

Message from the Port Director
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Change has become reality at the Port of Galveston. The skyline that anchored the north side of Galveston Island has changed radically in the last few years. The waterfront where workers once carried stalks of bananas on their backs or hand carried sacks of flour has been transformed to feature workers in Hawaiian shirts carrying luggage and greeting visitors, loading restaurant, hotel and entertainment supplies needed to serve the cruising public, driving brand new top-of-the-line tractors and bulldozers, and testing the quality of fruit received from foreign plantations.

Activities at The Texas Cruise Ship Terminal on Galveston Island have been steadily growing since the inception of year-round cruise business in September 2000. Carnival Cruise Lines brought in the *Celebration* at that time for four- and five-day cruises to Mexico and she has sailed at plus capacity since the initial voyage. Last summer, Carnival announced their decision to re-deploy a sister ship, the *Jubilee*, in August of this year to compliment *Celebration's* schedule. That is good news. However, before that vessel could be rotated into service in this port, they announced replacing the *Jubilee* with a larger ship, the *Elation*. This is an indication of the success of cruise operations from the Port of Galveston and the potential for future cruise business.

Initially Royal Caribbean International (RCI) planned to offer cruises on the *Rhapsody of the Seas* from Galveston from October through December 2001. However, before completion of that series of cruises, RCI made the decision to homeport the *Rhapsody* year-round at The Texas Cruise Ship Terminal on Galveston Island, leaving every Sunday beginning in April 2002. That

decision meant that cruise ships would be sailing from Galveston Island every Monday, Thursday, Saturday and Sunday after the beginning of the *Jubilee* cruises in August.

And, the calls are still coming in. You will be reading about additional cruise calls in the near future. Texas is a potential gold mine with 30 million people living within 500 miles of Galveston. We are in a perfect position to take advantage of those visitors interested in driving to a cruise port. Cruise line studies show out of every seven U.S. residents, only one has ever cruised and that Texans take roughly 40% fewer cruises than the national average. Initiatives by both cruise lines to attract potential cruisers are an indication of growing confidence in this cruise market.

Port staff realizes the need to find new strategies to secure funding for the development of port facilities for future growth. The staff looked to the Galveston City Council to create a financing arm to fund new developments and improvements. The City Council authorized the formation of a Local Government Corporation (LGC) to issue bonds based on guaranteed revenues to include guaranteed leases and minimal revenue streams from future business.

This will be a perfect example of public/private partnerships. The beauty of this approach is that it will work for both cruise and cargo operations. Any customer with special facility-needs can contract with the LGC to construct improvements using future revenue guarantees. Bonds will be issued based on those financial guarantees. Funds will go directly into the LGC, who will administer the payment of the bonds. Excess revenues will be placed into the port's general revenue fund.

This new, exciting and innovative process will allow for the completion of the first cruise terminal and the development of a second cruise terminal. With the culmination of this development program, we will be able to handle any current ship in the cruise line's fleet. If a cruise line makes the decision to start operating out of the Port of Galveston, we will be in the position to handle these new cruise opportunities. This will put the Port of Galveston in the position to allow for unconstrained growth in cruise operations.

This tool will allow us to develop new long-term leases and agreements with other port customers.

The current container customer at the Pier 10 container terminal, operated by the Port of Houston Authority, discontinued their service as of the end of June. The Port of Houston continues to pay their lease payments and is actively marketing this facility to attract a new customer.

We are working with Del Monte Fresh Produce to enhance their operation at Pier 16/18. Together we are working to upgrade the loading docks. The project is just starting and will be in place by mid- to late-November. As you know Del Monte is a weekly service, they bring in fresh fruit, mainly bananas, from Guatemala every week and load out paper and plantation supplies.

If you remember, last year we completed the \$3.1 million refurbishment of the Historic Mosquito Fleet at Pier 19. There are new parking areas, new restroom facilities, and new dockage areas.

Joe's Crab Shack assumed the restaurant lease at Pier 19, made renovations, and is now open to the public. If you haven't been down to the Pier 19 area lately, do yourself a favor and visit. I'm sure you'll be greatly surprised by the newly improved area. Check out the great view of the harbor from the Pier 19-22 area. It offers a beautiful vista of a working waterfront.

Tonnage through the ADM/Farmland Export Grain Elevator has increased over last year's figures. We made history early this year when the first shipment of wheat to Cuba in more than forty years left this port. We understand that these shipments of humanitarian aid to Cuba are expected to continue.

Imperial Sugar Company continues to bring in raw sugar from domestic markets. Imperial is our oldest customer at the Port and a mainstay of our customer base.

Wallenius Wilhelmsen Lines is a valuable customer of the port and continues to bring in construction and farm equipment at Pier 37. As their business grew, Bennett Trucking opened a yard on port property to assemble equipment for delivery to dealerships and we opened up an adjacent area at Pier 36 for additional storage of equipment for Wallenius.

Over on Pelican Island, Galveston Terminals is in the process of reconstructing the dock and enhancing their facilities. Tonnage figures at their facilities have increased over last year's numbers. Long term prospects are for the increase of their business at the Port of Galveston.

As you view the working waterfront from the tourist area at Pier 19 through 21, you can view increased activity at the shipyard operated by First Wave Newpark. There is rig repair work and well as drydock activity.

Edison Chouest continues to go through their due diligence on the development and design of the 100-acre site on Pelican Island. We anticipate the start of this project by the end of this fiscal year.

This is a good time to be at the helm of Galveston's port. Good things are happening in the cruise industry directly related to operations here in Galveston. Our cruise operations are growing and the future looks good. Staff is also concentrating on developing cargo operations in a similar manner. We are facing new, exciting challenges related to future growth in cruise and cargo operations.

Although much has been done to prepare for growth at the Port of Galveston, this is a dynamic process and efforts continue to make the port a viable economic force for Galveston Island. Our largest challenge for the future is the availability of funding to complete projects necessary for the future of the port. This involves cooperation between all port stakeholders and an expanded role for those involved in planning for the future of Galveston's port.

Positive change is evolving here in Galveston and efforts continue to secure the Port of Galveston's short, mid-term and long-term future.