission did not approach the City Council for assistance in retaining the customer and/or the operator

During the timeframe when the Port lost the ICL account and FMT as the operator, the Commission did not approach the City for financial assistance to retain ICL or FMT. The City Council or Administration did not have the ability or opportunity to prevent these occurrences which ultimately led to the City lending the Port $1.5 million.

Relationship with the new Port Operator, PCI of Virginia (PCI):

Currently the Port is paying $552,000 annually to the new operator who does not market the Port. There may be an additional termination fee of $200,000

In April 2009, the Port began a search for a new port operator to replace FMT. The Port signed an emergency one year contract (ending December 2010) with PCI to operate the Port until a long term RFP could be negotiated. The contract included a monthly maintenance fee of $46,000 or $552,000 annually paid to PCI. The contract also included a $200,000 fee paid to PCI by the Port if the Commission did not approve PCI for the long term RFP.

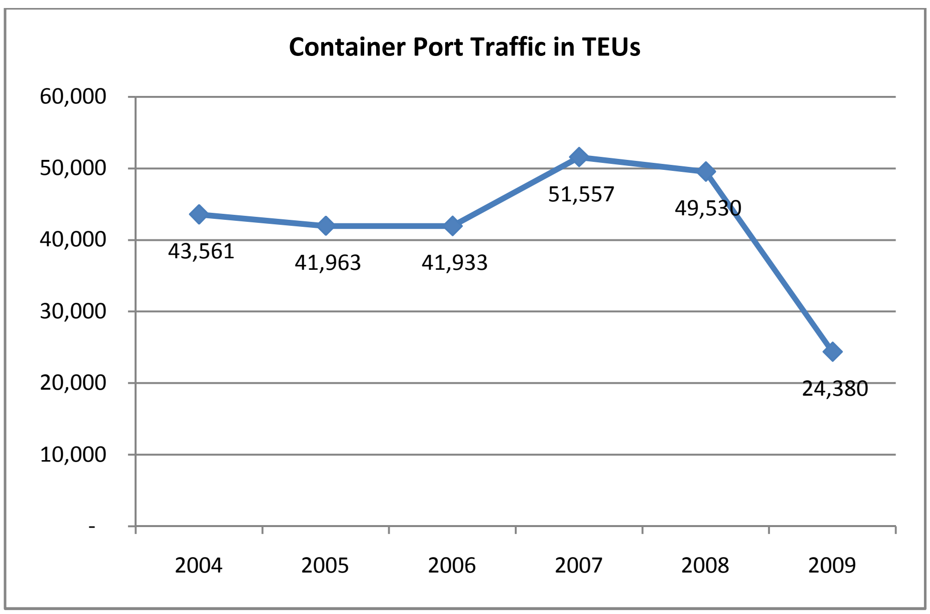
It should be noted that these costs roughly equal the incentives that ICL asked for to continue business at the Port. Accepting ICL's proposal would have saved the Port from spending $3.5M on the purchase of equipment. In addition, these costs exceed the incentives that FMT asked for to extend their services until December 31, 2010. FMT offered to market the Port and find a replacement for ICL to restore Port revenues. The current operator is not engaged in marketing the Port to new customers.

Unless more favorable terms can be negotiated with the replacement operator, the increased operator costs will continue to have a negative impact on the Port's net income.

Operational and Financial Performance

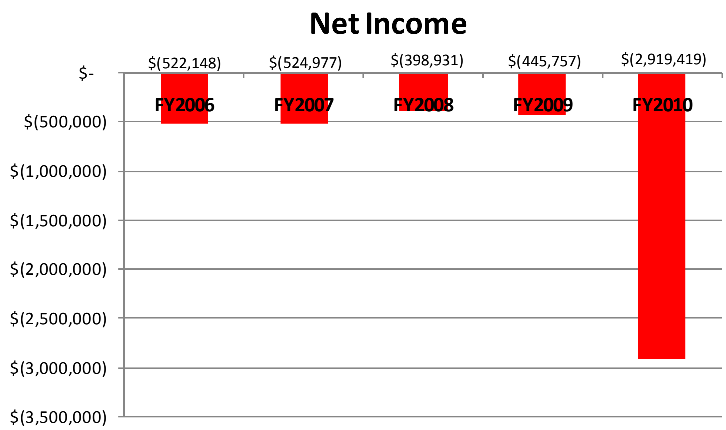
According to the American Association of Port Authorities (AAPA), the cargo volume at the Port was consistent in twenty-foot equivalent units or TEUs from 1998 until 2008 (calendar years). The following graph depicts the annual TEUs managed by the Port from calendar year 2004 through 2009:

In 2009, due to the departure of the Port's major customer, the cargo volume dropped by 51%.



