

Message from the Port Director
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Market opportunities over the past several years have redefined the future development activities at the Port of Galveston. Several existing operations have expanded and prospered while new operations commenced, changing the traditional face of the Galveston waterfront.

Cruise operations at the Port of Galveston have shown amazing, rapid growth. The Port was recently ranked ninth as a U.S. cruise port. Considering we started our cruise operations during the fourth quarter of 2000, and now expect to bring almost 385,000 visitors to Galveston Island in 2004, we should all be proud of this accomplishment. We find ourselves in the enviable position of having to provide cruise accommodations for over 215 cruise ship calls this year; and we continue to receive calls from prospective cruise line customers interested in coming to the Port of Galveston.

Rapid growth has resulted in rapid change and the need for port staff to rapidly adapt to market changes. In October, Carnival's *Celebration*, our first year-round cruise ship, will be replaced. Although we are sad to see her leave, we are excited that she will be replaced with a larger, newer ship, the *Ecstasy*. This means Carnival Cruise Lines will have two fantasy-class ships sailing from our cruise complex. The *Ecstasy's* sister ship, the *Elation*, now sails from our port every Sunday.

By the end of this year, we will have three year-round homeported and two seasonal cruise operations from the Port of Galveston. To industry observers, our growth has been nothing short of phenomenal.

The challenge that this growth has provided for the Board and staff has required and allowed us to stretch our creative abilities. We have had to put a new face on an old waterfront to accommodate what is happening in the cruise sector of our business. We recently completed a \$9 million expansion and enhancement project for Cruise Terminal No. 1 through a public/private partnership with Carnival Corporation. The entire old Mallory Dock at Pier 25 is now dedicated to Carnival's operations. This latest effort allows for growth in Carnival's operations in Galveston and we can now accommodate any current vessel in Carnival's fleet.

The Port is in the process of providing the same opportunity from growth for Royal Caribbean International. We are in the development stage of Phase 2 for Cruise Terminal No. 2. Approximately \$7 million will be spent to enhance and expand Terminal No. 2 at Pier 27 at the site of the old ABT bagging plant. The dockside bagging cranes are gone and in their place will be another state-of-the-art passenger loading bridge, similar to the one now at Terminal No. 1, and other associated improvements.

Also "gone" is the 1930's-era Grain Elevator B. In its place, you will see the westward expansion of Cruise Terminal No. 2, the construction of a new headquarters for the Port of Galveston Police Department, and a slight reconfiguration of the ADM Farmland

Grain Elevator property. Also, as a gift to the community, a park will be developed on the waterfront at Pier 28, where the remains of the *S/S Zavalla*, a Republic of Texas battleship which sank in 1845, now lie. In addition to marking the burial place of the *Zavalla* at the park, we will be marking the site of the St Cyr wharf, the first dock at our historical port, and we will be installing a plaque to honor and remember those who perished in the grain elevator explosion in 1978.

In addition to the construction at Cruise Terminal No. 2 and the related development of the park and police headquarters, we are currently expanding our parking lot facility on Harborside Drive, adding additional area to that site to consolidate our parking operations. This will allow areas that are currently used for parking to be developed to support growth in cargo operations.

Future plans include development of much-needed parking and safety improvements in front of the cruise complex. We will be relocating the railcars that are now in front of the two terminals. This will allow the cruise terminal complex to become a more prominent feature of the waterfront. Plans include the development of a circulation road system and adjacent parking. Our longer vision for this area includes a parking structure to allow the cruise customer a more “user friendly” experience.

Additional construction is taking place in the west end of the Port as we continue our plans to secure our port facilities. We have received federal grant funding in all three of the rounds of the Port Security Grant Program. In Round One, the Port received \$375,000 for a security assessment and over \$1,236,000 for security improvements for the west end of port property from Pier 30 to Pier 41. These improvements include a security gate complex for the west end, new fencing to define the perimeter of the west end and strategically-placed lighting. This project is due for completion in April.

In Round Two, we were awarded \$2,121,000 for security enhancements. The relocation of the Port’s Police headquarters will be funded through these funds.

Round Three was announced in December, 2003 and the Port received \$2,059,000. This will allow the Port to complete additional security measures at the cruise complex and at the East End Container Terminal.

We are developing a Ro-Ro terminal at Pier 34 for an existing customer, Wallenius Wilhelmsen Lines. They moved to Galveston in 1995, with one service from Pier 37. Wallenius Wilhelmsen now offers multiple services giving Galveston connections to almost every major continent. Their new service, scheduled to begin in March, is part of their second round-the-world service. Their new facility at Pier 34 is planned to accommodate the growth that we have seen in their operation over the past nine years.

At the last meeting of the Board of Trustees, the Board authorized staff to retain a marine terminal planning firm to evaluate the scope and magnitude of facility improvements that are required as the port redevelops its facilities. Initially, the firm will be analyzing the configurations of both the Wallenius Wilhelmsen Lines and Del Monte Fresh Produce

operations to determine the best use of facilities to provide growth in both of these operations.

The Port considers both of these existing customers to be an integral part of our redevelopment program and providing facilities that will allow their continued growth and success in Galveston is a top priority.

In early March, we announced a new relationship with the Port of Victoria, located in south Texas. Galveston Bulk Terminal at Pier 35/36 will be an essential part of this operation. There, Texas-grown product will be unloaded from barges and reloaded into ships to be carried to foreign ports.

In February the Galveston City Council approved the refunding of Port bonds. This financing will save \$517,000 over five years, freeing up approximately \$100,000 annually to make improvements to Port facilities. These refunding bonds do not provide new funds or add to the total indebtedness of the Port; these bonds reduce the annual debt service payments of the Port of Galveston.

As you can see, much is going on at the Port of Galveston. As an enterprise utility of the City of Galveston, we continue to seek innovative ways to redevelop our facilities without direct tax support. While this is a challenge, the Board of Trustees and port staff are excited about the opportunities that we see for the Port in both the short and long term. We are taking every advantage to leverage and build on the opportunities that we have been given. The Galveston community has every right to be very proud of their port.