

# **Directions for Growth**



**Report and Recommendations  
on the Competitive Position of the  
Greater Vancouver Sea Ports**

**From the Greater Vancouver Gateway Council**

**August 1995**

## Introduction

The Greater Vancouver Gateway Council represents the collective will of the major transportation interests in the Gateway to develop and pursue a unified competitiveness strategy. Enhancing the competitiveness of transporting exports and imports through the Gateway ports<sup>†</sup> is central to that strategy.

The Gateway Council believes that proposed changes to the National Marine Policy recommended by the House of Commons Standing Committee on Transport (SCOT) set the stage for the Gateway ports to maintain and enhance their competitive position<sup>††</sup>. However, it is the Gateway Council's position that recommendations by the SCOT in the areas of;

- Expanded Borrowing Powers for Canadian ports,
- Municipal Taxation and,
- Payment of Dividends

must be strengthened to address the growing competitive challenges faced by the Gateway ports.

Of particular concern is the potential for diversion of Western Canadian bulk commodities to US Pacific Northwest ports. In addition to the capital investment cost and taxation advantages enjoyed by the US ports is of concern to the Gateway Council.

This report details the current and anticipated competitive situation faced by the Gateway ports and is the supporting document to the Gateway Council's brief and recommendations for consideration by the Minister of Transport, Government of Canada in his review of Canada's Marine Policy.

The Council comprises a Board of Directors and a membership at large who subscribe to a common vision that the Gateway become the Gateway of choice for North America.

<sup>†</sup> *Port of Vancouver and Fraser Port*

<sup>††</sup> *Submission to the Standing Committee on Transport - Gateway Council, March 1995*

# Table of Contents

<b>Greater Vancouver Gateway Ports</b>	<b>Pages 4 - 5</b>
Gateway Seaports Defined	
Greater Vancouver Foreign Traffic by Commodity Category	
<b>Outlooks for Marine Traffic through the Gateway</b>	<b>Page 6</b>
Outlook for Bulk Exports from Western Canada	
Containerized Foreign Traffic	
Cruise Passengers	
<b>Value of Greater Vancouver Gateway Foreign Trade</b>	<b>Pages 7 - 8</b>
<b>Gateway Ports Financing and Taxation</b>	<b>Pages 9 - 11</b>
Present Financial Structure	
Summary of Key Points Relative to Financial Structure	
Financing Under the Present Port System	
Export Development Corporation Financing of Port Expansion	
Taxation: Property and Capital	
<b>Port Districts of the US Pacific Northwest</b>	<b>Pages 12 - 13</b>
Legislative Framework	
Port District Bonds	
Federal Assistance	
Property Taxation	
<b>Lower Columbia River and Puget Sound Competitors</b>	<b>Pages 14 - 15</b>
Lower Columbia River Ports	
Puget Sound Ports	
<b>Financial Structure of US Pacific Northwest Ports</b>	<b>Pages 16 - 17</b>
<b>Portland Terminal 5 Development Case Study</b>	<b>Pages 18 - 20</b>
Project Description	
Four Step Bond Finance Process	
<b>Marine Terminal Labour</b>	<b>Page 21</b>
<b>Terminal Investment Charge Comparisons</b>	<b>Pages 22 - 25</b>
Container, Automobile and Bulk Terminal Examples	
<b>Recommendations</b>	<b>Pages 26 - 29</b>
Expanded Powers to borrow	
Municipal Taxation	
Payment of Dividends	
<b>Implications of Maintaining the Status Quo</b>	<b>Pages 30 - 31</b>
<b>References and Acknowledgements</b>	<b>Page 32 - 33</b>

# Greater Vancouver Gateway Ports

## Gateway Seaports Defined

The Greater Vancouver Gateway seaports are defined as the Vancouver Port Corporation, which manages the Port of Vancouver, and the Fraser River Harbour Commission which administers Fraser Port.

## Port of Vancouver

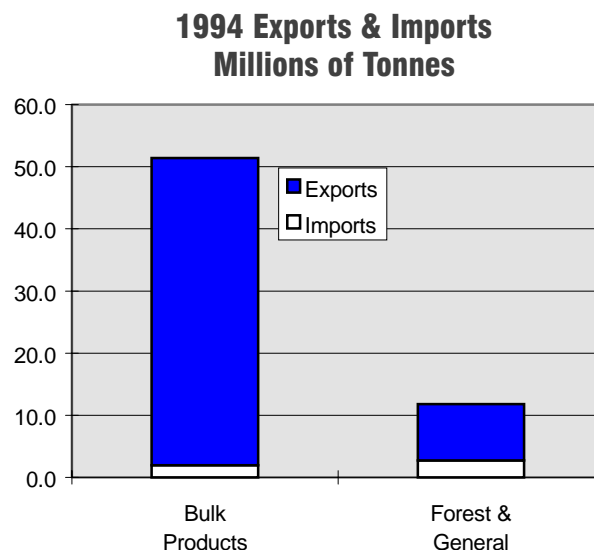
The Vancouver Port Corporation is currently a Local Port Corporation under the federal Crown Corporation structure of Canada Ports Corporation. The Port of Vancouver is Canada's largest deep water port complex and is recognized to be the dominant bulk product port on the west coast of North America. At 57.3 million tonnes throughput, the Port of Vancouver's level of export activity is driven by the resource based economy of Western Canada. Imports through Vancouver, primarily of containerized general cargoes, totalled 3.7 million tonnes in 1994.

## Fraser Port

The Fraser River Harbour Commission is currently a federal Commission port. Fraser Port has three deep sea terminals on the main shipping channel of the Fraser River. In 1994 Fraser Port handled 2.3 million tonnes of foreign traffic; primarily forest product exports and imports of steel and automobiles. In addition, 20 million tonnes of domestic cargoes were recorded through the Fraser River Harbour Commission. This regional traffic is dominated by forest industry raw materials and products for the construction industry.

## Greater Vancouver Gateway Foreign Traffic by Category

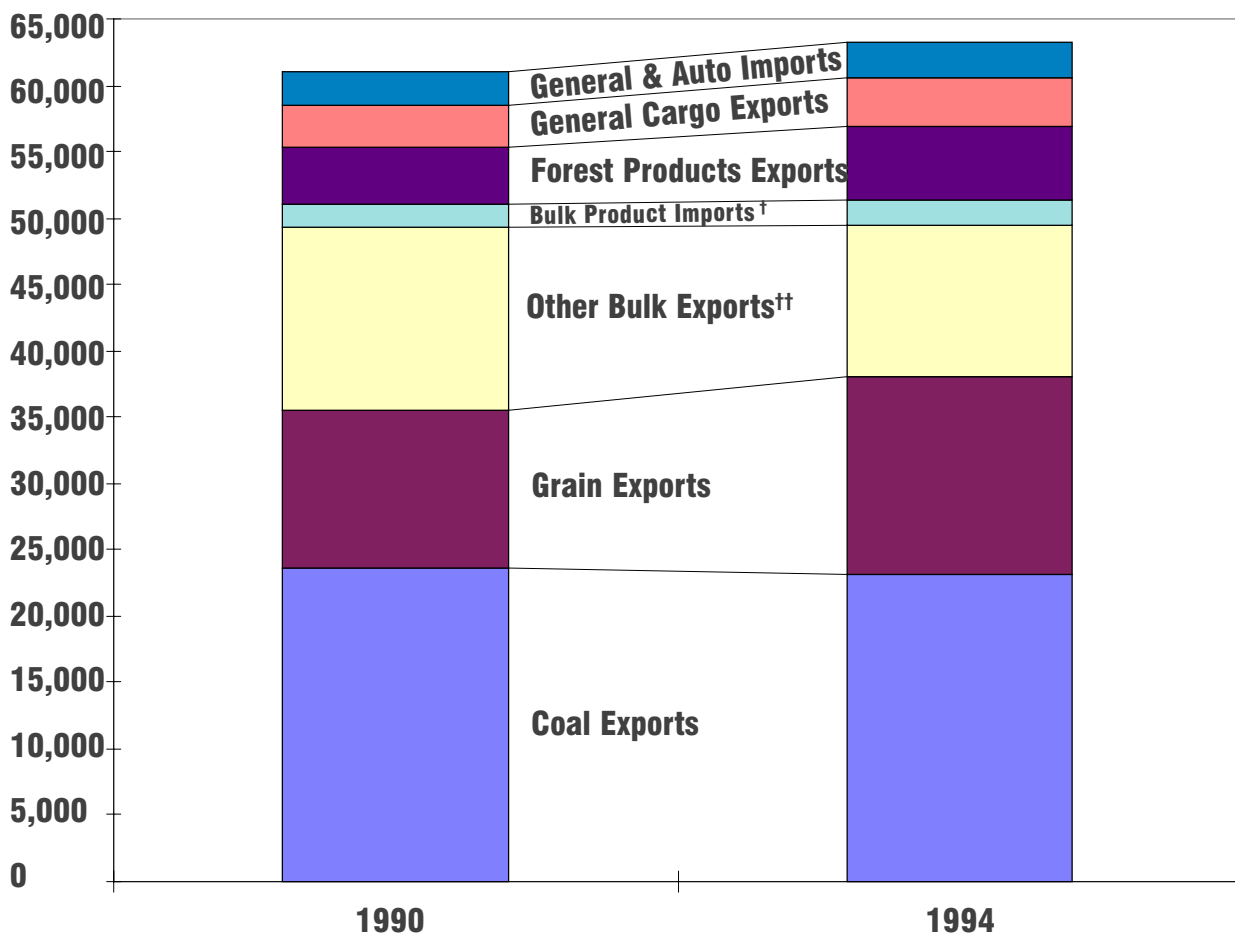
Exports and imports of bulk products represent over 80% of total foreign traffic through Gateway seaports.