Source: AAPA Container Traffic for North America

In 2009, due to the departure of the Port's major customer, the cargo volume dropped 51% from 49,530 TEU in 2008 to 24,380 TEU. This event had a significant adverse impact on the Port's revenue and net income, which further decreased in 2010. However, analysis of the Port's revenues and expenses indicated that the Port did not have financial success in the past five years. The Port had an operating loss (including depreciation) in each of the past five fiscal years. The chart below depicts the Net Income for the five year period from FY 2006 through FY 2010:



Source: City of Richmond Finance Department

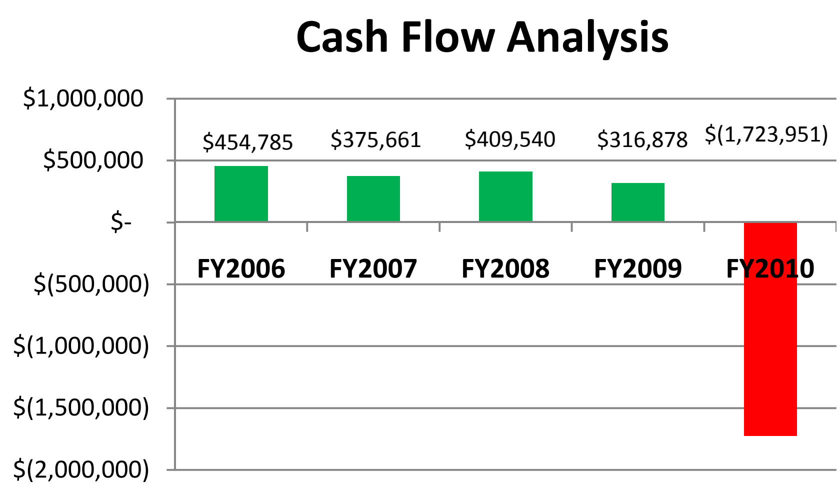
Based on a review of the previous five fiscal year's revenue and expenses, the Port operated at a loss of about $4.8 million.

The Port has incurred operating losses since FY 2006

	Dollar Amount
Revenue (FY06-FY10)	$4,942,703
Expenditures (FY06-FY10)	$9,753,934
Net Income (FY06-FY10)	($4,811,231)

Source: City of Richmond Finance Department

Depreciation is a non-cash expense that does not impact the amount of funding available for operations. The following chart summarizes the analysis of the Port's cash flow for the five year period from FY 2006 through FY 2010:



Source: City of Richmond Finance Department

The Port's cash flow has been trending down since FY 2006. In FY 2010, the Port had negative cash flow of $1.7 million

The stable income provided by ICL was the major contributing factor to the Port's positive cash flow from FY 2006 to FY 2009. In addition, the Port's expenses were lower between FY 2006 and FY 2009 because the majority of expenses (security, marketing, etc.) were the responsibility of FMT. The loss of both FMT and ICL in early 2009 resulted in a significant decrease in cash flow for FY 2010.

The Port does not have an assured income stream. Further reduction in revenue may require additional City funding.

Currently, the Port has two customers, Eimskip and JRBL. The combined revenue from these customers during FY 2010 was $313,199. These customers do not have a contractual obligation with the Port and are in a position to leave the Port whenever they choose without financial penalty or compensation to the Port. Therefore, the current income stream of the Port is not assured. Further deterioration in the Port's revenue will result in additional losses and the City may be obligated to fund the Port. In addition, the Port's expenses increased $552,000 annually due to the one year agreement with the current Port operator, PCI.

The Port cannot be financially independent without a reliable revenue stream. Therefore, the Port may be unable to pay their operational expenses in addition to the annual debt payment of $336,425 to the City beginning in July 2012. Since the Port has been operating at a loss for the last five years and incurred a negative cash flow in FY 2010, it appears that even if the Port's TEU volume returned to previous levels, the Port will need financial assistance from the City to continue operations. Therefore, it appears that the Port will have difficulty repaying the City.

