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Office of the State Auditor**

South Jersey Port Corporation

January 1, 2015 to March 31, 2017

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the South Jersey Port Corporation for the period of January 1, 2015 to March 31, 2017. If you would like a personal briefing, please call me at (609) 847-3470.

Stephen M. Eells
State Auditor
August 1, 2017

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Scope

We have completed an audit of the South Jersey Port Corporation (SJPC), a component unit of the State of New Jersey, for the period January 1, 2015 to March 31, 2017. The audit included financial activities accounted for in the SJPC's accounting systems. For state fiscal year 2016, the SJPC reported \$31.3 million in operating revenues and \$28.3 million in operating expenses. Additionally, during fiscal year 2016 the State of New Jersey provided approximately \$24 million for bond debt service and payments in lieu of taxes to the City of Camden, the County of Camden, the City of Salem, the City of Paulsboro, and the County of Gloucester. The SJPC is an independent public authority whose financial activities are part of the state's reporting entity and are included in the state's Comprehensive Annual Financial Report.

The SJPC was created pursuant to Chapter 60, P.L. 1968. The act abolished the South Jersey Port Commission and formed the South Jersey Port Corporation. The SJPC is governed by a board of directors whose members include the State Treasurer, ex officio and 10 public members appointed by the Governor.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the SJPC, were reasonable, and were recorded properly in the accounting systems. In addition to the financial transactions of the SJPC's daily operations, we assessed the reasonableness of the ongoing port expansion at the Paulsboro Marine Terminal. We also compared the SJPC's operations and funding to determine if it is operated and funded similar to other ports on the eastern seaboard.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied enabling legislation, federal guidelines, state executive orders, and policies and procedures of the SJPC. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and through our review of the SJPC's records. We also read the budget messages, reviewed financial trends, and interviewed personnel to obtain an understanding of the SJPC's internal control structure and monitoring procedures.

A nonstatistical sampling approach was used. Our samples were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally selected for testing.

Conclusions

We found that the financial transactions included in our testing were related to the SJPC, were reasonable, and were recorded properly in the accounting systems. In making these determinations, we found improvements could be made in the competitive bidding process. We also observed that the Paulsboro Marine Terminal expansion was reasonable, and we determined the SJPC is operated and funded similarly to other ports on the eastern seaboard.

Background

The South Jersey Port Corporation (SJPC) is empowered to establish, acquire, construct, rehabilitate, improve, operate, and maintain marine terminals in the South Jersey Port District (district), which includes Mercer, Burlington, Camden, Gloucester, Salem, Cumberland, and Cape May counties. Additionally, the goals of the SJPC are to promote regional economic development for the benefit of the district, to develop and support waterborne commerce within the district, and to assist and support the development of business congruent with import and export services.

The main purpose of a port is to facilitate the transfer of cargo as part of the supply chain for the global economy. Ports can be operated by the owner, leased to a third party, or a combination of the two. The SJPC operates the Balzano Marine Terminal and a portion of the Broadway Terminal, both in Camden. In addition, the SJPC is the lessor of the newly constructed Paulsboro Marine Terminal, a berth and other land at the Broadway Terminal, and a small terminal facility in Salem County. It is also grantee of Foreign Trade Zone #142.

State-funded ports on the eastern seaboard receive various forms of financial support such as, operating subsidies, capital investment, or debt service assistance. The SJPC receives state funds to assist it in making debt service payments on bonds that were issued for general capital improvements and maintenance, as well as for the construction of the newly opened Paulsboro Marine Terminal. Over the past 10 years, the SJPC has contributed approximately 27 percent of their debt service payments. Additionally, they act as a pass-through for Payment in Lieu of Taxes (PILOT) to the counties and municipalities where SJPC facilities are located. For fiscal year 2017, state appropriations were \$18.9 million for debt service and \$5.1 million for PILOT.

