

**APPENDIX B:
FINANCIAL SITUATION ASSESSMENT**

BERK



Financial Situation Assessment

INTRODUCTION AND METHODOLOGY

This Financial Situation Assessment is presented as part of a larger effort to assist the Cleveland-Cuyahoga County Port Authority (CCCPA) in developing a data-driven, financially sustainable Strategic Business Plan for the Port of Cleveland. The purpose of this Situation Assessment is to:

- Analyze relevant financial data, encompassing the Port's financial history and trends, and
- Analyze the Port's baseline strategic financial situation by line of business.

BERK analyzed historical revenues and expenditures for the CCCPA as a whole, and by individual lines of business, as well as current leasing and fee structures, and other internal information. Historical data was gathered directly from the CCCPA, including:

- Generally Accepted Accounting Principles (GAAP) audited financial data for the CCCPA since 2005;
- Budgetary numbers since 2007;
- Tonnage by tenant;
- Current lease and fee structures;
- 2009 annual financial report; and
- Other internal information

It is important to note that the GAAP financial data do not include debt service principal payments, since they are not considered an expense. However, the CCCPA must commit funds to these payments, and the revenues used to pay them are shown in our analysis. Therefore, to give a complete picture of the net funds available for the CCCPA's use in any given year, we have added the debt service principal payments into this analysis. In addition, some historical numbers have been reclassified for comparative purposes.

CCCPA SITUATION ASSESSMENT

As noted above, the financial data analyzed in this report are GAAP audited, divided into operating and non-operating revenues and expenses, and include depreciation. Revenues that are generated by the direct lines of business, and expenses that support those activities, are considered operating. Revenues and expenses that are generated outside of the direct lines of business are considered non-operating.

Revenues

The CCCPA's revenues are divided into operating and non-operating income as follows.

Operating income is comprised of:

- Wharfage and dockage fees
- Lease rents
- Financing fee income
- Foreign trade zone fees
- Other miscellaneous fees

Non-operating income is comprised of:

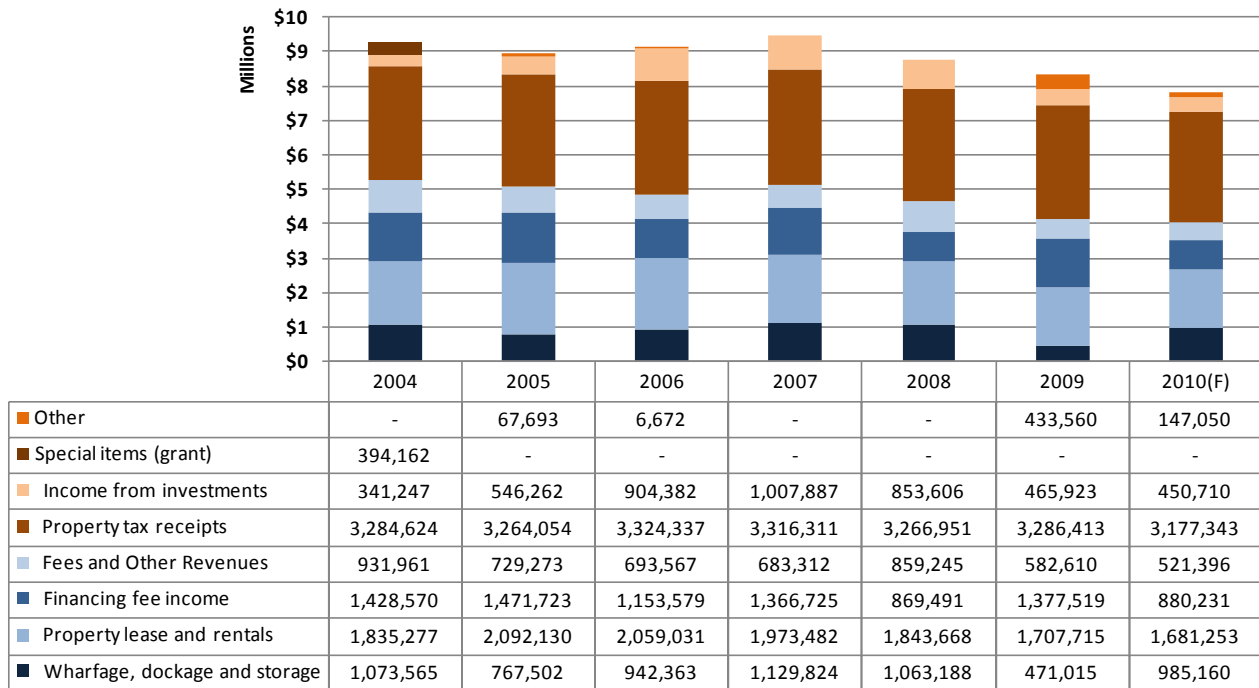
- Property Tax levied by the CCCPA (and voted on by county residents every five years),
- Special items (grant)

**Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment**

- Income generated from investments
- Other (miscellaneous small forms of revenue and grants)

Revenues are split between operating and non-operating, approximately 52% and 48% respectively. The years 2004 and 2007 saw the highest total revenues in the study period, but since 2007 revenues have declined each year. Exhibit 1 shows the CCCPA's total revenues by category for 2004 through 2010 (forecasted), with the operating revenues in shades of blue and non-operating in shades of orange. As this exhibit shows, property tax, a non-operating revenue, is the largest source of income for the CCCPA, followed by operating revenues from leases.