The Port may not be able to pay its operational expenses and $336,425 annual debt payment to the City beginning in July 2012

Due to the Port's financial difficulties, the Port decided to lay-off one employee in July 2009 to save approximately $66,000 annually. Instead, the employee retired prior to the decision being finalized. A second employee resigned shortly thereafter. The cost savings due to the two vacant positions totaled $120,450 annually. Meanwhile, the Port hired the former Vice Chairman of the Commission as Operations Manager for the Port. He was hired on a temporary basis from a staffing agency in October 2009 and is paid hourly. The Port has paid the staffing agency $60.99 per hour at 40 hours per week. Based on invoice payments from the City's financial system, the Port has paid $90,232 from October 4, 2009 through August 2, 2010. Based on this information, the Port spent most of the savings generated from the vacancy in the two positions. The auditors' inquiry with the Operations Manager and the Port's Executive Director revealed that both of them perform similar duties. Retaining two highly paid individuals for similar duties appears to be wasteful. This resulted in additional expenses for an operation already incurring heavy losses.

Hiring the Vice Chairman of the Commission to perform similar duties as the Executive Director appears wasteful

Long Term Solutions

The auditors identified three long term options for the City Council and the Administration to consider:

Option 1: Invite a Request for Proposal (RFP) for "Best Use" of the Property

The Port resides on a total of 121 acres of land on the James River with adjacent access to I-95 & I-64, rail service access and close proximity to Richmond International Airport. At this time, there are 12 acres of undeveloped land, 300,000 square feet of warehouse storage space, and 34 acres of open container storage. There are other ports, such as Portsmouth, VA and Albany, NY that have issued 'best-use' RFPs in the hope of receiving multiple bids from contracting and development companies that would use the land in the most financially beneficial method. The goals of the RFP would be to identify the alternative that would generate the largest number of jobs and the largest amount of annual revenue for the City, increase the value of the Port property, and contribute to the City's economic growth.

Inviting a 'best-use' RFP may be the most viable option since it does not require additional funding from the City and may attract major businesses, resulting in a significant economic impact

This may be the most viable option since it does not require additional funding from the City. This option affords the City the opportunity to attract major businesses, which could result in a significant economic impact.

The advantages to Option 1 enable the City to:

- Manage the property in the most appropriate manner consistent with other economic development efforts in progress;

- Avoid incurring several million dollars of needed improvements to increase the effective operations of the Port;
- Generate substantial tax revenue and utility fees;
- Avoid incurring future losses if the Port operations were eliminated; and
- Pursue economic activities that could result in job creation and other fiscal benefits due to the multiplier effect.

There appear to be no disadvantages to this option because it allows the City to assess multiple options.

Option 2: Transfer Operating Control of the Port to the Virginia Port Authority (VPA)

On June 29, 2010, the VPA sent a letter of intent that proposed taking operational control and authority of the Port from the Commission and the City for a cost of $1 per year for five years, with three renewal options of five years each. The terms of the agreement require the City to dissolve the Commission, relinquish all control to the VPA, but still own the Port property. In return, the VPA would be responsible for the following items:

It is not clear if the VPA would make all the needed improvements to the Port property so it is more marketable to potential clients

- Maintaining the current infrastructure/equipment;
- Marketing the Port;
- Increasing utilization at the Port;
- Incorporating the Port within the VPA's network of ports;
- Providing security at the Port, and
- Meeting with DECD to increase jobs and revenue for the City.

The option of leasing to the VPA can become more attractive if the lease requires the VPA to make all the necessary improvements to the Port property and the lease term is shorter than the current proposal

It is not clear if the VPA would make all the needed improvements to the Port property that would make the Port more marketable to potential clients. However, the Port needs the following improvements as compiled by the engineering firm of Moffatt and Nichol hired by the VPA:

Phase One

- The first phase includes a one-time capital expenditure of approximately $275,000 with a yearly maintenance expense of approximately $200,000 for the next 20 years.
- This phase focused on improvements that would be needed for immediate Port operations such as installing a crane mat, striping container yards to improve sorting efficiency, building amenities, etc.

Phase Two

- This phase included more in-depth facility improvements and repairs with an estimated cost of $3.2M.
- These improvements included renovating or replacing warehouses 1-3 and improving the rail system.

The advantage to Option 2 is:

- The City will not be susceptible to further financial losses from the Port's operations.

The disadvantages to the City for Option 2 include:

- Not generating revenue from the Port property;
- Relinquishing control of the Port property; and

- Not effectively marketing the Port in conjunction with other economic development opportunities.