## Greater Vancouver Gateway Foreign Traffic by Category - cont...

From 1990 to 1994, bulk products imports and exports have remained level, while the level of forest products and general cargo exports and imports has increased nearly two million tonnes.

### Port of Vancouver and Fraser Port Combined Foreign Traffic 1990 and 1994 (tonnes 000's)



<sup>†</sup> Bulk product imports include; phosphate rock, salt, zinc ores, sand and gravel and fuel oils.

<sup>††</sup> Other bulk exports include potash, sulphur, copper ores / concentrates, wood chips, liquid chemicals and crude oil.

# Outlooks for Marine Traffic through the Gateway

## Outlook for Bulk Product Exports from Western Canada

Production and export of bulk commodities is vital to the economy of Western Canada. They account for approximately three quarters of the region's export tonnage and are the largest component of goods carried by the transportation system.

During the 1970's and up to the mid 1980's, volumes of bulk commodity exports through Canadian west coast ports grew steadily. However, over the past decade bulk exports have traded in volatile markets caused by a global recession, adverse weather conditions, shifts in traditional buying patterns arising from political and economic changes and the emergence of new foreign competitors.

Under these conditions, WESTAC has forecasted limited growth of bulk exports through to the year 2000.

The WESTAC forecast<sup>†</sup> calls for shipments of the four, highest volume bulk commodities, i.e. coal, grains, potash and sulphur, to increase at rates between 0.5% to 1.9% per year. It is noted however, that even a one percent growth rate applied to an export base of approximately 50 million tonnes represents a significant increase in the Gateway's export traffic volume and related economic activity.

When this scenario of limited export growth potential is combined with the potential for significant diversion of bulk export shipments through US Pacific Northwest ports, the future economic viability of the Gateway ports and their bulk terminals is threatened.

## Containerized Foreign Traffic

Two - way foreign traffic in containers through the Gateway ports increased dramatically; from 2.9 million tonnes (370,000 TEU's) in 1990 to 4.5 million tonnes (525,000 TEU's) in 1994. The outlook to the year 2000 for containerized traffic is for medium growth at a rate of 5% per year.

## Cruise Passengers

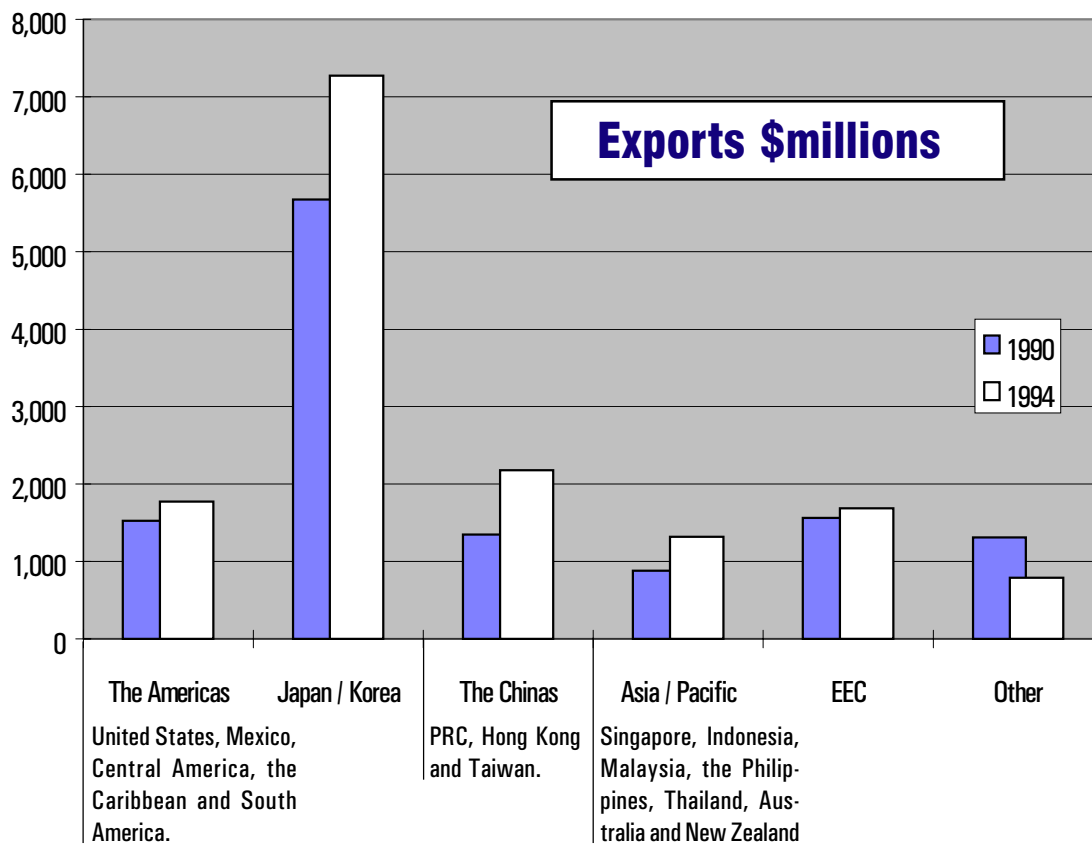
The Port of Vancouver posted an impressive increase in the number of revenue passengers from 388,000 in 1990 to 591,000 in 1994. The outlook is for traffic to reach a level of 900,000 passengers by the year 2000.

<sup>†</sup> WESTAC November 1993 Newsletter

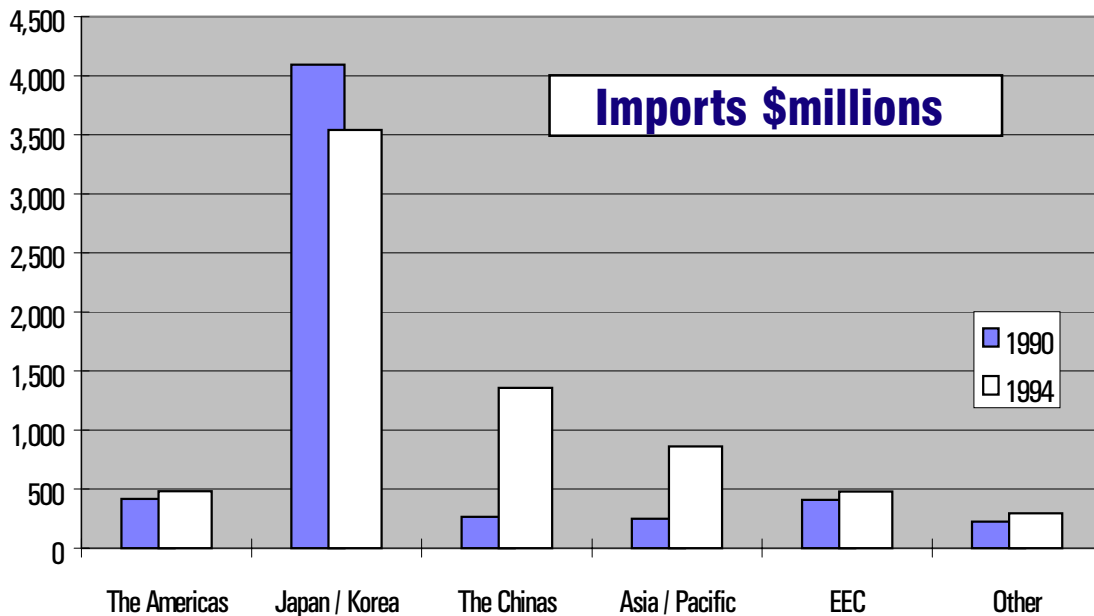
## Greater Vancouver Gateway Foreign Traffic by Value

The charts on this and the following page provide a profile of the value exports and imports for the Vancouver Gateway ports in the years 1990 and 1994. This data, obtained from Statistics Canada, has been aggregated into world trading regions considered meaningful for this report.