**Exhibit 1
Total Revenues by Category, 2004-2010(F)
Blue = Operating, Orange = Non-Operating**



Source: CCCPA, BERK, 2010

Expenses

The CCCPA's expenses are split between operating expenses and non-operating as follows:

Operating expenses include:

- Salaries and benefits
- Professional services
- Facilities leases and maintenance
- Marketing
- Depreciation
- Other office and miscellaneous expenses

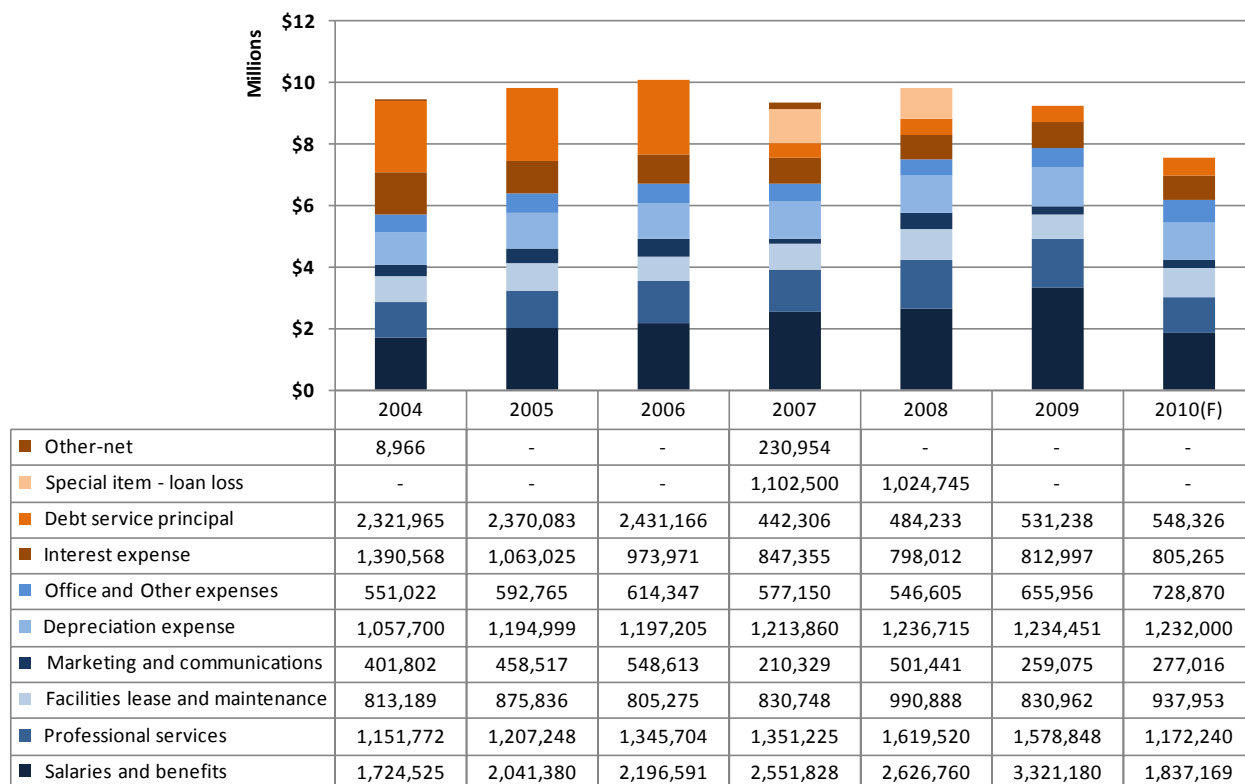
**Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment**

Non-operating expenses include:

- Interest payments
- Debt service principal
- Loan losses
- Other

Operating expenses currently comprise about 82% of total expenses. Not considering the Loan Losses taken in 2007 and 2008, total annual expenses ranged between \$8.3 million and \$10.1 million from 2004 through 2009; 2010 is forecasted to have lower total expenses at approximately \$7.5 million. Exhibit 2 shows the CCCPA's total expenses by category for 2004 through 2010 (forecasted), with operating expenses in shades of blue and non-operating in shades of orange. As can be seen in the exhibit, salaries and benefits are currently the largest expense for the CCCPA.

**Exhibit 2
Total Expenses by Category, 2004-2010(F)
Blue = Operating, Orange = Non-Operating**



Source: CCCPA, BERK, 2010

Total Net Revenues

In an ideal world, a port will fully support its operating expenses with operating revenues. If operating revenues can also cover the depletion in capital as expressed through depreciation, this puts a port in an even better financial position. In addition, a port may strive to cover some portion of non-operating costs with operating funds. Should the CCCPA reach the goal of covering operating expenses, and some

Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment

portion of depreciation and overhead expenses, with operating revenues, the non-operating revenue can then be used to support a sustainable capital investment plan.

Operations

Operating revenues have not covered operating expenses since 2004. The gap between expenses and revenues increased in 2008 and 2009, partly as a result of reduced revenue due to the recession, and partly due to an increase in operating costs.

Decreases in revenues were primarily in the following categories:

- Wharfage, dockage, and storage
- Property lease and rentals
- Foreign Trade Zone Fees

The decline in wharfage, dockage, and storage fees was driven by a substantial downturn in tonnage – a result of the current recession. In 2010 the CCCPA renegotiated lease terms for some existing tenants to more align with new cost and revenue structures driven by the current economic challenges.

The decline in Foreign Trade Zone (FTZ) fees is primarily due to a tax structure change in the State of Ohio. Prior to 2009, Ohio had assessed an inventory tax against businesses within the state. One of the benefits of holding inventory in the FTZ was that it was exempt from the inventory tax. This tax was phased out, with the phasing finalized in 2009, and the tax benefit of holding inventory in an FTZ no longer exists.

Increases in expenses were primarily in:

- Salaries and benefits
- Professional services

The increases in expenses were almost all related to the adoption of the Strategic Plan in 2007, which primarily revolved around the relocation of the CCCPA and the redevelopment of the existing waterfront property. With the adoption of the plan, the CCCPA found itself in need of new positions and different skill sets to execute these objectives. The CCCPA hired a Director of Human Resources to launch a hiring effort to bring on people who specialized in the needed areas. The positions recruited included:

- Executive Assistant/Office Manager – enhanced skill set required
- General Counsel – legal transactions for relocation and waterfront development
- Senior Logistics Manager – research position regarding container business
- Environmental Manager – relocation and waterfront development, environmental contact
- Real Estate Director – manage real estate transactions
- Economic Development Director – increase current revenues

Many of these positions required specific skills and most were not filled until the third or fourth quarter of 2008. All positions were paid for the full year of 2009.

