

SAINTE PAUL PORT AUTHORITY



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ANNUAL REPORT 2008
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**SAINT PAUL PORT AUTHORITY
MISSION**

To act as a public economic development organization in cooperation with other public and private entities in the City of Saint Paul and the East Metro area, using creative, effective and financially sound methods and ideas to expand the tax base and create quality job opportunities.

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From the Chairman & President



“The only way to make sense out of change is to plunge into it, move with it and join the dance.”

- Alan Watts, 20th-century British philosopher, writer, speaker and student of comparative religions.

Our dance card in 2008 was full of projects that matched our job-creation goals in green-manufacturing sectors. But as we look back over the year, we are most proud of our ever-deepening community partnerships that helped us improve Saint Paul’s environmental and economic prospects.

One such partnership, with a goal of retaining about 475 jobs and helping to clean up the environment, resulted in a plan to repower the Rock-Tenn paper recycling plant in Saint Paul’s Midway area. We hope to fuel the plant with natural gas with a price offset from the production of biofuel. In what was described as a defeat for cynical distrust and a victory for bipartisan community involvement, the Saint Paul City Council in November accepted our recommendation and we are working with a variety of business and community partners to implement it.

This initiative and other environmentally friendly projects we launched in our harbor management and brownfield development business lines in 2008 will reduce our reliance on fossil fuels, improve air quality, reduce greenhouse gas emissions and grow green jobs here in Saint Paul.

On a parallel track, we worked with public and private groups to redevelop a portion of our Southport River Terminal to accommodate the operations of Upper River Services, our harbor operator, in a more environmentally friendly location. We will construct a dock wall and state-of-the-art storm water management system, including rain gardens in Southport. We also will contribute to wetland restoration nearby.

This project will help the Port refocus Southport as a hub for river shipping businesses, making it easier for shippers to work closely with their customers and create a cleaner, more efficient terminal.

Moving inland, in December we successfully negotiated the purchase of 35 of 46 acres that comprise the 3M Co.’s Saint Paul campus. We hope to complete the purchase of the remaining 11 acres by 2011. We are working closely with a variety of East Side community groups and other public and private partners to make the best of this incredible opportunity. Whatever vision we come up with

will be geared to helping East Side residents secure competitively paying jobs to help them grow and prosper.

The purchase and redevelopment of the 3M property in addition to 15 acres of East Side land we already own should generate nearly \$90 million in private investment in the area and at least 1,400 jobs, if developed as a typical Port Authority business center.

This work pays a variety of dividends: Since 1995, for example, we have returned nearly 155 acres of land to the tax rolls. The result is a combined \$165 million in private real estate investment in the neighborhoods that ring downtown. During that same period, we helped create or retain about 29,000 jobs in Saint Paul and the remainder of the East Metro through our various workforce and redevelopment programs.

Nowhere has our approach changed more dramatically over the past few years than in our workforce development line of business. We have replaced the old system of using dwindling government resources to train workers with a community-based model we developed in collaboration with a variety of partners.

The first project using the model is our First Step/Next Step initiative, which will enable Employer Solutions Inc. (ESI), our customized job training arm, to greatly expand its reach in disadvantaged communities.

Besides cleaning up land and training workers for competitively paying jobs, the Port received a boon to its expansion financing line of business in 2008.

That year, the U.S. Department of the Treasury’s Community Development Financial Institutions Fund allocated

\$15 million in New Market Tax Credits (NMTC) to the Port Authority to help stimulate economic and community development and job-creation activities in the Port’s service area.

In the past, we issued the lower-interest loans generated by this program using an allocation from another source, the Community Reinvestment Fund. Now we have our own allocation to use as an incentive to entice expansion-minded businesses — and their good-paying jobs — into Saint Paul.

Today’s Port Authority is truly a multifaceted development organization that works with a variety of partners and resources to clean up dirty land while figuring out imaginative ways to attract — or retain — businesses that will create competitively paying jobs.

On a personal note, we want to acknowledge the tremendous leadership exhibited by our past president Ken Johnson, who retired from the Port in November. Ken had nearly 40 years of service in public economic development efforts — the last 19 of which were at the Port Authority.

And finally, as always, we invite you, our customers, to tell us how we’re doing. Call us. Write us. E-mail us. Stop by. We believe that we can only help Saint Paul and our East Metro neighbors grow and prosper by listening to you.

Richard Anfang,
Chair

Louis Jambois,
President



The adage “out with the old and in with the new” is an apt description for our work in 2008 — from the top, where a new leader, **Louis Jambois**, assumed the Port Authority helm, to the ever-changing ways we help improve Saint Paul’s environmental and economic climate.