Exports refer to commodities produced in Canada and shipped through the Gateway seaports to a destination in another country. The values are taken by Statistics Canada from B13 export declaration documents issued in the province of lading. Accordingly, the export values in this presentation exclude inland freight and port terminal and handling charges.



Imports equate to the sum of the value of commodities which enter Canada through the Gateway sea ports for a domestic destination plus those commodities entering Canada for re - export to another country. The values are taken by Statistics Canada from B3 import declaration documents tendered at the port of entry. Accordingly, the import values in this presentation exclude any taxes and duties which may have been levied on imported goods.



### Summary of two-way foreign trade value

	1990	1994
Exports	\$12.3 billion	\$15.0 billion
Imports	<u>\$ 5.7 billion</u>	<u>\$ 7.0 billion</u>
Total foreign Trade Value	\$18.0 billion	\$22.0 billion

Based on this information, it can be seen that the overall value of two way foreign trade through the Greater Vancouver Gateway Ports increased from 1990 to 1994 at a rate of 5.25% per year.

During this period, increased trade volume with Japan / Korea, the Chinas and with Asia / Pacific countries dominated the growth of the value of Greater Vancouver Gateway marine foreign trade:

- ◆ exports to these Pacific Rim economies increased at a rate of 8% per year and
- ◆ imports from economies in this region increased at a rate of 6% per year.



# Gateway Ports Financing and Taxation

## Present Financial Structure

The following table summarizes, for certain selected accounts, the financial structure of the Greater Vancouver Gateway ports as of the end of the 1994 fiscal year:

<i>Excludes financial accounts of private terminal operators</i>	<b>Vancouver Port Corporation</b>	<b>Fraser River Harbour Commission</b>
<b>Balance Sheet Accounts:</b>		
<b>Net Assets:</b>		
Current & Other Assets Net of Current Liabilities	\$17 million	\$1 million
Property, Plant & Equipment and Other Assets	<u>\$342 million</u>	<u>\$75 million</u>
Total Net Assets	\$359 million	\$76 million
<b>Invested Capital:</b>		
Long Term Debt	\$2 million	\$1 million
Equity Accounts	<u>\$357 million</u>	<u>\$75 million</u>
Total Invested Capital	\$359 million	\$76 million
<b>Income Accounts:</b>		
Operating Revenues	\$63 million	\$9 million
Operating Expenses (excluding depreciation)	<u>\$40 million</u>	<u>\$5 million</u>
Operating Margin	\$23 million 30%	\$4 million 44%
Dividend to Canada	\$3 million	
<b>Cash Flow Accounts:</b>		
Cash Flow from Operating Activities	\$34 million	\$4 million
Repayment of Long Term Debt	\$0.3 million	\$0.4 million
Investment in Property, Plant & Equipment	\$61 million	\$2 million
Net Change in Cash Position	(\$29 million)	\$3 million

## Gateway Ports

### Summary of Key Points Relating to Financial Structure

- ▶ Net Assets of the combined ports, primarily represented by Property, Plant and Equipment, totaled \$435 million;
- ▶ Invested Capital is dominated by \$432 million in combined Equity Accounts, with only \$3 million represented by Long Term Debt;
- ▶ Greater Vancouver Gateway Ports are profitable on an operating basis; booking a combined Operating Margin of \$27 million in 1994 on Operating Revenues of \$72 million;
- ▶ Dividends to Canada, paid only by the Vancouver Port Corporation, (based on 30% of previous year Net Income), totaled \$3 million in 1994;
- ▶ Cash Flow from Operating Activities totalled \$38 million;
- ▶ Equity - based financing of the Vancouver Gateway ports resulted in a low debt service obligation which totalled only \$700,000 in 1994;
- ▶ Net Additions to Property, Plant & Equipment, primarily at the Port of Vancouver, totalled \$63 million;
- ▶ Net Cash Position decreased by a combined \$26 million based primarily on the Port of Vancouver's expansion in cruise passenger and container terminal facilities.

In addition to these transactions, in 1994 the Vancouver Port Corporation paid \$2.1 million to Canada Ports Corporation as its share of the national office annual operating expenses.

### Financing Under the Present Port System

**Fraser River Harbour Commission** can raise long-term debt subject to approval from the Minister of Transport. Fraser Port presently has a \$25 million borrowing facility with an effective interest rate of 7.35%. Outstanding balance at the end of 1994 was one million dollars.

**Vancouver Port Corporation** can source debt financing from the federal government or other sources in Canada and guaranteed by Canada. As of end of 1994, Vancouver had a two million dollar loan from Canada maturing in the year 2000, bearing interest at rate of 7.5%.

**Private Terminal Operators** can lease land and, in some cases, lease terminal improvements from port authorities. In addition, private terminal operators finance expansion through their own equity or long term debt sources.

## Gateway Ports

### Export Development Corporation Financing of Port Expansion

Subsequent to the 1994 year end, the Vancouver Port Corporation entered into an agreement with the Export Development Corporation, (EDC), to borrow up to \$139 million to finance general port expansion. The primary purpose of this major new long - term debt financing transaction is to fund the Deltaport container transfer terminal now under construction at Roberts Bank.

The EDC undertaking is the first instance wherein the Port of Vancouver has obtained major long - term debt financing from a separate Crown agency of the Government of Canada. The EDC financing is subject to the provisions of the Financial Administration Act and the Corporation is accountable to Parliament through the Minister of International Trade.

The EDC financing will be a combination of short term borrowings at variable rates and three 10 year term tranches (bond series) to be repaid at fixed rates. The tranches have ten year repayment with 15 year amortization; meaning that the Port will repay 60% of the principal over the first 9 years of each tranche with the balance either repayed or refinanced in year 10.

The Export Development Corporation is a federal Crown Corporation created to support, directly and indirectly, Canada's export trade and Canadian capacity to engage in that trade. Beyond its private sector financing activities, the Export Development Corporation enters into transactions with other Government departments, agencies and Crown Corporations in the normal course of business. The earnings of the Export Development Corporation are not subject to the requirements of the Income Tax Act.

### Property Taxation in the Gateway

In 1994, the Vancouver Port Corporation paid \$4.6 million in grants-in-lieu of municipal property taxes. The amount of such grants paid by the Vancouver Port Corporation (VPC) are determined based on municipal assessments adjusted in accordance with the federal Municipal Grants Act. Port staff estimate that in 1994, leasehold tenants on VPC property paid some \$25 million in property taxes to surrounding municipalities.

Under the federal Financial Administration Act, properties administered directly by the Fraser River Harbour Commission (including Fraser Surrey and Fraser Annacis), are exempt from municipal taxation. The Commission, however, has negotiated fee for services agreements with the involved municipalities and in 1994 paid some \$250,000 in such fees for local services. This excludes one time capital cost charges paid for municipal infrastructure. Fraser Port estimates that in 1994 its 700 leasehold tenants paid municipal property taxes in the magnitude of \$2 million.

Owners of private waterfront industrial lands pay municipal property taxes which in aggregate exceed those paid by the port authorities and their tenants. On this basis, total taxes paid on public and private Gateway waterfront industrial lands exceed \$60 million per year.

### Taxation of the Capital Base

British Columbia Corporation Capital Tax applies to corporations with operations in B.C. except those firms in the financial services sector. The tax is paid by private firms on the basis of 0.3% of paid up capital which is defined to include capital stock, retained earnings, contributed surplus, deferred credits and liabilities less current accounts payable. Port authorities are exempt but Terminal Operators are not exempt.

# Port Districts of the U.S. Pacific Northwest

## Legislative Framework

Port districts in the United States are created by enabling legislation as “municipal corporations” of the state. Geographic boundaries of US Port districts are often, but need not be coextensive with county boundaries.

Most powers of the Port District are vested with the Board of Commissioners the legislative body of the Port district which has responsibility for setting policies for Port operation and development.

Port districts are independent from County government and the County provides no funds to the Port. Additionally, the County does not hold title to any of Port’s assets, nor does it have any right to the Port’s operating surpluses.