In addition, CCCPA increased expenditures in Professional Services in order to prepare for implementation of the plan. Analyses were conducted, plans were drawn up, and communication with the public was undertaken, all increasing the CCCPA's expenditures in 2008 and 2009. Costs related to the portion of the Strategic Plan focused on the relocation of the CCCPA during this time were recorded as part of the Maritime business.

Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment

Many of the additional staffing and marketing costs in 2008 and 2009 were attributed to the newly-created Real Estate Development line of business. This line of business was created with the intention of supporting development of the Port's property. However, since its inception in 2008, this line of business has accrued expenses with no revenue, resulting in an operating loss of \$415,517 in 2008, \$880,841 in 2009, and an expected loss of \$207,472 in 2010.

With the resignation of the CCCPA's CEO in November 2009, and the determination that the planned relocation of the CCCPA was not feasible, it became clear that the CCCPA would not continue to pursue the objectives laid out in the 2007 Strategic Plan. All of the positions previously listed were eliminated in December 2009, with the exception of the Real Estate Director who resigned in July, 2010, and the Executive Assistant who is still an employee. During this time, positions in Human Resources and Communications were also eliminated. In addition, the CCCPA entered into an agreement with the departing CEO that resulted in a payment of \$300,000 upon his leave at the end of 2009, which was expensed under the salaries and benefits category, increasing these costs for the year.

Despite the scaling back of these positions, and a reduction in Professional Services and Marketing and Communications Services, a relatively large operating loss of approximately \$2.1 million is still expected in 2010 (including depreciation expenses).

Total Net Income

When non-operating revenues and expenses are added to the operating information above, five of the last seven years show positive total net income. The years 2008 and 2009 resulted in negative balances of \$588,537 and \$368,714 respectively. Given the scaling-back of expenditures, 2010 is expected to see a positive net income of approximately \$852,600.

Although the numbers above show positive total net income in the majority of the last seven years, 2010 forecasts included, they do not take into account funds committed to debt service principal payments. Each year, the CCCPA is obligated to make debt service principal payments, which impact the total dollars available for expenditure. When considering these payments, the CCCPA's total net balance is negative in five of the last seven years, with a positive balance seen in 2007 and the highest positive balance seen in the study period forecasted for 2010 (\$304,304).

Exhibit 3 is structured such that one can see where the CCCPA stands relative to each of the goals discussed at the beginning of Total Net Revenues section by displaying multiple bottom lines including net operating income (NOI); NOI plus depreciation; net non-operating income; total net income; and totals including debt service principal payments. The exhibit makes several points clear:

- The CCCPA has not been able to cover operating costs with operating revenues since 2004;
- When adding in depreciation, the net operating losses increase further and no positive net operating income is seen in the study period;
- When adding non-operating income, including the property tax, the CCCPA had five of the last seven years result in positive total net income, including the forecast for 2010;
- When including debt service principal payments, five of the last seven years result in negative total net balances, but 2010 is forecasted to remain positive at \$304,304.

Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment

Exhibit 3
Net Revenues and Expenses, 2004-2010(F)

	2004	2005	2006	2007	2008	2009	2010(F)
OPERATING							
Revenues							
Wharfage, dockage and storage	1,073,565	767,502	942,363	1,129,824	1,063,188	471,015	985,160
Property lease and rentals	1,835,277	2,092,130	2,059,031	1,973,482	1,843,668	1,707,715	1,681,253
Financing fee income	1,428,570	1,471,723	1,153,579	1,366,725	869,491	1,377,519	880,231
Foreign trade zone fees	305,000	420,000	430,000	395,000	365,000	137,500	117,500
Dredge disposal fees	-	-	-	-	172,844	162,419	80,381
Parking revenues	275,723	270,359	263,567	269,962	289,151	272,860	313,061
Other	351,238	38,914	-	18,350	32,250	9,831	10,454
Total Operating Revenues	5,269,373	5,060,628	4,848,540	5,153,343	4,635,592	4,138,859	4,068,040
Expenses							
Salaries and benefits	1,724,525	2,041,380	2,196,591	2,551,828	2,626,760	3,321,180	1,837,169
Professional services	1,151,772	1,207,248	1,345,704	1,351,225	1,619,520	1,578,848	1,172,240
Facilities lease and maintenance	813,189	875,836	805,275	830,748	990,888	830,962	937,953
Marketing and communications	401,802	458,517	548,613	210,329	501,441	259,075	277,016
Office expense	271,510	289,970	281,796	357,214	338,543	384,776	377,890
Other expense	279,512	302,795	332,551	219,936	208,062	271,180	350,980
Total Operating Expenses	4,642,310	5,175,746	5,510,530	5,521,280	6,285,214	6,646,021	4,953,248
NET OPERATING INCOME (NOI)	\$627,063	(\$115,118)	(\$661,990)	(\$367,937)	(\$1,649,622)	(\$2,507,162)	(\$885,208)
Depreciation expense	1,057,700	1,194,999	1,197,205	1,213,860	1,236,715	1,234,451	1,232,000
NOI + DEPRECIATION	(\$430,637)	(\$1,310,117)	(\$1,859,195)	(\$1,581,797)	(\$2,886,337)	(\$3,741,613)	(\$2,117,208)
NON-OPERATING							
Revenues							
Property tax receipts	3,284,624	3,264,054	3,324,337	3,316,311	3,266,951	3,286,413	3,177,343
Income from investments	341,247	546,262	904,382	1,007,887	853,606	465,923	450,710
Other	-	67,693	6,672	-	-	433,560	147,050
Total Non-Operating Revenues	3,625,871	3,878,009	4,235,391	4,324,198	4,120,557	4,185,896	3,775,103
Expenses							
Interest expense	1,390,568	1,063,025	973,971	847,355	798,012	812,997	805,265
Other	8,966	-	-	230,954	-	-	-
Total Non-Operating Expenses	1,399,534	1,063,025	973,971	1,078,309	798,012	812,997	805,265
NET NON-OPERATING INCOME	\$2,226,337	\$2,814,984	\$3,261,420	\$3,245,889	\$3,322,545	\$3,372,899	\$2,969,838
TOTALS							
NET INCOME BEFORE SPECIAL ITEMS	\$1,795,700	\$1,504,867	\$1,402,225	\$1,664,092	\$436,208	(\$368,714)	\$852,630
Special Items							
Grant/(Loan Loss)	394,162	-	-	(1,102,500)	(1,024,745)	-	-
TOTAL NET INCOME	\$2,189,862	\$1,504,867	\$1,402,225	\$561,592	(\$588,537)	(\$368,714)	\$852,630
TOTALS WITH DEBT SERVICE							
Debt service principal	2,321,965	2,370,083	2,431,166	442,306	484,233	531,238	548,326
TOTAL INCLUDING DEBT SERVICE	(\$132,103)	(\$865,216)	(\$1,028,941)	\$119,286	(\$1,072,770)	(\$899,952)	\$304,304

