

Remarks of Mayor Paul D. Fraim
Before the Joint Subcommittee Studying Public-Private
Partnerships Related to Seaports
August 12, 2009 at Old Dominion University

Mr. Chairman and members of the subcommittee . . . I am Paul Fraim, Mayor of Norfolk. I have the honor of speaking before you today, not just on behalf of my city but also on behalf of the mayors of two other host communities - Newport News and Portsmouth.

The Port is the Commonwealth's gateway to the world, and is one of its largest centers for revenue and employment. It is comprised of approximately 1,260 acres of which 885 are located in the City of Norfolk.

Norfolk is proud to be home to its largest and busiest facility – Norfolk International Terminals – a mammoth operation bordering the historic Elizabeth River.

This is entirely in keeping with our heritage, for Norfolk was originally conceived as a port town by an act of the Virginia House of Burgesses in 1680. The trade that ensued with England, and with the West Indies, was so profitable that by the time of the American Revolution, Norfolk had grown to become the Virginia colony's largest town.

Since then and for more than 300 years, international trade has defined who we are as a city and as a region. And it is international trade, centered right here in Norfolk and in Hampton Roads, that makes it possible for Virginia to compete with other regions around the world and to take a leadership position in the growing global economy.

I say this not only to make the point that the citizens of Norfolk have standing to be represented in these deliberations, but also to remind you that the Port of Virginia has been developed and nurtured by generations of Virginians.

We owe it to those generations and to future generations of Virginians to be good stewards of the Port. . . and, in whatever we do, to keep the long-range interests of the Commonwealth and the Port at heart, regardless of how attractive short-term proposals may be.

However, if it is the wisdom of the Commonwealth to privatize Port operations, then it is my duty to impress upon you our insistence that, whatever the outcome, the host cities be fairly treated and compensated for the substantial costs we incur.

To date, proposals for operating the port have been submitted by CenterPoint, Carrix and the Carlyle Group. Our general understanding is each has been crafted in such a way as to be tax-exempt.

Let me emphatically state that the port host communities have serious reservations about the Commonwealth extending tax-exempt status to private businesses applying to operate the port under any scenario. To do so would be precedent-setting and contrary to all our experience.

As one example, when the Navy leases base property for a McDonald's restaurant, it becomes a taxable entity even though it is situated on land owned by the federal government. A private port operator proposing to lease State-owned property should be treated no differently.

While the port is a vital economic asset, most of the benefits associated with it fall outside the host communities. As Professor Jim Koch noted in his 2001 State of the Region report, "The fact that the employer is located in a particular city does not mean the city will derive all the economic benefits . . . This clearly applies to the Port, which is mostly located in Norfolk, but whose economic benefits are widely dispersed among the cities of Hampton Roads." It is also dispersed across the entire Commonwealth. There are 90 Port-related distribution facilities located in Virginia from Winchester to Abingdon.

In fact, the Port costs host communities more than they are compensated for in terms of lost tax revenue, additional police, fire and rescue services they provide to the port, added street maintenance and transportation infrastructure impacts attributable to Port operations, and the quality of life impacts on our communities such as truck congestion, noise and pollution.

These were documented in the 1999 JLARC study which found that municipal services provided to the port are not fully reimbursed; that host cities forgo substantial real estate tax revenue; and, that the greatest benefits of port operations are seen in jurisdictions outside the host city boundaries.

As a result, in 2000 the General Assembly applied a new methodology for calculating a reimbursement more in line with real costs. Unfortunately, the new formula is triggered only if the General Assembly appropriates the required funding from the General Fund to the Port reimbursement program.

To date, the program has never been fully funded, so port host cities have been forced to calculate the annual port service charge with the same formula used prior to the 2000 legislation.

So, what does this mean? In fiscal year 2009, Norfolk received \$1.1 million in Port impact fees under the old formula. Had the 2000 formula been used, the figure would have been \$11.6 million. Clearly, the General Assembly agrees with us that the present payment to host localities is inadequate, but has not followed through on that with fair funding.

Our cities are proud to be home to the Port of Virginia and to the Commonwealth's gateway to the global economy. Whether Port operations remain with the State or are privatized, we believe in the strongest possible way that either arrangement MUST provide fair and equitable compensation for host localities.

I appreciate the opportunity to address this subcommittee and trust that you will keep both of our concerns in mind. There is a continuity of experience and wisdom here that we urge you not to overlook in the coming months, but rather to seek out and consult as the port privatization process unfolds.

Thank you.