Port districts are authorized to levy taxes on the assessed value of taxable property within their districts for general port purposes. Port districts may also levy taxes for industrial development purposes, subject to limitations imposed by law.

Under state law, Port districts are authorized to provide and charge rentals, tariffs and other fees for docks, wharves and other harbour facilities, including associated storage and traffic handling facilities for waterborne commerce. The Port may also provide freight and passenger facilities for other modes of transportation including air, rail and truck. Ports in the United States may acquire and improve lands for sale or lease for industrial and commercial purposes and may create industrial development districts.

## Port District Bonds

Port districts are authorized by law to issue "municipal" bonds including:

- General Obligation bonds used for financing general port infrastructure which are repaid from the levy of ad-valorem taxes on property owners within the Port district; and
- Revenue Bonds which are repaid directly from the future streams of port revenues generated by rents from lessees of marine (or air) terminal facilities.
- Industrial Development Revenue Bonds which may be issued within strict guidelines and subject to federal restrictions. These do not generate revenue for the port, but are a means of financing the development or operation of industry in their district. Payment for these bonds is by the industry affected and no taxes or port funds are involved.

Accounting policies of the Port of Seattle, encompassing King County, note:

*“The Port is a municipal corporation created through enabling legislation by consent of the voters within the Port district. The Port is considered a special purpose government with a separately elected commission of five members and is legally separate and financially independent of other state and local governments. The Port has no stockholders or equity holders. All revenues and other receipts must be disbursed in accordance with provisions of various statutes and agreements with the holders of its bonds.”*

# Port Districts of the U.S. Pacific Northwest

## Federal Assistance

While there is no formal mechanism for direct assistance from senior levels of government, US Port districts can indirectly receive assistance from state and federal agencies including;

- ⇒ the Intermodal Surface Transportation Efficiency Act (ISTEA) grants for rail or road access improvements;
- ⇒ state grants for a variety of capital purposes and;
- ⇒ the US Army Corps of Engineers; who fund marine channel maintenance and improvement projects.

Of importance to the competitive position of the Port of Portland is the \$3 million in grants from ISTEA and the State of Oregon approved in June 1995 to assist with financing of rail access improvements to the bulk handling facilities at Terminal 5.

## Property Taxation

Property taxation laws for US Port Districts vary from state to state.

- ⇒ Oregon tenants on Port district property can qualify to pay only a small grant-in-lieu of school tax, provided no value-added activity occurs on-site. Under State of Oregon Statutes the grant-in-lieu rate is 0.25% of the assessed value of the terminal property.
- ⇒ Washington State public property is exempt from local taxation but tenants pay a Leasehold Excise Tax to the State which is distributed to involved municipalities. The Leasehold tax rate is 12.84% of the rent paid for the public property. The leasehold tax expressed as a percentage of assessed value will vary with the lease capitalization rate, however, this tax would be equivalent to approximately 1% of the assessed value of the terminal.
- ⇒ Washington State sales tax is levied against fees collected for the use of container cranes and other equipment. The sales tax rate for Seattle / Tacoma averages 8%. State sales tax is not levied against fees collected for the preferential use of real property.

## Lower Columbia River and Puget Sound Ports Competitors

For purposes of this brief, the competitors to the Greater Vancouver Gateway can be generally classified as the US Pacific Northwest ports of the Lower Columbia River channel and those in the Puget Sound.

### Lower Columbia River Ports

The US Department of Commerce estimates total value of waterborne trade through Columbia River ports in 1994 to be US \$12.5 billion.

The ports on the Lower Columbia River shipping channel have a 42 foot draft restriction. In 1994, some 2,000 vessels called at the Lower Columbia River ports - approximately half to Portland, OR with the remainder calling at Kalama, Longview and Vancouver, WA.

To accommodate fully loaded Panamax vessels, the US Army Corps of Engineers in concert with the Lower Columbia River ports, are studying the feasibility of deepening the shipping channel to reach a depth of 45 feet.

In this range of competitive ports, Kalama is recognized as having efficient grain transfer facilities handling an annual throughput in the order of six million tonnes. Longview is emerging as a mini bulk port handling coke, potash, agri-products and chemicals. Vancouver, WA. handles forest products and approximately four million tonnes per year of export grains.

Portland is the main international gateway port on the Lower Columbia River. Its 1994 traffic profile includes grain exports of five million tonnes, two million tonnes of mineral bulk exports, 320,000 tonnes† of automobile imports and two-way container traffic in excess of 320,000 TEU's.

Port of Portland container throughput increased by 33% in 1994 and the port is responding with the addition of a sixth crane at Terminal 6. Automobile traffic increased significantly in 1994 and the Port is planning to further increase this traffic by the addition of new import regions and greater export volumes.

\* **Lower Columbia River Ports  
1994 Trade Value = US \$12.5b**

\* **2,000 vessels in 1994  
Approx. 1,000 called at Portland**

\* **Portland is the main  
international Gateway in the  
Lower Columbia,  
each year it handles approx:**

- 5 million tonnes grain
- 2 million tonnes bulk minerals
- 320,000 vehicle units†  
320,000 TEU containers

\* **Kalama handles 6 million tonnes  
of grains per year**

\* **Longview is a mini-bulkport,  
handling; coke, potash and  
chemicals.**

\* **Vancouver WA handles approx.  
4 million tonnes of Forest  
Products per year**

\* **Planing underway to increase  
draft of Lower Columbia  
from 42 feet to 45 feet  
in order to accomodate fully  
loaded Panamax vessels**

† 1 metric tonne = 1 vehicle unit

## Puget Sound Ports

Deep-sea ports in Washington's Puget Sound include Seattle, Tacoma, Everett, Olympia, Bellingham, Anacortes and Port Angeles. Depth of water in these ports varies from Panamax, (40 foot plus) up to Cape Size, (up to 70 feet). The Puget Sound Ports Group reports that these seven ports presently handle more than eighty million tonnes of international cargoes per year valued at some US \$50 billion.

To this point in time the primary competitive influence of the Puget Sound Ports on the Greater Vancouver Gateway has been related to containerized traffic. Similar to Vancouver, the ports of Seattle and Tacoma have a relatively limited population when compared with level of deep-sea marine traffic throughput.

At 1994 levels, Seattle and Tacoma combined to handle 2.4 million TEU's of containerized traffic. By contrast, the Greater Vancouver Gateway ports were estimated to have handled some 530,000 TEU's during the same period.

Previous studies<sup>†</sup> have estimated that 1/3rd of Canadian container traffic moving through west coast ports, is handled by the ports of Seattle and Tacoma.

Seattle and Tacoma have a combined supply of 25 container berths with 250 hectares of back up land area developed. There are eleven container terminals in the Seattle/Tacoma port area with 38 container cranes. In comparison, the GV Gateway ports have 3 container terminals with 10 container cranes and 50 hectares of developed lands at present.

In an effort to reduce duplication and avoid destructive competition, Seattle and Tacoma have formed the Puget Sound Corporation to increase total market share of the two ports by cooperative joint planning.

Tacoma is in the fortunate position of having sufficient vacant land to facilitate major future expansion, including 300 acres for container terminals and inter-modal yards. Seattle is more constricted by its urban environment and beyond its southwest Harbour Development project at Seattle Terminal 5, the port has no significant marine terminal expansion potential.

At Cherry Point, 15 miles south of the Canada / US border, plans are being considered to develop a deep-water bulk terminal for Cape Size vessels, with a single berth throughput capacity of approximately six million tonnes per year. If plans are realized, the proposed Cherry Point terminal would be in a position to compete for grains, coal and other dry and liquid bulk products from the hinterland of the Greater Vancouver Gateway ports.