Source: CCCPA, BERK, 2010

Cash Position

Although Exhibit 3 shows the CCCPA with negative total net income for two of the last seven years, and negative total net balances for five of the seven years analyzed, it is important to note that this is not a representation of the CCCPA's cash position. Some of the expenses shown in this analysis are not cash expenses. That is, expenses such as depreciation and loan losses are deductions from existing assets, but

Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment

do not require cash payments. In fact, even with weaker financial performance in recent years, the CCCPA has managed to increase cash reserves and decrease liabilities.

Net Assets

Although the CCCPA shows losses in some recent years, it does have strong non-restricted reserve assets (in addition to restricted reserves), which may be used either in years of cash deficit, or to invest in new projects and programs. According to the CCCPA, as of mid-2010, it has approximately \$11 million in net available non-restricted cash assets including investments and receivables (current non-restricted assets less current liabilities to be paid from non-restricted funds). This balance may serve to insulate the CCCPA somewhat from current fluctuations in the market in that it has reserves it can rely on in times of loss. It may also serve as an opportunity for investment in new projects and programs to improve operations.

SITUATION ASSESSMENT BY LINE OF BUSINESS

The CCCPA is structured into two primary lines of business, Maritime and Financing, and a third recently-created line of business, Real Estate Development. The data analyzed here break down the GAAP audited financial data by attributing operating costs and revenues (along with overhead costs) to each line of business. As in the previous analysis, to show the full financial situation of the CCCPA, debt service principal payments have been added to the standard GAAP numbers.

Exhibit 4 is formatted in a similar structure to Exhibit 3, showing multiple bottom lines, but distributes the operating income and expenses by individual line of business, including allocated overhead costs.

This structure is slightly different than the CCCPA's usual financial organization, which considers Administration (overhead) to be a separate line of business, but this layout serves a useful purpose. As discussed in the previous section, there are goals that provide a useful framework in which to examine a port's performance, i.e. multiple bottom lines. Exhibit 4 is structured such that one can see where the CCCPA stands relative to each of these goals and includes net operating income (NOI) by line of business; NOI with overhead costs; NOI with overhead costs and depreciation; net non-operating income; and finally, total net income and totals including debt service principal payments.

The following are several key observations related to the exhibit:

- Considering only direct expenses (no overhead), the Maritime and Financing lines of business have both had positive NOIs each year for the full study period;
- Including allocated overhead, the Maritime line of business has not had a positive NOI since 2005; and the Financing line of business has had a positive NOI for three of the last seven years with losses shown for 2005-2008 (this NOI does not include loan losses taken by CCCPA in 2007 and 2008, which are shown at the bottom of the table as a Special Item, and are discussed further in the Financing line of business section of this report);
- The Real Estate line of business has resulted in a loss for each year of its existence, with no significant sources of revenue to this point;
- As in Exhibit 3, total net income losses are seen in 2008 and 2009, when considering non-operating revenues and costs, and five of the last seven years result in a negative total net balance when considering debt service principal payments; and
- The CCCPA is estimating positive total net income for 2010.

Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment

Exhibit 4

Revenues and Expenses by Line of Business (Including Non-Operating), 2004-2010(F)

