Traditional and Alternative Financing of Cruise Terminals

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How Does the Port of Galveston Operate?

• **The Port operates as an Enterprise Utility:**
  – The properties belonging to the City of Galveston are set apart and designated as a separate utility of the City known as the "Galveston Wharves."

• **The Port is Financially Independent from the City:**
  – The Galveston Wharves, and the income and revenue there from, shall be fully managed, controlled, maintained and operated by a Board of Trustees to be known as "Board of Trustees of the Galveston Wharves."

• **The Board of Trustees have complete management and control of the Port of Galveston and the income and revenue thereof.**
How Does the Galveston Wharves Operate?

• *The Board of Trustees has the power to contract for all essential purposes.*

• *These provisions are set forth in the Galveston City Charter and also under Chapter 54 of The Texas Transportation Code.*
Financial Considerations

• As an Enterprise Utility, the Port had limited ability to issue new debt to support project development.

• Existing Bonds had very restrictive covenants that pledged all future earnings towards the repayment of that debt.

• Debt Service coverage was mandated at 150%.
Financial Considerations

• The Port had an opportunity to capture a unique market opportunity, but had to find a way to capture the increased revenue while ensuring that existing bondholders were protected.

• The solution was found in the creation of the Galveston Port Facilities Corporation, a 501c3 Corporation created under the Texas Transportation Code.
Financial Considerations

This Solution Provided the ability to:

– Capture Increased Market Share

– Develop a true “Public-Private Partnership”

– Develop a long-term Partnership with Carnival Corporation and Royal Caribbean International

– Secure Long-Term Operating Agreements

– Be Recognized by the National Council for Public Private Partnerships in using this approach in redevelopment by awarding the Port, Carnival Corporation and Royal Caribbean International their 2004 Industry Award
Challenges of Responding to the Changing Cruise Industry

1. Not unlike destinations, home ports need infrastructure to accommodate bigger vessels and handle larger numbers of passengers.
2. Financial burdens of facility expansion.
3. Increased security measures.
4. Home ports need to provide adequate staging areas for luggage and provisions trucks, garbage handling and other support activities.
5. Home ports need adequate water supply to service vessel.
6. As a pioneer in the popularity of drive market ports, parking and shuttle buses were a critical part of Galveston’s infrastructure.
7. Securing long term contracts to support financing.
8. Working with state legislators on local issues that impact cruise business.
Economic Impacts of Cruise Home Ports

**Direct Economic Impact**

1. *Jobs* – Meet & Greet services, taxis, longshoremen, line handlers, tug boats, pilots, police and security personnel, construction, etc.
2. *Suppliers* - Local produce suppliers, local florists, local liquor suppliers, IT services, copier/fax repairs services, garbage collection, fuel suppliers, etc.
3. *Crew members* - Act like temporary residents, eating, shopping, using city services, medical facilities and other community facilities.
Economic Impacts of Cruise Home Ports

*Indirect Economic Impact*

Includes:
- Pre and Post cruise hotel nights, parking, city transportation, local shopping, post office, new business creation, restaurants, etc.
How Successful Has This Been?

[Graph showing the relationship between total ship calls and total revenue passengers over the years from 1974 to 2006.]
Cruise Homeport Opportunities

As a “homeport” the marketing approach is two fold:

1. To promote the port to the cruise line and how the port meets their needs.

2. To promote the port as a friendly and attractive cruise passenger departure point.
Cruise Planning: Strategic, Marketing and Operational Objectives

Regarding operations, *Identify:*

1. Demographics and population density the cruise lines can draw passengers from.

2. Port proximity to airlift and open sea.

3. Terminal facilities to accommodate check-in, luggage lay-down, proper federal agency clearance areas, adequate space for provision staging.
Cruise Itinerary Planning: Strategic, Marketing and Operational Objectives

Regarding passengers, *Identify*:

1. Available transportation to and from airlift
2. Tourist amenities located near terminal
3. Comfortable efficient facilities for passengers
4. Adequate parking facilities
5. Friendly community supportive of cruise business
Choosing Home Ports vs. Ports-of-Call vs. Destination Port

1. Determining how a port fits into a targeted cruise line’s operations is a key element for a home port marketing strategy to the lines.

2. Zeroing in on the line’s current business will help you understand how your port can fit into their goals.

3. Be prepared to prove your port will fill their beds or be a unique destination on the itinerary.
Responding to the Changing Expectations of the Cruise Passengers

Understanding that each cruise product in your port has a different identity and customer base, helps home ports react to passenger demands.
Thank You