<sup>†</sup> *Railway Taxation in Canada report by the Round Table on the Greater Vancouver Gateway*

### **Puget Sound Ports International**

- \* 1994 Trade Value = US \$50billion**
- \* Seattle / Tacoma have:**
  - 25 container berths on 250 developed hectares
  - 11 container terminals
  - 38 container cranes
- \* Seattle and Tacoma 1994 combined container traffic volume = 2.4 million TEU's.**
- \* Seattle and Tacoma have captured 1/3rd of Canada's west coast container traffic**
- \* Seattle / Tacoma have formed Puget Sound Corp. to increase market share through joint planning**
- \* Cherry Point, north of Bellingham, planned as large scale, deep water bulk terminal.**
- \* Cherry Point would compete for 6 million tonnes of Western Canadian commodity traffic if completed.**



## Financial Structure of US Pacific Northwest Ports

From the 1994 financial statements<sup>1</sup> of the three US Pacific Northwest international gateway ports, information has been gained on:

- Marine operating revenues, operating income, income before tax and ad valorem taxes
- Cash flow accounts of the Port of Tacoma
- Port of Tacoma Balance Sheet
- Selected Balance Sheet accounts for Portland and Seattle marine operations

### Income Accounts of Seattle, Tacoma & Portland Marine Operations in 1994 (Stated in US Dollars)

	Seattle Marine Division	Port of Tacoma	Portland Marine Terminals
<b>Operating Revenue</b>	\$69 million	\$49 million	\$44 million
<b>Operating Expenses</b>			
<b>excluding depreciation</b>	<u>\$48 million</u>	<u>\$30 million</u>	<u>\$40 million</u>
<b>Operating Margin</b>	\$21 million	\$19 million	\$4 million
	30%	40%	10%
<b>Income before property tax</b>	(\$5 million )	\$8 million	(\$5 million )
<b>Property tax levy</b>	\$35 million	\$6 million <sup>2</sup>	\$6 million

The above summary indicates that, on an operating margin basis, the Port of Tacoma is the most profitable, followed by Seattle and then Portland. The marine operations of the ports of Seattle and Portland each booked losses which were offset by the non-operating revenue from taxation of local property owners. Tacoma had a US \$8 million profit before property taxes.

<sup>1</sup> Presentation of a consistent set of financial information on the US Pacific Northwest ports is beyond the scope of this report. Comparative information presented in this document has been limited to the main international gateway ports of Tacoma, Seattle and Portland. Differences in reporting presentation and the fact that Portland and Seattle have airports in addition to marine divisions makes segmented comparisons difficult.

<sup>2</sup> The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Assessed values are established by the County Assessor at fair market value. The Port is permitted by law to levy up to 45 cents / US \$1,000 of assessed valuation for general port purposes. For 1994, the Port's regular tax levy was US \$0.2333 / US \$1,000 on a total assessed valuation of approximately US \$26 billion for a total regular tax levy of US \$6 million.



## U.S. Port District Balance Sheets

### Port of Tacoma

Unlike the ports of Seattle and Portland, whose balance sheets combine seaport and airport accounts the balance sheet of the Port of Tacoma represents that of the seaport only.

<b>Port of Tacoma - 1994 Balance Sheet</b>	
<b>Net Assets:</b>	
Current Assets net of Current Liabilities	US \$59 million
Property Plant and Equipment	<u>US \$300 million</u>
<b>Net Asset Balance</b>	<b>US \$359 million</b>
<b>Invested Capital:</b>	
General Obligation Bonds	US \$40 million
Revenue Bonds	US \$54 million
Other Long Term and Deferred Liabilities	<u>US \$21 million</u>
Total Long Term Liabilities	US \$115 million
Port of Tacoma Equity	<u>US \$244 million</u>
<b>Total Invested Capital Balance</b>	<b>US \$359 million</b>

The Port of Tacoma Balance Sheet indicates that at the end of 1994, approximately one third of the port's invested capital was represented by long-term debt and two-thirds by port equity, primarily from retained earnings.

### Port of Seattle - Marine Division

When compared with Tacoma, the Port of Seattle Marine Division is somewhat larger having total identifiable assets of US \$862 million. Some US \$372 million of these Marine Division assets were financed by long term debt.

In 1994 the Port of Seattle issued US \$155 million in Revenue Bonds and US \$50 million in General Obligation Bonds to finance expansion of the South West Harbour Development at Container Terminal 5. When completed, container Terminal 5 will have 230 acres of back-up lands.

### The Port of Portland - Marine Operations

The Port of Portland also uses General Obligation and Revenue Bonds to finance its expansion activities. As of the end of 1994, the Port of Portland Total Invested Capital, (including both the airport and marine operations), was almost equally divided between Port Equity and the outstanding balances of General Obligation and Revenue bonds.

The June 1995 enactment of the Port of Portland Commission authorizing the issue of up to US \$48 million in Special Obligation Revenue Bonds to finance the Terminal 5 project as described on the next page provides a case study to illustrate the process of tax-exempt US Port district long-term bond financing.

# Portland - Terminal 5 Development Case Study

## Project Description

Of direct significance to this Brief is the joint development of Terminal 5 by the Port of Portland and Portland Bulk Terminals, L.L.C. This facility, which will export a minimum of one million tonnes per year of Canadian potash, is planned to be in service by the end of 1996. Within a few years from start-up, the Terminal 5 facility is expected to handle 2 to 3 million tonnes of potash and other bulk commodities; equivalent to one half of the single berth terminal design capacity. Western Canadian bulk exports are expected to be a primary target market to fill the additional 2 - 3 million tonnes of capacity.

Portland Bulk Terminals is a limited liability company, formed by Hall - Buck Marine Inc. and Canpotex Shipping Services (US). Hall-Buck Marine is a Louisiana company specializing in design, construction and operation of bulk handling facilities. Canpotex Shipping Services (US) is a subsidiary of Canpotex Ltd. of Saskatoon. Canpotex Ltd. markets export potash shipments for Saskatchewan producers, including the Potash Corporation of Saskatchewan (PCS). PCS volumes represent 60% of Canpotex shipments, IMC and other producers provide the remainder.

Improvements needed to complete the Terminal 5 bulk handling project, estimated at US \$44 million, will be entirely financed by Special Obligation Revenue Bonds. These bonds will be issued by the Port of Portland after Portland Bulk Terminals enters into a Ground Lease to rent the Terminal 5 property and a Facilities Lease in which the Terminal Operator undertakes to cover bond repayment with no recourse or liability to the Port of Portland. The Special Obligation Revenue Bonds will have a maximum maturity of 30 years matching the term of the Facilities Lease.

The Bond Ordinance, approved at the June 1995 meeting of the Port of Portland Commission, indicates that the Bonds will be issued in a short term variable rate mode backed by an irrevocable direct-pay letter of credit from Canadian Imperial Bank of Commerce (CIBC).

The Port of Portland will undertake to complete certain site access and development works at a cost of US \$1.2 million.

Directly associated with the Terminal 5 project are rail access improvements including the completion of the North Wye structure and the construction of the Columbia Slough Bridge and associated track works. Plans for this element of the project were announced in June 1995 and involve infrastructure investment by the Burlington Northern Railway, the Port of Portland and grants totalling US \$3 million from both the state and federal levels of government. The City of Portland will "project manage" the construction of the Columbia Slough bridge.

**\* Terminal 5 to export 1 million tonnes of Canadian Potash each year - starting 1996**

**\* Terminal 5 financed by Tax Exempt Special Obligation Revenue Bonds issued by the Port of Portland**

**\* Portland Bulk Terminals to repay bond principal and interest backed by the Canadian Imperial Bank of Commerce through a direct-pay irrevocable letter of credit. There is no recourse or liability for the Port of Portland**

**\* Rail access infrastructure improvements financed by Burlington Northern Railway, Port of Portland and grants from Oregon State and the U.S. Governments**

## Portland Terminal 5 Development Case Study

As described above, the Portland Terminal 5 facilities will be financed entirely by tax-exempt Special Obligation Revenue Bonds issued by the Port of Portland. Under this arrangement, the terminal facility will be leased back to the Terminal Operator who, under a Facilities Lease guarantee payment of the revenue bonds, will be backed by the CIBC direct-pay letter of credit.

In the past, the Port of Portland has issued similar revenue bonds to finance construction of industrial facilities within the Port district which it leases or sells on instalment contracts to industrial users. These facilities and the related lease rentals and contract payments are pledged for payments of these bonds.

It is important to note that these Special Obligation Revenue Bonds will not be a liability of the Port or a lien on any of its properties or revenues other than the marine facilities for which they were issued. These transactions, therefore will have no net impact on the balance sheet of the Port of Portland.

To realize tax-exempt revenue bond financing status, the agreement between the Port and its lessee, Portland Bulk Terminals, must meet certain United States Internal Revenue Service criteria:

- ⇒ Lessee makes an irrevocable election not to claim depreciation or investment tax credit with respect to the terminal property;

- ⇒ Lease term is not more than 80% of the expected economic life of the property; and,

- ⇒ Lessee has no option to purchase the improvements other than at fair market value.

Facilities leased in this fashion must be located on Port district property and satisfy a public use requirement.

To satisfy the public benefit and use requirement, a Public Hearing on the Terminal 5 development was held during the June 1995 meeting of the Port of Portland Commission (the hearing process was completed in less than one minute).