	2004	2005	2006	2007	2008	2009	2010(F)
OPERATING							
Maritime							
Revenues	\$ 3,840,803	\$ 3,588,905	\$ 3,694,961	\$ 3,776,744	\$ 3,755,088	\$ 2,751,509	\$ 3,173,305
Expenses	\$ 2,306,387	\$ 2,283,695	\$ 2,541,683	\$ 2,283,432	\$ 2,921,150	\$ 2,681,635	\$ 2,542,933
Net Direct Income	\$ 1,534,416	\$ 1,305,210	\$ 1,153,278	\$ 1,493,312	\$ 833,938	\$ 69,874	\$ 630,372
Net as % of Maritime Revenue	40%	36%	31%	40%	22%	3%	20%
Allocated Operating Overhead	\$ 985,809	\$ 1,116,572	\$ 1,313,961	\$ 1,522,939	\$ 1,629,561	\$ 1,773,103	\$ 1,326,516
Net Income w/ Overhead	\$ 548,607	\$ 188,638	\$ (160,683)	\$ (29,627)	\$ (795,623)	\$ (1,703,229)	\$ (696,144)
Financing							
Revenues	\$ 1,428,570	\$ 1,471,723	\$ 1,153,579	\$ 1,376,599	\$ 880,504	\$ 1,387,350	\$ 894,735
Expenses	\$ 945,838	\$ 1,192,451	\$ 1,090,919	\$ 1,028,769	\$ 697,879	\$ 438,254	\$ 504,781
Net Direct Income	\$ 482,732	\$ 279,272	\$ 62,660	\$ 347,830	\$ 182,625	\$ 949,096	\$ 389,954
Net as % of Financing Revenue	34%	19%	5%	25%	21%	68%	44%
Allocated Operating Overhead	\$ 404,276	\$ 583,028	\$ 563,967	\$ 686,140	\$ 389,311	\$ 289,774	\$ 263,318
Net Income w/ Overhead	\$ 78,456	\$ (303,756)	\$ (501,307)	\$ (338,310)	\$ (206,686)	\$ 659,322	\$ 126,636
Real Estate							
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses	\$ -	\$ -	\$ -	\$ -	\$ 415,517	\$ 880,841	\$ 207,472
Net Direct Income	\$ -	\$ -	\$ -	\$ -	\$ (415,517)	\$ (880,841)	\$ (207,472)
NET BUSINESS INCOME (No Overhead)	\$ 2,017,148	\$ 1,584,482	\$ 1,215,938	\$ 1,841,142	\$ 601,046	\$ 138,129	\$ 812,854
Net as % of Total Operating Revenue	38%	31%	25%	36%	13%	3%	20%
Total Overhead Expense	1,390,085	1,699,600	1,877,928	2,209,079	2,250,668	2,645,291	1,698,062
NET OPERATING INCOME w/OVERHEAD	\$ 627,063	\$ (115,118)	\$ (661,990)	\$ (367,937)	\$ (1,649,622)	\$ (2,507,162)	\$ (885,208)
Net as % of Total Operating Revenue	12%	-2%	-14%	-7%	-36%	-61%	-22%
Depreciation Expense	1,057,700	1,194,999	1,197,205	1,213,860	1,236,715	1,234,451	1,232,000
NOI + DEPRECIATION	\$ (430,637)	\$ (1,310,117)	\$ (1,859,195)	\$ (1,581,797)	\$ (2,886,337)	\$ (3,741,613)	\$ (2,117,208)
Net as % of Total Operating Revenue	-8%	-26%	-38%	-31%	-62%	-90%	-52%
NON-OPERATING							
Revenue							
Taxes	\$ 3,284,624	\$ 3,264,054	\$ 3,324,337	\$ 3,316,311	\$ 3,266,951	\$ 3,286,413	\$ 3,177,343
Investment Income	\$ 341,247	\$ 546,262	\$ 904,382	\$ 1,007,887	\$ 853,606	\$ 465,923	\$ 450,710
Other	\$ -	\$ 67,693	\$ 6,672	\$ -	\$ -	\$ 433,560	\$ 147,050
Total	\$ 3,625,871	\$ 3,878,009	\$ 4,235,391	\$ 4,324,198	\$ 4,120,557	\$ 4,185,896	\$ 3,775,103
Expenses							
Interest Expense	\$ 1,390,568	\$ 1,063,025	\$ 973,971	\$ 847,355	\$ 798,012	\$ 812,997	\$ 805,265
Other	\$ 8,966	\$ -	\$ -	\$ 230,954	\$ -	\$ -	\$ -
Total	\$ 1,399,534	\$ 1,063,025	\$ 973,971	\$ 1,078,309	\$ 798,012	\$ 812,997	\$ 805,265
NET NON-OPERATING INCOME	\$ 2,226,337	\$ 2,814,984	\$ 3,261,420	\$ 3,245,889	\$ 3,322,545	\$ 3,372,899	\$ 2,969,838
TOTALS							
NET INCOME BEFORE SPECIAL ITEMS	\$ 1,795,700	\$ 1,504,867	\$ 1,402,225	\$ 1,664,092	\$ 436,208	\$ (368,714)	\$ 852,630
SPECIAL ITEMS							
Grant/(Loan Loss)	\$ 394,162	\$ -	\$ -	\$ (1,102,500)	\$ (1,024,745)	\$ -	\$ -
TOTAL NET INCOME	\$ 2,189,862	\$ 1,504,867	\$ 1,402,225	\$ 561,592	\$ (588,537)	\$ (368,714)	\$ 852,630
TOTALS WITH DEBT SERVICE							
Debt Service Principal	\$ 2,321,965	\$ 2,370,083	\$ 2,431,166	\$ 442,306	\$ 484,233	\$ 531,238	\$ 548,326
TOTAL INCLUDING DEBT SERVICE	\$ (132,103)	\$ (865,216)	\$ (1,028,941)	\$ 119,286	\$ (1,072,770)	\$ (899,952)	\$ 304,304

Source: CCCPA, BERK, 2010

Maritime Services Line of Business

The Maritime Services business at the CCCPA consists of eight international cargo docks located on 110 acres of land. The docks are situated on Lake Erie near the termination of the Cuyahoga River.

The CCCPA has five maritime business tenants including Federal Marine Terminals (FMT); Carmeuse Natural Chemicals; Kenmore Companies, Inc.; Essroc Italcementi Group, and Great Lakes Towing (GLT). The CCCPA is currently in the process of selling GLT the property on which they operate, which will nullify the existing lease agreement. Because of this, we do not delve into the operations of GLT in this analysis.

The primary cargoes processed through the CCCPA are steel, iron, heavy machinery, cement, and other dry bulk products.

ArcelorMittal

ArcelorMittal is an international steel company, engaged on a global level with all major steel markets including automotive, construction, appliances, and raw materials. ArcelorMittal operates a large steel mill located up the Cuyahoga River, which provides the biggest driver for tonnage through the CCCPA. A significant portion of iron ore and limestone destined for the mill stops at the CCCPA-owned Cleveland Bulk Terminal.

Maritime Leases

FMT (Federal Marine Terminals). FMT operates stevedoring facilities at 11 ports in the United States and Canada, including the CCCPA. Their CCCPA facilities include 350,000 square feet of warehouse space, ten berths, and 25 acres of open storage. FMT primarily handles steel and steel coil, which are typically shipped to local suppliers that produce appliances and various other goods.

The steel import business is dynamic and based on world markets. In some years it is cheaper to import, in others it is more economical to make it domestically. FMT saw favorable years in the early 2000s, as a result of increased imports and an abundance of large infrastructure projects. However, they have recently seen a significant decrease in tonnage due to the downturn in the economy.

FMT's rental agreement with the CCCPA is an annual agreement and was restructured in 2010 to more closely align with the change in costs and revenues due to the economic environment. Exhibit 5 below provides a profile of FMT's lease.

**Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment**

**Exhibit 5
FMT Lease Profile**

Cargoes:	General Cargo - Steel
Term:	Annual Operating Agreement
Tenant Since:	1997, but not main Terminal Operator until 2003/4
Base Rental:	\$400,000 in base rental
Throughput charge:	\$0.125 on tons 0-100,000 \$0.25 on tons 100,000 - 200,000 \$0.75 on tons 200,001 +
Bonus Rental:	<i>Dockage, wharfage and storage tariff charges apply</i> \$25,000 between 300,000 and 399,999 tons \$50,000 between 400,000 and 549,999 tons \$75,000 between 550,000 and 699,999 tons \$100,000 above 700,000 + tons

Source: CCCPA, BERK, 2010

Carmeuse Natural Chemicals. Carmeuse is a global producer of limestone and dolomitic stone. They lease a terminal at the CCCPA, where they handle limestone and iron ore pellets. The iron goes exclusively to the ArcelorMittal mill, while the limestone goes to both ArcelorMittal and First Energy, an Ohio-based electric company.

Carmeuse saw a dramatic decline in tonnage in 2009 due to the idling of the ArcelorMittal mill, which was dictated by a decline in demand during the current economic recession. They restructured their agreement with the CCCPA in 2010 to bill on outbound tons (as opposed to inbound, which was the previous arrangement). Exhibit 6 below provides the lease profile of Carmeuse.

**Exhibit 6
Carmeuse Lease Profile**

Cargoes:	Iron Ore and Limestone
Term:	Expires in 2017
Tenant Since:	1997 - Originally Oglebay Norton Company
Base Rental:	\$282,750 in base rental
Throughput charge:	\$0.295 on tons 0-1,500,000 \$0.25 on tons 1,500,001 - 2,500,000 \$0.21 on tons 2,500,001 - 4,000,000 \$0.14 on tons 4,000,001 +
Associated Debt:	Approximately \$5.085M in variable rate demand bonds outstanding
Other:	Agreement restructured in 2010 to bill on Outbound tons vs. Inbound (previous)

Source: CCCPA, BERK, 2010

Kenmore Companies, Inc. Kenmore Construction is a large general contracting business based in Northeast Ohio. Kenmore provides construction work for roads, bridges, deep foundations, tunnels, utilities, dams, and other large projects. At its CCCPA terminal it brings in materials for its construction

Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment

projects allowing it a competitive pricing advantage. Prior to the recent economic downturn, its tonnage was steady, but in recent years it has dropped dramatically.

Kenmore has an annual operating agreement with the CCCPA, which was restructured in 2010 and its rent lowered by 20%. However, the CCCPA has plans to put a new rail loop in Kenmore's location which may impact its operations. Exhibit 7 below provides the lease profile of Kenmore Construction.

Exhibit 7
Kenmore Construction Lease Profile

Cargoes:	Stone/Construction Materials
Term:	Annual Operating Agreement
Tenant Since:	2000
Base Rental:	\$180,000
Bonus Rental:	\$20,000 if tonnages exceeds \$350,000
Other:	Agreement was restructured in 2010 and rent reduced by 20%

Source: CCCPA, BERK, 2010

Essroc Italcementi Group. Essroc is a North American cement producer based in Pennsylvania with production facilities across the continent. At their CCCPA terminal, Essroc brings in dry cement where it is prepared in several big silos to be trucked to ready-mix plants in the area.

In 2008 there was a significant drop in tonnage, likely as a result of the recession. However, Essroc recently closed one of its facilities in Pennsylvania that made and distributed ready-mix. The tonnage that previously went through that facility now travels through the CCCPA site. It is expected that the terminal will receive 100,000 to 110,000 tons of cement per year in the near future. Exhibit 8 below provides the lease profile for Essroc.

Exhibit 8
Essroc Lease Profile

Cargoes:	Cement
Term:	2027, with 2 10-year renewal options
Tenant Since:	1997
Base Rental:	\$270,000 - matches debt service on associated bonds
Land Rental:	\$128,000
Bonus Rental:	Tariff applies above 100,000 tons
Associated Debt:	Approximately \$3.0 million in revenue bonds outstanding

Source: CCCPA, BERK, 2010

Lease Adjustments

Prior to 2007, tenant leases in general contained more of a fixed component (higher base rents), with lower throughput rates. In 2007 leases were adjusted to put more emphasis on the variable throughput portion. From the CCCPA's perspective, this creates more reliance on tonnage, providing more opportunity for revenue in high tonnage years and more risk of loss in low tonnage years. In addition, FMT and Kenmore saw additional lease adjustments in 2010 to reduce their overall costs.

Dredging

The Cuyahoga River requires regular dredging to maintain a proper depth for marine traffic. The river will need to be dredged again in the coming years, likely by 2014 or 2015. Currently, no location has

Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment

been identified on which to deposit the dredge material. As part of this overall study, the CCCPA is working on studying the options for available sites on which to put the material, and the costs likely to be associated with that effort.

Foreign Trade Zone Fees

As discussed earlier, Foreign Trade Zone (FTZ) fees have seen a decline recently, primarily due to a tax structure change within the State of Ohio.

Financing Services Line of Business

Ohio law provides port authorities with the ability to issue bonds to finance economic development projects. This special status allows ports to contribute to projects through both public and private financing. The law was enacted so that ports could serve as a tool to foster economic growth and stimulate jobs in communities across the state.

The Cleveland-Cuyahoga County Port Authority issues bonds and notes through two different programs, The Common Bond Fund and other Conduit Financings. These obligations are not secured by the full faith and credit of the CCCPA; however, the legal obligations upon default of a loan are complex.

Common Bond Fund Program

According to the CCCPA's state-audited Financial Statement, the Common Bond Fund Program's purpose is to "provide long-term, fixed interest rate financing of \$1 million to \$10 million to credit worthy businesses, governments and non-profit organization for owner-occupied industrial, commercial, nonprofit and infrastructure projects." Eight percent of the outstanding debt issued through the Financing business falls under this program.

