

**Message from the Port Director
Steven M. Cernak**

Now that the Port of Galveston has surpassed the magic number of one million cruise passengers, the question is ... what is the Port of Galveston doing to prepare for the next wave of growth?

Part of the answer can be found in the goals set by the Board of Trustees of the Galveston Wharves for 2004. The list contained objectives related to growth in cruise and cargo opportunities, "Green Port" initiatives, facility diversification, channel deepening and dredging. Additionally, it directed that we pursue some administrative initiatives to secure additional revenues for the Port as well as additional financing for Port improvements.

Four years ago, the Port was just beginning its evolution into the cruise industry. Our growth has been phenomenal. Last year the Port of Galveston ranked ninth in the United States and 18th in the world as a premier cruise port. And in May, we celebrated our 1,000,000th cruise passenger. A look at passenger statistics reveals Galveston's cruise passengers grew by 151 percent in 2001-2002, and by an additional 39 percent for the 2002-2003 season. We like to think that cruise growth and development has been a significant contributor to the economic renaissance on Galveston Island. Further growth in this line of our business is expected.

Success in the cruise business is part of a growing momentum behind the Port of Galveston's ongoing expansion. When Cruise Terminal No. 2 is completed in early 2005, the Port will have spent approximately \$35 million on cruise terminals and cruise-related infrastructure since 2000.

Further cruise-related development is a possibility. Based on recent conversations with cruise lines, the Port of Galveston has a tremendous opportunity to continue its rapid growth. The Board and staff realize the importance of this cruise business to the Port and the surrounding community. With this in mind, the Port is currently evaluating the requirements for a third cruise terminal. We continue to market Galveston for homeport operations, but obtaining port-of-call business is also an important part of our marketing agenda.

We are also aware of the need for new facilities for our cargo customers as well. Within the last year, in addition to the demolition of Elevator B, the Port has undertaken a major project to remove other dilapidated buildings and warehouses from our property. This project frees up space that previously was unsafe and provides an opportunity for expansion. We are involved in the initial stages of developing a Port master plan that will examine the optimum layout of the Port that will best serve our current and potential customers. In addition, the Port is currently working with prospective partners to develop 100 acres of additional land on the west end of the port.

The Port prides itself on being a good steward of the environment and several projects underway include the exploration of more environmentally-friendly technologies. Plans include the incorporation of fuel cell technology, solar initiatives and alternative fuels to support clean-air operations. A fuel cell was recently installed at Cruise Terminal No. 1 and is expected to be operational by August. This fuel cell will keep vital electrical circuits running at the terminal in case of an emergency. Another project includes the installation of solar panels at Cruise Terminal No. 2. This is also another source of back-up power for the terminals and installation is contemplated after completion of the

current construction at that location. Additionally, the Port is analyzing the use of alternative fuels for its vehicles and equipment. Available grant and matching-fund opportunities are being pursued for present and future equipment needs to support cargo and cruise operations port-wide.

The Port will continue exploring partnerships with private developers in the energy business in order to determine alternative energy solutions. One area is the viability of wind power in Galveston. We believe that wind power production will provide a benefit to the region. Wind farm projects, particularly wind turbines on Pelican Island, are being investigated. Wind measurements will be taken over a period of time in order to determine if Pelican Island is a viable site. If the study indicates the wind is sufficient, the Port will proceed with the next step in this project which will be a bird study for the area.

The Port has also undertaken other initiatives in 2004 to fund our rapid cruise growth and the improvements necessary to attract business. We refinanced 1998 bonds and the savings in excess of a half million dollars allows us to put those funds back into our operations over the remaining life of the refunded bonds. We secured additional financing through the issuance of City of Galveston Certificates of Obligation to fund capital infrastructure improvements to cover the costs to develop Cruise Terminal No. 2, demolish Elevator B to make room for our cruise terminal expansion, develop refrigerated warehousing, and fund the channel deepening project. Also Congressman Nick Lampson has earmarked a portion of a transportation bill in Congress in the amount of \$1.5 million to relocate the rail tracks in front of our cruise terminal area in order to make room for parking.

As we approach the summer of 2004, we felt it important to relate our goals and objectives to the community. We hope that this update provides a good understanding about what the Board and staff have been doing so far this year. We will be setting new goals in the Fall for next year. After all, 2005 is just around the corner and we are excited to see what next year will hold for the Port of Galveston.