**A summary of the Port Commission's four step process for the bond financing appears on the next page....**

# Portland Terminal 5 Development Case Study

## Four Step Bond Finance Process

### Step 1- March 1995

Approval by the Port Commission to proceed with a letter of intent with Portland Bulk Terminals; this differs from a normal business letter of intent as it focuses primarily on the financing. Approval to proceed with the letter of intent constitutes “official action” of tax-exempt bond financing under the IRS Code.

### Step 2 - June 1995

Approval by the Port Commission of the Bond Ordinance; the indenture which sets out the framework for the revenue bonds. While the market rate of bond interest cannot be confirmed until the bonds are issued our research indicates the cost of capital to Portland Bulk Terminals will be 6% per annum over the 30 year term of the Facilities Lease.

On this basis, the four step revenue bond financing process will be completed over a six month period; from March to August, 1995.

Through this bond finance and lease agreement package, the Port Authority and Terminal Operator effectively work as development partners.

### Step 3 - July 1995

Approval of the Ground Lease and the Facilities Lease; documents which address the actual terminal business issues between the Port of Portland and Portland Bulk Terminals.

#### Ground Lease on 65 acre terminal area

- 30 year initial term with four 5 year renewal options
- At end of initial term Lessee has option to lease or purchase the facility improvements
- Minimum annual guaranteed rent of \$US 650,000 plus throughput charges on volumes greater than 1.5 million tonnes - level of charges to escalate over time

#### Facilities Lease to finance \$US 44 million improvements

- Term of 30 years
- Rent is equal to the amount of the bond payments
- CIBC letter of credit to guarantee repayment of the revenue bonds

### Step 4 - August 1995

Through its remarketing agent, Goldman, Sachs & Company, the Port of Portland will issue the Special Obligation Revenue Bonds.

## Marine Terminal Labour Costs

Marine terminal longshore labour is a macro economic factor and for that reason is not included in the comparisons of the investment charges in the Greater Vancouver Gateway versus its US Pacific Northwest counterparts which follow on pages 21 through 24.

### Comparative Longshore Labour Costs

Differences in longshore labour costs between the Greater Vancouver Gateway and the US Pacific Northwest ports influence the total charges for terminal service in the two jurisdictions. Labour costs are influenced over time by the prevailing rate of exchange between the US and Canadian dollars and the level of wages and benefits negotiated from time to time between the respective management and longshore labour bargaining units.

In this case, when both currency exchange and level of benefits are considered the Greater Vancouver Gateway Ports have a significant hourly cost advantage over their US Pacific Northwest competitors. This advantage has increased over the past five years as illustrated from the following table of comparative longshore labour wages and benefits from 1992 to 1995.

<b>Hourly Longshore Labour Wages and Benefits (\$Cdn) in 1992 and 1995</b>				
	<b>1992</b>		<b>1995</b>	
<b>Greater Vancouver Gateway</b>				
Wages	\$26.24		\$28.47	
Benefits	<u>\$8.49</u>		<u>\$9.26</u>	
	\$34.73		\$37.73	
<b>US Pacific Northwest Ports</b>				
Wages	\$35.15	(US \$29.55)	\$40.88	(US \$29.84)
Benefits	<u>\$19.60</u>	<u>(US \$16.46)</u>	<u>\$29.12</u>	<u>(US \$21.26)</u>
	\$54.75	(US \$46.02)	\$70.00	(US \$51.10)

The above comparative data indicates that even if the Canadian and US currencies were at par, the average cost of Longshore labour in the Greater Vancouver Gateway Ports would be lower. When converted to Canadian dollars, (at current 1995 market rates) the US Pacific North West labour Rate is equivalent to \$Cdn. 70 / hr.; this is 85% more than the Gateway rates.

These hourly labour cost comparisons do not account for prospective differences in manning levels. The British Columbia Maritime Employers Association is of the opinion that manning levels in the Gateway ports are equal to those in the ports of the US Pacific Northwest.

### Reliability and the Perception of Reliability

Offset against the hourly labour cost advantage enjoyed by the Gateway ports is the perception among some customers that US ports are more reliable. A commission of inquiry has been convened to review labour-management practices at Canada's West Coast ports.

## Terminal Investment Charge Comparisons

### Example of a Container Transfer Terminal

In this first example, the investment charges associated with a new two berth container terminal in the Vancouver Gateway (at Deltaport) are contrasted with a similar terminal assumed to be developed in Seattle/Tacoma. For comparison purposes all costs are in Canadian dollars.

For comparative purposes, this analysis assumes an equivalent initial capital cost of terminal development is \$225 million and that the annual throughput is 4 million tonnes of containerized cargoes

In both cases, the land area allocated to the container terminal is taken to be 25 hectares. Land values estimated at \$1 million / hectare and annual land rentals are calculated at 10% of this port land value.

The variables are the cost of capital to the port authorities in the Vancouver and Seattle/Tacoma gateways, the rate of grant-in-lieu of property tax in the Municipality of Delta, the Washington State leasehold rental tax and the sales taxes on container terminal services.

For the Gateway terminal, the weighted average cost of capital is based on 80% port authority debt at 9% interest and 20% terminal operator equity at 12% interest. The Seattle/Tacoma terminal which is assumed to be financed by revenue bonds has a cost of capital of 6%. Capital recovery is assumed to be 30 years.

	<b>Greater Vancouver Gateway at 9%</b>	<b>Seattle/Tacoma Terminal at 6%</b>
Initial Capital cost of development	\$225 million	\$225 million
Value for Washington Sales Tax		\$45 million
Washington Sales Tax Rate		8%
Land Value (per hectare)	\$1,000,000	\$1,000,000
Assessment of Land	100%	100%
Assessment of Improvements - federal	33%	
Washington Assessment of Lease Improve.		60%
Rate of BC Property Tax Grant	3.5%	
Washington Leasehold Tax Rate		12.84%
<u>Comparative Investment Charge (\$/tonne)</u>		
Capital Recovery Cost	\$6.21	\$4.60
Seattle / Tacoma Services Sales Tax		\$0.09
Vancouver Gateway Grant in Lieu Taxes	\$1.14	
Washington Leasehold Taxes		\$0.51
Port Land Rent	<u>\$0.63</u>	<u>\$0.63</u>
<b>Comparative Unit Investment Charge</b>	<b>\$7.97/tonne</b>	<b>\$5.83/tonne</b>

## Terminal Investment Charge Comparisons

### Example of an Automobile Import Terminal

In this second example, the investment charges associated with a new automobile import terminal assumed to be developed in the Greater Vancouver Gateway, (at the Fraser Richmond site) are contrasted with a similar terminal assumed to be developed on the Columbia River at Portland in the State of Oregon. For comparison purposes, all costs are in Canadian dollars.

The analysis assumes an equivalent initial capital cost of terminal development of \$25 million and annual throughput of 250,000 tonnes of vehicles.

In both cases, the land area allocated to the automobile handling terminal is taken to be 40 hectares. Land values estimated at \$500,000 / hectare and annual land rentals are calculated at 10% of the port land value.

The variables are the cost of capital to the port authorities in the Greater Vancouver Gateway and Port of Portland, the fee for service to the City of Richmond and the grant-in-lieu of school tax in the State of Oregon.

For the Gateway terminal the weighted average cost of capital is based on 75% port authority debt at 9% interest and 25% terminal operator equity at 12% interest. A 6% cost of capital is employed for the Portland terminal which is assumed to be financed by revenue bonds. Capital recovery period is assumed to be 30 years.

	<b>Greater Vancouver Gateway Terminal at 9%</b>	<b>Portland Terminal at 6%</b>
Initial Capital cost of development	\$25 million	\$25 million
Land Value (per hectare)	\$500,000	\$500,000
Assessment of Land	100%	100%
Assessment of Improvements	75%	100%
Property Tax Rate	2.0%	0.25%
<u>Comparative investment Charge (\$/tonne)</u>		
Capital Recovery	\$11.16	\$8.02
Vancouver Gateway Fee for Service	\$3.10	
Oregon Grant in Lieu of School Tax		\$0.45
Port Land Rent	<u>\$8.00</u>	<u>\$8.00</u>
<b>Comparative Unit Investment Charge</b>	<b>\$22.26/tonne</b>	<b>\$16.47/tonne</b>



## Terminal Investment Charge Comparisons

### Example of a Bulk Products Terminal

In this final example, the investment charges associated with upgrading a private bulk terminal in the Greater Vancouver Gateway (in Burrard Inlet) is contrasted with the completion of the Terminal 5 property on the Columbia River at Portland in the State of Oregon. For comparison purposes, all costs are in Canadian dollars.

