

Port of Benton, Richland, Washington. In September 1996, MARAD conveyed approximately 71 acres of the former U.S. Department of Energy Hanford 3000 Area to the port for development into a foreign-trade zone and industrial park. The property complements the marine port, which is located on the Columbia River.

Port of Los Angeles, Los Angeles, California. The application to convey approximately 26 acres of the former Long Beach Naval Station located in the city of Los Angeles has been tentatively approved. The principal use of the property is to provide rail access and a Seaside Avenue/Navy Way grade separation for cargo terminals on Terminal Island (Pier 300 and 400) and the dry bulk terminal.

Rhode Island Economic Development Corporation, North Kingstown, Rhode Island. The application and requested assignment of approximately 259 acres of property located at the former Naval Construction Battalion Center in North Kingstown, Rhode Island, has been approved. The property will be used for industrial and maritime/pier support purposes.

Port of Long Beach, Long Beach, California. Two applications from the port are under review by MARAD. The port is interested in acquiring the 240-acre site of the former Long Beach Naval Station, including the Navy mole. The port and the community are currently evaluating reuse alternatives.

Port of Stockton, Stockton, California. The port has requested conveyance of approximately 1450 acres known as Rough and Ready Island for development into a commercial port facility using existing warehouses and facilities. The property is adjacent to the current port.

Village of Harrisonburg, Harrisonburg, Louisiana. The village has requested conveyance of the former Harrisonburg Lock and Dam No. 2 for development into a port facility. The property is located on the Ouachita River.

Additional information and application forms for the conveyance program can be obtained from Director, Office of Ports and Domestic Shipping, Maritime Administration, 400 Seventh Street, N.W., Room 7201, Washington, D.C. 20590 (telephone: 202-366-4357).

Port Authorities and Downtown Development

**Case Study from
Cleveland-Cuyahoga County
Port Authority**

GARY L. FAILOR

During the past 200 years, marine ports have been a focal point of downtown and central city development in virtually all of the nation's coastal areas—Atlantic, Pacific, Gulf, and Great Lakes—as well as along the inland waterways. Ports have been vital to the growth of industry and commercial activity. However, as traffic has increased and port operations have expanded, much port-related activity in cities such as New York, Boston, and Chicago has moved from downtown to less populated areas, where more efficient facilities and intermodal

technologies and connections can be applied. In other cities, port activities have been moved to escape encroaching “waterfront gentrification.”

In addition, the local port authority has often branched out to encompass short-line railroads, airports, marinas, and other recreational facilities, as well as commercial and retail development and management. The American Association of Port Authorities (AAPA) estimates that more than 100 ports in the United States manage various types of enterprise operations that are largely unrelated to traditional port activities. Some port communities,

The author is executive director, Cleveland-Cuyahoga County Port Authority.

as well as communities without a waterfront, much less an operating port, have used the port authority mechanism to expand their capability to finance a broad range of development projects.¹

As a case in point, the port authority in Cleveland, Ohio, has collaborated with other public agencies to maintain and encourage downtown development activity. Cleveland's Rock and Roll Hall of Fame and Museum may be the most dramatic and visible evidence of how the Cleveland-Cuyahoga County Port Authority development financing program has fostered a revitalization of the downtown area. However, the financing, construction, and development of a new world headquarters for Applied Industrial Technologies (formerly known as Bearings, Inc.) at a cost of \$40 million is an equally compelling example of the value of port authority development financing. This project resulted in the retention of 350 corporate jobs in the downtown area—jobs that could have moved out of the city or out of the state if the various agencies within the city, county, and state had been unable to marshal the resources to finance this development.

¹A pioneer in this movement was the St. Paul, Minnesota, Port Authority, which during the past 30 years has provided development financing for small- to medium-sized industrial operations, hotels, parking facilities, and other downtown and suburban projects. In addition to its port and airport responsibilities, the San Diego Unified Port District has financed and oversees operations of a convention center, several hotels, and a variety of retail outlets.

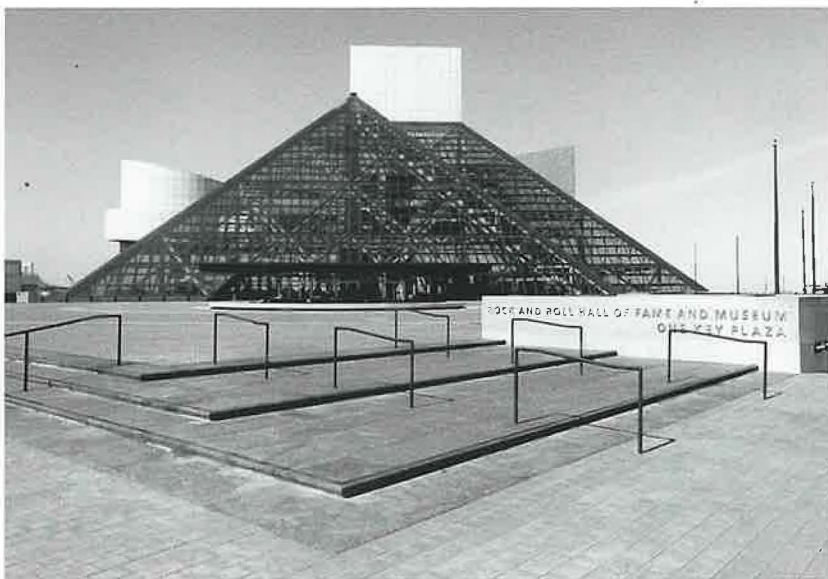
Applied Industrial Technologies markets and sells hydraulic, fluid, and mechanical systems. Originally established in Cleveland more than 75 years ago, the company has grown to generate annual sales in excess of \$1 billion. As its operations grew, the corporate headquarters staff were dispersed among five downtown locations, which led to inefficiencies and increased operating costs. Having already moved its warehousing and distribution facilities out of state to a northern Kentucky site adjacent to the Cincinnati International Airport, the company began to consider various options for consolidating its headquarters operations.