This program uses multiple cash reserve funds to collateralize the bond issued. This includes a Primary Reserve Fund in which the borrowers must deposit an amount equal to 10% of bond proceeds, and the Program Reserve Fund held by the CCCPA; a restricted fund with a 2010 cash balance of approximately \$4.1 million. The Program Reserve Fund earns investment income for the CCCPA and may be charged in the event of a loan default. In addition, the CCCPA established an Auxiliary Reserve which may be used in the event of a loan default. As of the end of 2009, this fund had a balance of \$148,000.

The program's Standard & Poor's bond rating is currently "BBB-" with a stable outlook. The lower the program's credit rating, the more likely it is that the financing for this program will be more expensive, which may impact the viability of the business.

In the event of a loan default that charges the CCCPA's reserve funds, these funds would need to be replenished, which may be a strain on the Financing business. In the last several years, the CCCPA has recorded two events of lost loan income which are listed as Special Items in Exhibit 4. The first was in 2007 for a total of \$1,102,500, the second was in 2008 for 1,024,745, both a result of an insufficient payment of principal on bonds (based on the sale of assets) issued to Myers University. The CCCPA continues to recoup additional funds from this transaction.

Conduit Financings

According to the CCCPA's Financial Statement, projects funded through the Conduit Financings are collateralized by payments made through leases and loan agreements "with properties and tax increment financing arrangements with local governments." *These debt obligations are not secured by*

**Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment**

the credit of the CCCPA. Ninety-two percent of the outstanding debt issued through the Financing business falls under this program.

Recent Program History

Exhibit 9 displays the organization, amount, and number of recent projects financed through the CCCPA.

**Exhibit 9
Size and Number of Financed Projects, 2005-2010**

Projects	Amount (\$)					
	2005	2006	2007	2008	2009	2010
CSU Fenn Tower Student Housing	\$34.4 M					
Goodyear Tire & Rubber	\$4.1 M					
Fairmount Montessori	\$3.4 M					
Avery Dennison (Fasson Roll Division)	\$39.8 M					
Avery Dennison (Bonds Addition)	\$6.0 M					
Columbia National	\$6.0 M					
Judson	\$31.5 M					
The Cleveland Museum of Art	\$90.0 M					
Park Synagogue		\$10.0 M				
Catholic Charities (Emerald Village)		\$20.0 M				
Cleveland Cavaliers Players Dev. Center		\$9.5 M				
Preston Place at Levis Commons		\$5.1 M				
Carnegie/89th St. Garage/Service Cen.			\$156.9 M			
Science Park Clev. Buildings 1 & 3			\$34.6 M			
Science Park Clev. Buildings 2, 4, & 5			\$45.7 M			
Laurel School				\$16.0 M		
Euclid Avenue Housing Corporation				\$14.5 M		
Brush Wellman				\$5.2 M		
Veterans Development, LLC					\$115.0 M	
Eaton Corporation (Site Acquisition)					\$2.0 M	
Eaton Corporation (HQ Construction)					\$150.0 M	
Nehst Creation, LLC						\$5.2 M
Independence Research Park, LLC						\$46.0 M
Cleveland Museum of Art						\$70.4 M
Total	\$215.2 M	\$44.6 M	\$237.2 M	\$35.7 M	\$267.0 M	\$121.6 M
# of Projects	8	4	3	3	3	3

Source: CCCPA, BERK, 2010

The CCCPA is actively working to grow its Financing line of business. It has made an effort to market its services through local associates, meetings, and contact with the regional business community. Most of the business comes to the CCCPA through the request of the organization in need of financing, because of their knowledge of its services.

Because of this marketing effort, and the strong track-record of projects financed through the CCCPA, the financing services available are well-known throughout the community. However, the CCCPA is at the mercy of the number and size of projects that need financing at any given time. This can make things more difficult in an economic recession, since many organizations are unable to take on the debt that a large project brings, causing the financing demand to diminish.

Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment

Although the CCCPA is estimating lower revenue from financing fees in 2010 than seen in 2009, it has reduced costs over the last four years, leaving it in a stronger financial position. The reduction in costs was primarily from the retirement of the Vice President of Development Finance. In addition, two Development Finance Managers were reallocated to the Real Estate line of business over a period of time. Additionally, beginning in 2008, the Office Lease expense was reallocated to the Administrative expenses, and the Government Relations expenses were reallocated to the Maritime line of business.

Real Estate

The establishment of the Real Estate line of business was based on the 2007 Strategic Plan that called for the relocation of the CCCPA, which, in turn, allowed for the opportunity to redevelop the waterfront property owned by the CCCPA. The Real Estate business was established to take on the effort of redeveloping the CCCPA's waterfront real estate. Although the CCCPA is no longer likely to relocate, a portion of the waterfront redevelopment plan is moving forward. The CCCPA is currently in discussions with the City of Cleveland to begin to implement the Harbor District portion of the plan, which sits on Docks 30 and 32.

Since its inception in 2008, this line of business has accrued expenses with no operating revenue, adding to the CCCPA's overall loss in net operating income. However, a portion of these costs were offset by grants, which are classified as non-operating. More examination of this line of business will need to occur in the next phase of the Strategic Business Plan.

Non-Operating Revenues and Expenses

Property Tax Revenue

Given the annual net loss to the CCCPA from its operations (shown in Exhibit 3 and Exhibit 4), it is clear that the CCCPA relies significantly on revenue from the Property Tax, which was originally established in 1999. The legal limit for Property Tax assessed by the CCCPA is \$1.00 per \$1,000 of assessed value in Cuyahoga County. The CCCPA currently levies the tax at \$0.13 per \$1,000.

Every five years the CCCPA's property tax levy comes up for a vote. At this time, the CCCPA can either ask for a replacement or a renewal of the existing levy. A replacement keeps the millage rate the same, but imposes it on an updated assessed value. A renewal keeps the millage rate the same as well as the assessed value, and the tax paid by each resident does not increase. Since 1999 the CCCPA has gone to the voters with a *renewal*, leaving both the millage rate and the assessed value the same. This has resulted in no increase in tax revenue to the CCCPA for the last 12 years, with annual totals in the realm of \$3.2 to \$3.3 million. The only changes in annual revenue result from the number of people paying their taxes.