To make this option more attractive, it is preferable to require the VPA to make all improvements needed to the property to operate it effectively as a port. Currently, the VPA is seeking a 20-year lease, including options, for $1 annually. However, a much shorter term lease is more desirable for the City. Once the lease term is over, the City might be in a position to operate it as a port or lease it to the VPA at market value.

Option 3: Operate the Port as a City Department

Despite several significant benefits of this option, the City runs a risk that marketing efforts may not generate an adequate volume of business to assure profitability

The current organizational structure allows the Commission to independently make operational and financial decisions while the City Administration does not have significant control over the process. However, with the recent MOU, the City has temporary authority over the Commission and a financially vested interest in the Port's operations.

Since the Commission was created and granted power within the City Code, a Council ordinance would be needed to remove the Commission, assigning the City Administration authority over the Port's operations.

The advantages to Option 3 enable the City to:

- Operate the Port as a City Department which would allow greater control to the CAO over their finances and operations;

- Market the Port in conjunction with other economic development opportunities involving transportation of raw materials and finished products nationally and internationally;
- Lease unused warehouse space on the Port property to generate additional revenue;
- Develop or sell 12 acres of land currently unused on the property to generate additional resources;
- Eliminate the third party operator and utilize city employees to operate the Port. This allows the City to earn all revenue generated by Port operations, including cargo handling revenue currently not generated by the Port;
- Pursue economic activities that could result in job creation and other fiscal benefits due to the multiplier effect; and
- Allow the DECD to market the following opportunities:
    - Local manufacturers targeting break-bulk cargo;
    - Warehousing;
    - Energy-related manufacturing;
    - Advanced manufacturing;
    - Full service logistics providers/supply chain management (handling, distribution, risk management, warranties, etc); and
    - Other related importing and exporting activities.

The DECD identified the following additional advantages:

- "The Port also could generate income from CSX usage of the Deepwater Terminal Rail Line which is owned by the City. There may be opportunities to increase rail traffic into the Port property.

- Currently there are 300,000 square feet of warehouse space at the Port … there are over 3 million square feet of space less than a half mile away from the Port.
- Richmond's industrial core is primed to compete as a logistics hub having a strong advantage due to water access and direct access to I-95 and I-64. Part of the Port's strategy would be to reconfigure the site and shift the warehouses administration building away from the deck and closer to the Interstate. With numerous businesses engaged in international trade throughout the area, the Port could be transformed into a regional logistics hub… The Port could seek full-service logistics operators that provide a full range of supply chain management services including multi-modal transportation, warehousing and distribution, in-house custom brokerage, logistics consulting, etc.
- New warehousing would be developed to expand the Port's capacity resulting in 400,000 to 500,000 square feet of new class A space. There is relatively no new warehouse space in the City which results in a tremendous disadvantage when attempting to attract certain industrial uses."

The disadvantages of Option 3 for the City include:

- Incurring operating and capital costs of the Port;
- Assuming the risk that marketing efforts may not generate an adequate volume of business to assure profitability; and
- Incurring additional costs to make the following improvements as recommended by DECD, as follows:

Short Term

- Lighting improvements (new lighting system could save the Port 50% on electrical cost) to include warehouses and container yards; and
- Sprinkler system upgrades throughout the warehouses.

Long Term

- Rail improvements to include the stabilization/re-engineering of the rail ballast (rail bed);
- Deepwater Terminal Road extension to Goodes Street to allow larger cargo;
- Cross dock transfer facility to serve small/independent trucking companies transporting along the east coast;
- New machinery shop (gear shop);
- New warehouse space (400,000 square feet to be completed in two phases) between rail and I-95 on existing container yard with rail access;
- Re-skin warehouses #3 A,B,C;
- New administration building, 10,000 square feet, to be erected at the north end of the Port near waterfront; new access road allowing access to new admin building without passing through the main gate (removes need for twix card);
- New dock extension (300 feet at a height of 8 to 12 feet) at southern portion of the Port adjacent to the development site;
- Transform existing warehouse and administration building area to primary container yard for cargo storage (maximum capacity 10,000 Twenty-foot Equivalent Units (TEUs) /intermodal containers);
- New rail extension which directly serves the dock (two phases); and
- Truck transfer station."

The above options are offered for the City Council's and Administration's consideration. Clarification and additional information as needed are available from the City Auditor's Office.