

## OPEN FORUM Current Port Management Issues

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Change is affecting virtually every aspect of our lives. To gain a better perspective on how and why change is affecting ports, it may be useful to pose and answer a few key questions.

### **What is a port authority?**

A port authority is a public enterprise form of government. It is a hybrid that fits between general government and private industry.

General	Public	Private
Government	Enterprise	Industry

*General Government* is primarily tax supported with a goal of delivering monopoly services (e.g., police, fire, roads, water/sewer, parks). By its very nature it is not designed to make a profit or become engaged in providing non-monopoly services. General government is citizen/voter driven.

*Private Industry* is profit driven, engaged in offering products and services in a competitive market place. Private industry is not tax supported.

*Public Enterprise* (specifically a port authority) is a form of government that engages in offering services in a competitive market place. Some port authorities receive tax support. Port authorities have both commercial profit producing goals (e.g., leasing facilities, providing shipping services) as well as public oriented goals (e.g., providing jobs, enhancing the regional economy).

### **How have port authorities evolved?**

If one looks at the history of the Industry, ports can be characterized as having three major phases.

*Phase #1* is the beginning or organizational phase that includes creation of a legal framework, creation of the port authority often by vote of the electorate - and the initial acquisition of property and construction of facilities. Many of the costs associated with this Phase are subsidized by taxes, grants, appropriations, , and general obligation (tax supported) bonds.

*Phase #2* is the growth phase of the port. This phase is characterized by the development of more formal strategies to deal with larger and riskier projects and by decision making based on complex and often interrelated factors. The port matures financially, going from subsidy to self-sufficiency.

*Phase #3* is characterized by a port being "required" to provide financial support to a general government with direct payments from the port, sometimes in the form of billings for services (e.g., fire, police, roads) or, in response to a "request", a percentage of the port's income or working capital (often without concern for the port's profitability).

This last phase came on the scene in the late 1980' s - early 1990's primarily as a result of declining tax revenues and increasing expenses in general governments (e.g., cities, counties, states). Some ports now are considered primary revenue sources by general governments and this trend appears to be growing.

### **Should port authorities make a profit?**

Quite often the answer to this question depends on the port's ability to maintain sufficient income from subsidies (e.g., taxes, grants) and net profit from the port's operations to support the "public" bottom line projects. However, for most port authorities the answer to this question depends on what the Board considers as an appropriate balance between the public and financial bottom lines.

Ports, as public enterprise organizations, have two "bottom lines." The public bottom line calls for jobs and activities that support the local/regional economy while the financial bottom line calls for profit or, at the very least, self sufficiency (net profit after depreciation but before the inclusion of tax revenue).

It is important for Boards to recognize that profit is not a dirty word - in fact, profit is an essential factor for public enterprise forms of government such as ports.

Profits or more specifically "Retained Earnings" are absolutely necessary in order for the vast majority of port authorities to continue to grow and prosper. Without "Retained Earnings", a port will be forced to finance all of its expansion with debt (e.g., revenue bonds); and that significantly limits, and in time may preclude, expansion.

The question of profitability for many of today's port authorities may be less of a choice among degrees of viability than a choice between survival and stagnation.

### **Has the role of the port's Board changed?**

Yes, it certainly has changed!

The actual day to day management of the Port still rests with the Executive Director/Manager and the policy setting and the oversight functions still rest with the Board. However, in the major decision making arena, the Board now acts more in concert with the Executive Director, especially in decisions affecting priorities, significant projects or major shifts in services/programs. This change has come about due to the need to manage risk.

RISK is normally not a word associated with ports or port projects! This was true in the past, but today risk is associated with many port sponsored projects/activities.

Historically, Board Members were able to make most decisions in a less deliberative manner because the risks associated with those decisions were minimal. Today, this is no longer the true and Ports are reorganizing and reorienting their decision making process to accommodate the current situation.

Ports face new challenges and Board Members and Executive Directors must be far more concerned with the analysis of new projects/activities. There will be a requirement for more interactive Board/Executive Director Team involvement especially on strategic decisions, decisions that in many cases will determine the long-term success or failure of the port itself.

For ports, this translates into the need for a far more deliberative decision making process, a ***Board/Executive Director Team Approach***. This process requires that all parties have a greater appreciation of the opportunities and threats posed by the proposed project, and a clearer understanding of the financial/political factors and the pros and cons of each option available. This process will require additional time, effort, energy and dedication on the part of both the Board Members and Executive Director. In effect, the existence of RISK creates the need for a closer coordination between the Board and the Executive Director. This coordination forges the Board/Executive Director Team Approach to decision making.

For the Ports that adopt this Team Approach, decisions will be made that recognize the risks inherent in a project/activity. With a more complete understanding of all of the economic/political factors and the pros and cons of the options that are available, the Port can "manage" the risk - not be managed by the risk!

Conversely, for those ports that fail to adopt this Team Approach, decision making will be more akin to a "crap shoot" than a balanced logical deliberative process. Most important, without the ability to deal with risk through the Team Approach to decision making, these Ports may miss the opportunity to distinguish between the solid opportunity and the latent disaster before committing their funds.