The current tax levy will last through 2012 (collected through 2013). At this time, as with other voting years, the CCCPA will have the option to consider asking for an increase, either through an increase in the millage rate, an update in assessed value, or both.

Investment Income

As discussed in the Financing line of business section, the CCCPA currently has a restricted fund held as a reserve for its financing transactions. This money, along with other cash balances, earns investment income.

Loan Loss Expense

As discussed in the Financing line of business section, in the last several years the CCCPA has recorded two events of lost loan income which are shown as Special Items in Exhibit 4. The first was in 2007 for a total of \$1,102,500, the second was in 2008 for \$1,024,745, both a result of an insufficient payment of principal on bonds (based on the sale of assets) issued to Myers University.

KEY FINDINGS AND IMPLICATIONS

Key Findings

Overarching Findings

- Although five of the last seven years have seen positive total net income, the CCCPA has been running an annual operating deficit before considering necessary capital expenditures;
- Tax revenues are currently covering operating costs, rather than supporting a capital program, which would be a healthier financial structure;
- The last few years have seen expenditures focused on the 2007 Strategic Plan, which called for relocation of the Port. These expenditures were focused on planning, marketing, and government relations, and were non-revenue generating;
- Currently, the management staff is focused on “right sizing” the CCCPA, which has resulted in a decrease in salary expenses of approximately 46% over 2009;
- The CCCPA has a positive cash position, with approximately \$11 million in net available non-restricted cash assets. This balance may serve to insulate the CCCPA somewhat from current fluctuations in the market in that it has reserves it can rely on in times of loss. It may also serve as an opportunity for investment in new projects and programs to improve operations;
- Although overall performance in 2004 was not substantially different than that forecasted for 2010, there has been a fundamental shift in the structure of income. Net operating revenues have declined while net non-operating revenues have increased;
- With the non-operating portion of the business stronger, building the Maritime business would result in an overall stronger financial position than has been seen in the last seven years;

Maritime

- When considering direct operations only (excluding overhead expenses), the Maritime business generates positive net income;
- Considering overhead, NOI for the Maritime business as ranged from a profit of \$548,607 in 2004 to a loss of \$1,703,229 in 2009, with a loss of \$696,144 forecasted for 2010;
- The 2007 Strategic Plan resulted in an increase in costs in 2008 and 2009, primarily in the hiring of additional staff. These costs were largely eliminated with the release of most of the added positions;
- Some lease agreements do not include annual escalations (e.g. Carmeaus' lease agreement);
- FMT and Kenmore's lease agreements are renegotiated on an annual basis, which provides no assurance that lease rates will increase annually;
- Essroc's lease agreement does provide for annual escalation, based on the CPI. However, in recent years, the CPI rate has been zero or negative, allowing for no increase in base rental rates. The CPI is also reduced if Essroc pays any dockage or wharfage;
- The financial impact of the CCCPA's contribution to the local share of dredge disposal facility construction is currently unknown.

Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment

Financing

- The Financing business provides opportunity for revenue generation and economic development support in the region;
- The Financing business has recently generated positive net income even accounting for overhead costs; NOI for the Financing business has ranged from a profit of \$659,322 in 2009 to a loss of \$501,307 in 2006 (not taking into account loan losses of over \$1 million each in 2007 and 2008), with a profit of \$122,586 forecasted for 2010;
- The Financing business increases the CCCPA's financial risk, as reflected in the Loan Loss of \$1,102,500 seen in 2007 and \$1,024,745 in 2008;
- 92% of financing projects are through Conduit Financing program which is *not secured by the credit of the CCCPA*, and therefore not subject to possible loss;
- 8% of financing projects are through the Common Bond Program, which is *partially secured by the credit of the CCCPA*, and is subject to possible loss;
- This line of business is at the mercy of organizations seeking financing, which fluctuates;
- Revenues in 2010 are expected to be less than two-thirds of revenues in 2009, but expenses have declined or been reallocated over the last four years, leaving the Financing line of business in a positive financial situation;
- The Common Bond Fund Program's "BBB-" credit rating could limit the availability of financing.

Real Estate

- As previously noted, the Real Estate line of business has attributed expenses but generated no revenue, leaving it at a net loss each year since its establishment in 2008;
- This line of business was established on the assumption that the CCCPA would relocate, leaving its waterfront property available for redevelopment. Although relocation seems unlikely, a portion of the waterfront redevelopment plan is currently moving forward;
- More examination of this line of business will need to occur in the next phase of the Strategic Business Plan.

Non-Operating

- One of the CCCPA's primary sources of revenue, the Property Tax levy, has not been increased since 1999 although most costs increase annually, resulting in a decrease in purchasing power over time;
- The CCCPA's various cash balances earn investment income that helps support the CCCPA's total net income.

Implications

The findings in this report will inform the next phases of the Strategic Business Plan, particularly the Financial Model and Analysis, which will analyze different future business alternatives that may be available to the CCCPA. The following implications will be important considerations in this process:

- Given the market in the region, the CCCPA is a price-taker when it comes to leasing and tonnage fees, which leaves fewer options for lease and fee structures;
- Two of the CCCPA's four tenants are impacted by business conducted at the ArcelorMittal Mill, and affected by the ebbs and flows in its demand for supplies;
- The financial impact of the CCCPA's contribution to the local share of dredge disposal facility construction is currently unknown;

Port of Cleveland's Strategic Action Plan: Technical Appendices
Appendix B: Financial Situation Assessment

- To increase operating revenue, the Maritime business will likely need to do some or all of the following:
- Find ways to increase cargo tonnage through the existing facility;
- Increase marketing and find new opportunities for cargo;
- Increase revenues without increasing operating costs;
- Find partnerships that will support capital needs;

The CCCPA's ability to access property tax levy dollars will be an important piece of their financial strategy in the future.