A 2012 study of the Southern New Jersey Port Complex, which consists of the SJPC, was conducted by Rutgers University and a consultant for the New Jersey Department of Transportation. The study stated that in 2010 the port complex supported:

- 1,101 direct jobs
- 2,028 total jobs in New Jersey and 3,323 jobs in the United States
- \$99.1 million in labor income in New Jersey
- \$298.1 million in net business income in New Jersey
- \$37 million in federal, state, and local tax revenues in New Jersey
 - State and local tax revenue: \$9.8 million
 - Federal tax revenue: \$27.2 million

Competitive Bidding Process

The SJPC is not seeking competitive bids for all applicable vendor contracts.

During expenditure testing, we identified 4 of 32 tested vendors that had not been competitively bid for over ten years. The state issued the Department of the Treasury Circular Letter 16-02-DPP requiring that state agencies competitively bid for goods and services to ensure the best pricing. Failing to seek proper price competition for the SJPC's operations could lead to unnecessary overpayment for goods and services.

Recommendation

We recommend, that as a matter of best practices, the SJPC consider implementing a policy similar to the bidding process in the state's circular letter to maximize potential cost savings.



Observation

Paulsboro Marine Terminal

The Paulsboro Marine Terminal is the first general cargo marine terminal built on the Delaware River in 50 years. According to the SJPC, they experienced such high demand between 2003 and 2006 that they had to turn ships and cargo away. Since there was no room to expand in Camden, the decision was made to expand into Paulsboro in order to seize the economic opportunities it previously turned away.

In order to ensure there was a demand for expansion, a feasibility study was performed on the South Jersey riverfront to analyze potential opportunity and its impact on the local economy. The study examined the benefits from utilizing the Delaware River, and how the SJPC could improve their resources and infrastructure by developing the port facility. The study concluded that there would be positive economic development as a result of the expansion.

After the study determined that expansion was feasible, the SJPC began working with the Gloucester County Improvement Authority (GCIA) regarding the construction of the Paulsboro Marine Terminal. The GCIA agreed to manage the construction of a deep water omniport with a dockside rail able to handle a variety of bulk and break bulk cargo, as well as shipping containers. The construction site consisted of 190 acres of land with access to a bridge connecting the terminal to Interstate 295 and Route 44. The construction project created 700 jobs.

The SJPC financed the construction of the Paulsboro Marine Terminal with the sale of \$177.7 million in bonds. As of December 31, 2016, there was \$6 million in outstanding contracts; however, the SJPC had \$8 million in bond funds remaining to cover these obligations.

On March 1, 2017, the first shipment of heavy steel slabs arrived at the Paulsboro Marine Terminal. The new port is estimated to bring up to 1.3 million tons of steel in its first year of operation and offers the opportunity to create permanent jobs in the region.





SOUTH JERSEY PORT CORPORATION

An agency of the State of New Jersey

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July 14, 2017

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Mr. Termyna:

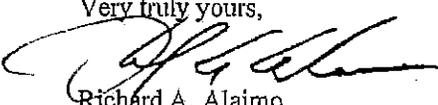
The South Jersey Port Corporation Board, our Board Audit Committee, and staff appreciate the work performed by your office in conducting the Audit Report for the period January 1, 2015 through March 31, 2017.

We concur with the audit's recommendation regarding the four vendors identified to apply competitive bidding of services. As matter of best practices, SJPC does apply the practices as identified in State Circular 16-02-DDP, regarding competitive bidding of services to maximize potential cost savings. Furthermore, SJPC has addressed or is planning to implement competitive pricing for the four vendors out of the thirty-two vendors tested in the audit.

Our agency appreciates the cooperative manner in which you and your staff conducted this audit. Your recommendations are well regarded as SJPC is committed to continual improvement. If you have any further comments, please contact Kevin Castagnola, Executive Director & CEO, at 856-757-4969. He will be available to expedite any further communications throughout SJPC.

Thank you.

Very truly yours,



Richard A. Alaimo,
Board Chairman

RAA/JJ

cc: SJPC Board of Directors
Kevin Castagnola, Executive Director & CEO
Jay Jones, Deputy Executive Director
Bruno Cellucci, Treasurer