Midtown Corridor, Inc., the local development corporation representing the Cleveland neighborhood where the headquarters operations were located, was eager to keep the firm nearby. However, like most local development groups, Midtown did not have the substantial resources needed, nor did it own or hold the land required, for development of a new consolidated headquarters for Applied Industrial Technologies. Midtown was able only to offer conventional low-interest loans from the city and county, as well as tax abatement and other traditional incentives available through the city.

The Cleveland-Cuyahoga County Port Authority had already demonstrated, through the Rock and Roll Hall of Fame and Museum project, its ability and willingness to support nontraditional development. For this reason, port officials were asked to consider taking the lead in formulating a development and financing package for a build-to-suit facility for Applied Industrial Technologies' headquarters operations. As with the Rock and Roll Hall of Fame and Museum project, it was proposed that the new facility would ultimately be owned by the port authority and occupied by Applied Industrial Technologies under a long-term lease. Under this arrangement, the publicly traded company would get a new headquarters facility without having to carry a new asset on its balance sheet. Because major downtown developments often involve publicly traded companies, this type of arrangement can be an important tool for successful downtown development plans.

A unique aspect of the lease arrangements and the development financing package is that in the event Applied Industrial Technologies defaults on the lease for any reason, the bondholders cannot seek reimbursement from the port authority. This arrangement ensures that port authority operations will never be required to subsidize the development project.

Along with Midtown Corridor, Inc., groups



Rock and Roll Hall of Fame and Museum, Cleveland, Ohio, financed by Cleveland-Cuyahoga County Port Authority and adjacent to port facilities on Lake Erie.

involved in the project included the city of Cleveland, Cuyahoga County, the state of Ohio, Cleveland Tomorrow, and the Greater Cleveland Growth Association, which coordinated incentives offered by local agencies and convened discussions among the various parties. While this coordination was complex enough, the 8-acre parcel of land proposed for the new facility had to be assembled from five different owners. Because the port authority would ultimately own the site, it was tasked with appraising the properties, negotiating the acquisitions, and closing on the properties coincidental with closing of the financial package.

The financing is structured so that the option period renewal cost for Applied Industrial Technologies will actually decrease from the rental payments made during the initial 20-year lease term. Such option period renewal lease rates, which are guaranteed in the initial lease, would not be available through private developers. The company was therefore able to reduce its initial costs to a competitive level and protect its future costs for an additional 15 years beyond the original lease term. While difficult to quantify, the company has also demonstrated its support for the community and is contributing to the rebirth of the downtown area. In addition, the company has avoided a disruption of its employee base.



CLEVELAND/CUYAHOGA COUNTY PORT AUTHORITY

New consolidated downtown headquarters building for Applied Industrial Technologies, financed by Cleveland-Cuyahoga County Port Authority.

This case study demonstrates how lessons learned from a port authority's financing of projects for traditional port operations can also be applied away from the waterfront. By doing so, the port authority can add value to the larger community and generate a revenue stream that can be used to enhance port infrastructure and operations—enhancements that will ultimately promote regional economic growth and market competitiveness.

Note on Expanded Development Role of Port Authorities

A port authority is a type of special district created by a state legislature to perform a specific governmental function. Port authorities have the power to levy taxes, user charges, and other fees. They provide a mechanism to transcend the fiscal, bureaucratic, and geographic limitations of local governments. Unlike special districts, port authorities are not considered units of government for purposes of debt liability. Like special districts, port authorities derive their authority from states; the state must establish mechanisms to ensure that the districts are accountable to the voters.

An advantage of special districts is the segregation of their revenue streams from competing priorities so the revenues can be earmarked for the facilities of the special district—in the case of port authorities, for port and other related infrastructure facilities. In recent years, many port authorities have expanded their mission, operating as quasi-private developers, to finance major development projects in addition to more traditional port facilities. Their special financing authority and experience in dealing with the private sector give port authorities an advantage in financing such projects, particularly if fiscal limitations prevent local governments from assuming further responsibilities. However, the new responsibility creates new risks involving the market pressures and financial risks associated with any private development project. Managing these risks requires special negotiating and managerial skills to handle project development and financing. It also requires special vigilance by oversight authorities to ensure that core port facilities and taxpayer interests are protected.

Based on Fragile Foundations: A Report on America's Public Works, National Council on Public Works Improvement, February 1988.