For comparative purposes, this analysis assumes an equivalent initial capital cost of terminal development of \$60 million and annual bulk products throughput of 3 million tonnes.

In this case the land area allocated to the bulk terminal is taken to be 12 hectares. In the Greater Vancouver Gateway land value is estimated at \$900,000 / hectare and the annual land rental is calculated at 10% of the port land value.

At Portland, the land area allocated to this bulk terminal operation is 12 hectares. Base land value is \$500,000 / hectare and the minimum annual guaranteed rental is at 5% per annum. The Port of Portland will also charge throughput rent estimated at \$0.50 / tonne for annual volume in excess of 1.5 million tonnes.

The variables in this case are the weighted cost of capital to the private operator in the Greater Vancouver Gateway, the cost of revenue bond financing in the Portland Gateway, the BC Corporation Capital Tax, the grant-in-lieu of property tax in the District of North Vancouver and, the grant-in-lieu of school tax in the State of Oregon.

Costs of capital for capital recovery calculation purposes are taken to be 12% for the private Vancouver Gateway terminal operator and 6% for the Portland facilities financed by tax exempt revenue bonds. Capital recovery is taken over a period of 30 years.

	Vancouver Gateway Terminal		Portland Gateway
	Private Finance	Public Finance	Public Terminal Finance
	12%	9%	6%
Initial Capital cost of development	\$60 million		\$60 million
Value for BC Corporation Capital Tax	\$60 million		N/A
BC Corporation Capital Tax Rate	0.3%		N/A
Land Value (per hectare)	\$900,000		\$500,000
Assessment of Land	100%		100%
Assessment of Improvements	50%		100%
Property Tax Rate	5.0%		0.25%
<u>Comparative investment Charge (\$/tonne)</u>			
Capital Recovery	\$2.62	\$2.11	\$1.63
BC Corporation Capital Taxes	\$0.06	\$0.00	
BC Property Taxes	\$0.65		
Oregon grant-in-lieu of School Tax		—	\$0.06
Port Land Rent	\$0.36		\$0.10
Throughput charge	\$0.00		\$0.25

Report on the Competitive Position of the Greater Vancouver Gateway Ports  
**Comparative Unit Investment Charge \$3.73/tonne \$3.21 \$2.04/tonne**



# Terminal Investment Charge Comparisons

## Summary of Example Comparisons

These marine terminal investment comparisons demonstrate that to a greater or lesser extent, unit capital-related charges in the Greater Vancouver Gateway ports exceed those estimated for counterpart facilities in the US Pacific Northwest gateway ports.

The higher cost of capital recovery in the Greater Vancouver Gateway makes the greatest difference. The relatively higher levels of property taxation, (grants - in - lieu or fees paid for municipal services) in the Greater Vancouver Gateway ports is also an important factor.

In these examples the greatest capital investment charge disadvantage resulted when a private terminal operator in the Vancouver Gateway competes with facilities which are revenue bond - financed by a US Port District issuing tax exempt special obligation revenue bonds.

This example closely parallels the present situation where potash export traffic has been diverted from the Greater Vancouver Gateway to the new Portland Terminal 5 facilities. In addition to potash Terminal 5 is being planned to handle other dry bulks and some of the products could be sourced from Western Canada.

A number of strategic factors, including different unions, different environmental regulations and different tax regimes, contributed to the decision by Canpotex Shipping<sup>†</sup> to export Western Canadian potash through Portland Terminal 5. However, the lower cost of capital, the long - term nature of the Facilities Lease agreement and the 100% debt financing offered by the Port of Portland were strong competitive factors in diverting this export traffic.

In addition, the extremely favourable level of grant-in-lieu of school taxes paid for cargo transfer operations in the state of Oregon also played a role in creating a low cost terminal environment in favour of the Port of Portland.

The lower margins of advantage in the container and automobile terminals result from the more competitive rates of financing used in these examples with public terminal development in Canada under the federal port system.

Although not shown in the investment charge comparison tables, the lower unit cost of Greater Vancouver Gateway labour at present exchange rates helps to offset the financial cost advantage of the US Pacific Northwest Gateway ports.

The Vancouver Gateway labour cost advantage is more significant in maintaining the competitive position of the container and automobile operations. However, in the case of the more capital intensive bulk terminal facility, the Vancouver Gateway labour cost advantage could not overcome the more competitive long-term debt financing available from the Port of Portland.

<sup>†</sup>*Published interview with senior executive of Potash Corporation of Saskatchewan*

## Recommendations

### Expanded Powers to Borrow

Under the proposed new commercially oriented federal ports system, the Gateway sea ports and other similar port authorities in Canada will have expanded powers to borrow and enter into leases and other contract agreements.

Earlier in this report the recent Vancouver Port Corporation's debt financing agreement with the Export Development Corporation was outlined. This transaction demonstrates the use of long term debt financing by a Local Port Corporation for general expansion purposes under the current ports system. The Fraser River Harbour Commission is also empowered to raise long-term debt financing, subject to federal approval.

The Case Study on the Port of Portland Terminal 5 Development, also presented in this report on Competitive Position, outlines the comparatively favourable tax-exempt special obligation revenue bond method of debt financing available through US Port Districts.

Later in this report, a cost comparison is made between a bulk products terminal in the Gateway and a similar facility in the Port of Portland. This service cost comparison, which would also apply to other US Pacific Northwest ports, quantified the competitive financial advantage enjoyed by the Port of Portland, an advantage which will be passed directly through to the Port of Portland's Terminal Operator lessee.

Under United States law, revenue bonds used for long term financing of marine terminal projects, (and other public infrastructure), can qualify for tax-exempt status if the facilities developed satisfy a public use requirement and the financial lease agreement with the Lessee meets certain criteria under income tax regulations.

In the capital intensive Bulk Products handling sector, the US Port District financing through low cost (estimated at 6%), tax-exempt revenue bond financing generated a comparatively large competitive margin: estimated at \$1.00/tonne when compared with a privately financed Vancouver Gateway terminal financed over the same term at 12% interest. This is especially significant in the case of low value, high volume bulk product export shipments.

As a sensitivity test, the same unit cost comparison was made assuming a public bulk terminal in the Greater Vancouver Gateway with long-term financing at 9% rate of interest-and the margin advantage in favour of Portland reduced to a still significant value of \$0.50/tonne.

An important competitive strength of the US port system is its ability to act as a conduit to flow low cost long term bond financing benefits to private terminal operators.

## Recommendations

### Expanded Powers to Borrow - Continued...

In the case of the Port of Portland, this was done by structuring the transaction in the form of two parallel lease agreements between the Port District and the Terminal Operator. These are:

★ **Ground Lease**

A key agreement establishing the long-term business relationship between the Port and the Terminal Operator. Underlying the Ground Lease is a cargo handling agreement between the shipper(s) and the Terminal Operator which guarantees a minimum annual volume through the facility. The rentals paid to the Port under such an agreement typically include a minimum annual guarantee rent plus a scale of throughput charges for volume in excess of the minimum annual guarantee.

★ **Facilities Lease**

This is essentially a financing lease covering the repayment by the Terminal Operator of the revenue bond financed costs of improvements constructed for the terminal development. Over the term of the Facilities Lease, (in the Portland case 30 years), the rent in the amount of the bond payments is paid by the Terminal Operator directly to the bond trustee. A direct pay letter of credit is provided by the Terminal Operator's bank guaranteeing repayment of the bonds. In this way there is no recourse to the Port district for the liability created by the Revenue Bond issue.

The Gateway Council's view is that expanding the borrowing powers of Canadian port authorities is the key component in the drive to achieve a competitive balance with US ports. Also, the new port authorities should be empowered to enter into lease agreements and other cost recovery user contracts in a timely fashion.

Similar to the US port system, and when justified by public use and benefit criteria and income tax regulations, long term debt issued by port authorities should be furnished to investors on a tax - exempt basis. In this way, the net cost of capital to either the port authority itself or to its terminal operator lessee will be minimized.

## Recommendations

### Expanded Powers to Borrow and Related Ground Lease Issues

- General Revenue Bonds or Debentures issued by the port authority and repaid from port operating revenues;
- Port Authority Interest and Debt Service Coverage Ratio Criteria developed to insure that the port authority will have a level of operating income sufficient to repay long-term debt and be accountable on a commercial basis;
- Special Obligation Revenue Bonds issued by the port authorities to finance terminal improvements and directly repaid under a financial lease agreement with no recourse to the port authority by the terminal operator;
- Financial Lease Agreement wherein the Terminal Operator lessee guarantees to directly pay rentals sufficient to retire the revenue bond principal and interest over the term of the lease;
- Ground Lease which sets out the long term relationship between the port authority and its lessees and creates a business partnership with terminal operators through a negotiated guaranteed minimum annual rental combined with throughput charges on traffic above the minimum guarantee level;
- Financial Lease Term to be over a time period equivalent to the economic life of the improvements financed under the lease agreement and;  
  
Ground Lease Term equivalent to the term of the financial lease with provision for renewal term(s) and containing option to lease or purchase improvements at date of renewal.

### Municipal Taxation

#### Collection of Property Tax Revenues

US Port districts by law can levy taxes on local property owners. The revenues from such taxes are used to repay the principal and interest on general obligation bonds used to finance general port infrastructure. In Canada, the federal ports system is not structured to collect taxes at the local level. Introduction of local taxation by commercial level port authorities would likely face opposition from the municipalities which surround the larger commercially oriented Gateway ports.

Unlike smaller community ports, the export-oriented terminals of the Greater Vancouver Gateway have a primary hinterland which extends far beyond the boundaries of their surrounding municipalities.

For these reasons, attempting to create authority to collect local tax revenues in the Canadian federal ports system would not be advisable. Rather, to assist in creating a more cost competitive environment it is recommended that the municipal tax burden on the Greater Vancouver Gateway port system should be reduced as outlined in the following paragraph.

## Recommendations

### Municipal Taxation Continued..

#### Payment of Municipal Taxes

The Gateway Council believes that there should be no municipal tax obligations for Port Authorities. However, in the event that there is a requirement to negotiate fees for municipal services used, an arbitration mechanism must be included in the enabling legislation in order to resolve any differences which may arise about the amounts of such fees.

In order to eliminate any assessment anomalies and ensure that the tax burden does not jeopardize the ability of the Gateway port authorities and terminal operators to compete, it is recommended that municipal property tax reductions be extended to terminal operators by offering them the ability to negotiate fees for local service; recognising that municipal taxation is not exclusively within the purview of the Government of Canada.

#### Payment of Dividends

The Greater Vancouver Gateway Council agrees with the recommendation of the SCOT-Marine Policy report that the new federal Gateway port authorities would pay an annual dividend under an agreed formula based on determining the assessable income for dividend purposes and the percentage rates of payment.

The Greater Vancouver Gateway Council emphasizes that a clearly defined, agreed formula for determining the amount of the annual dividend is critical to its competitive position.

Similar to the current system for Local Port Corporations, an acceptable formula would involve two basic components:

- A sliding scale of dividend percentages applicable to the port's assessable net income
- The base amount of net income available for dividend assessment be related to the level of the port's capital reserve account and the approved capital budget for essential port infrastructure.

The Council also agrees with the SCOT - Marine Policy recommendation to discontinue the practice of port authorities making periodic special payments to the Government of Canada.

Furthermore, the new federal ports structure will eliminate the need for Local Port Corporations to make annual payments to support the operation of the Ports Canada national office. This will benefit the Greater Vancouver Gateway ports' overall competitive position by reducing the level of overhead cost burden on the export-oriented customers of its hinterland.

## **Implications of Maintaining the Status Quo**

The Gateway sea ports are facing increasing competition for bulk commodity business from US Pacific Northwest ports and are competing in markets where Western Canadian bulk shippers are under severe competitive pressures to reduce transport costs.

In the container transport markets, increased containerization and opportunities for business development over an expanded North American hinterland have driven the expansion of Gateway container capacity. However, the competition among load centres is increasing and to realize the moderate forecast growth, the Gateway ports must operate within a competitive tax and financing framework.

The Gateway Council has recommended important and necessary changes to capital investment cost structures, local taxation and payments of dividends among other measures. Implications of the status-quo are:

### **Further Diversions of Western Canadian Bulk Commodity exports**

It is the Gateway Council's view that significant tonnage of export bulk commodities are potentially at risk of diversion.

Capital investment charges and local taxation advantages enjoyed by US Pacific Northwest ports will, in the medium to longer terms, allow these competitors to offer lower throughput charges than Gateway ports. Although port terminal charges are smaller than inland freight rates, shippers today are making routing decisions based on the minimum total cost of transportation.

When throughput volumes diminish, the resulting under-utilization of existing plant would cause Gateway Terminal charges to become less competitive because capital investment charges would become a greater proportion of total annual terminal unit costs and hence throughput rates.

The capital intensive nature of Terminal Operations coupled with reducing throughputs would not allow Terminals to generate sufficient capital for reinvestment in plant and equipment.

### **Reduced Ability to Compete for Future Container Business**

Higher capital investment charges and local taxes increase Gateway terminal charges by comparison with competing US terminal operators. The implications of higher charges, of the magnitudes quantified in the Gateway Council's report on the Competitive Position of Greater Vancouver Gateway Ports, are to limit the outlook for increasing container business.

## **Implications of Maintaining the Status Quo**

### **Limits the Gateway Ports Ability to Exploit Future New Business Opportunities**

Higher costs of capital investment and local taxation in comparison with US Pacific Northwest ports, reduces capital available for expansion or new equipment acquisition in the Gateway sea-ports. This situation limits the Gateway's ability to exploit new business opportunities as they arise which in turn limits the Gateway's ability to maintain or expand payrolls and taxes paid to governments.

### **Export of Canadian Jobs to the US**

Up to 6,000 direct, high wage jobs in the Greater Vancouver Gateway are at risk from the diversion of Western Canadian commodities.

### **Strategic Threats to Canada's Future Export Trade**

Western Canadian bulk commodities and other foreign trade moving through US Pacific Northwest ports is subject to the national and regional priorities of the United States. Routing significant volumes of Canada's export trade through US Pacific Northwest ports, creates a strategic threat the Canada's export trade and balance of payments.

## References

*Brief on the Competitive Position of the Greater Vancouver Gateway Ports*; companion document to this report, prepared by the Greater Vancouver Gateway Council - July 1995.

*A National Marine Strategy*, House of Commons Standing Committee on Transport - May 1995.

*Submission by the Greater Vancouver Gateway Council to the House of Commons Standing Committee on Transport* - March 1995.

Gateway ports traffic statistics from the:  
*Vancouver Port Corporation*  
*Fraser River Harbour Commission.*

The Port of Portland:  
*Ordinance No. 379-B, Special Obligation Revenue Bonds; effective July 15, 1995*  
*1994 Business Report*  
*Business Plan Highlights - Fiscal Year 1995 - 1996*

*The Gateway Ports of Puget Sound*, Puget Sound Ports Group

1994 Annual Reports from the:  
*Canada Export Development Corporation*  
*Ports Canada*  
*Port of Portland*  
*Port of Seattle*  
*Port of Tacoma*

Washington Sea Grant Marine Advisory Services papers:  
*Measuring the Financial Bottom-line*  
*Port Capital Investment Decision-Making; A Process*  
*Port Pricing; A Process*  
*Container Terminal Leasing / Pricing Methods and their Economic Effects*

*The Ports of Washington*; Washington Public Ports Association - January 1990

Statistics Canada - International Trade Division, value of trade reports - requested June 1995:  
1990 and 1994 exports by country, from Gateway ports by water  
1990 and 1994 imports by country, from Gateway ports by water

*WESTAC Newsletter* - November 1993

*Railway Taxation in Canada*, report by The Round Table on the Greater Vancouver Gateway - 1991

Various internal strategic planning documents from Gateway Council member organizations and others.



## Acknowledgements

This report was prepared for the Greater Vancouver Gateway Council, Marine Policy Action Team. Action Team members:

Peter Johnson, Assistant Vice-President, Canadian National Railways - Action Team Chair and member of the Board of Directors of the Greater Vancouver Gateway Council.

Capt. Norman Stark, President and Chief Executive Officer, Vancouver Port Corporation, Chairman Greater Vancouver Gateway Council.

David Alsop, President and Chief Operating Officer, Vancouver Wharves.

Ed. Kargl, Director of Corporate Development, Fraser River Harbour Commission.

The Action Team gratefully acknowledges the assistance of the following individuals and organizations in the development of this report:

Richard C. Pearce, President and Chief Executive Officer, Fraser River Harbour Commission and other Commission staff members.

Don Buggie, Vice-President Finance, Vancouver Port Corporation and other Corporation staff members.

William Hall, Seaport Consultants.

Thomas Dowd, Sea Grant Port Industries Specialist and Affiliate Professor, University of Washington.

Statistics Canada, International Trade Division

Assembly of information, interviews and report preparation by Frederick Culbert, Banjar Management.

---