To us, “new” always has meant **cleaner, safer and more vibrant neighborhood-friendly** job centers carved out of abandoned industrial sites. To that end, in 2008, we initiated the purchase of 46 acres of mostly vacant land on the East Side from the 3M Co. — our largest redevelopment undertaking in 20 years.

“New” means the more **environmentally friendly** energy system we are brokering for the Rock-Tenn Co.’s paper recycling plant in the Midway. And in keeping with our river shipping focus, it means a more **bio-friendly** Southport River Terminal.

On a more personal level, “new” means that Crystal D President Chuck Dahlgren **expanded** on his property in the northern section of our redeveloped Great Northern Business Center, assisted by a federally backed, lower-interest loan that we helped him secure. “New” means implementing an intensive, community-based approach of helping job seekers.

We are environmentally friendly **problem solvers**; always have been. We start the neighborhood-based redevelopment cycle by acquiring sites considered too risky to develop because they are polluted. We clean them up to Minnesota Pollution Control Agency standards and sell them for **\$1** to businesses that agree to add Saint Paul residents to their work forces and develop their property to design standards that fit the character and culture of the neighborhoods that surround them.

We have been making these “**green gifts**” of environmentally friendly job centers to Saint Paul and the remainder of the East Metro for the past 76 years. Here are a few highlights from **2008**:

First Step/ Next Step

Nowhere has our approach changed more dramatically over the past few years than in our workforce development programs. The old way of using dwindling government resources to train workers has been replaced with a community-based workforce development model we have instituted in association with a variety of partners.

Employer Solutions Inc. (ESI), the Port Authority’s customized job training arm, greatly expanded its reach — and that of its partners — by recruiting employers and job seekers to participate in the First Step/Next Step program.

The program saves employers time and money by pre-training potential employees for jobs near where they live. ESI worked with the Center for Working Families, Payne-Lake Community Partners and the Cultural Wellness Center, among other groups, to develop a workforce recruitment, training and placement program that is culturally appropriate and rooted in the diverse fabric of the Saint Paul community. Regions Hospital agreed to hire for specific entry-level jobs from this pool. The McKnight and Saint Paul foundations help fund the program.

The First Step program provides soft-skills training, including language proficiency, basic workplace behavior expectations and other attributes that every employer expects, as well as employer-specific training. The Next Step training is higher level and geared to career advancement.

“When an East Side employer agrees to pay \$11 an hour for an entry-level job, the skill demands are pretty specific. That’s how a program like First Step/Next Step can make a significant difference,” said Janet Ludden, ESI’s chief executive officer.

Repa Mekha, executive director of Payne-Lake Community Partners, said the Port’s approach to workforce development has become more collaborative in recent years.

“Janet is willing to take a risk to tie her workforce development process to the ongoing community process,” he said. “She and the Port Authority are pausing for a moment, resetting themselves to walk alongside us.”

“Together we are stronger than we are individually,” said May Xiong, director of the Center for Working Families.



LEFT: Henry Rucker, Center for Working Families; Janet Ludden, Saint Paul Port Authority; May Xiong, Center for Working Families; and Mark Robinson, Cultural Wellness Center.

“Throughout the whole process, the Port Authority came across as a pure advocate for me to make this process work. As far as the financing was concerned, I was kind of a duck out of water,” Dahlgren said.

“There is a high level of integrity in the people working over there — particularly Bruce Gehrke (the Port’s vice president of lending services) and his work on the second round of financing. He saved us a bunch of money — \$15,000 to \$20,000 a year — not only on the rates but also origination fees because we didn’t have to go back for a second loan.”

BELOW: Bruce Gehrke, Saint Paul Port Authority, and Chuck Dahlgren, president of Crystal D.

New Market Tax Credits

Another arrow in the Port’s community-building quiver is access to a lower-interest financing program designed to encourage businesses to expand or relocate into distressed areas of Saint Paul.

The U.S. Department of the Treasury’s Community Development Financial Institutions Fund in 2008 allocated \$15 million in New Market Tax Credits (NMTC) to the Port Authority to help stimulate economic and community development and job-creation activities in the Port’s service area.

One standout example of this program’s prowess is Crystal D, a leading supplier of awards and recognition products. President Chuck Dahlgren described Crystal D as bursting at the seams, having doubled in size to 40 employees in four years. That’s when the Port worked on a \$750,000 NMTC-backed loan for the company, enabling it to expand upward in its building in the Port’s Great Northern Business Center.

Crystal D used the loan proceeds to expand into the building’s mezzanine area, providing for more inventory and office space as well as extending the company’s parking lot to handle its customer load.





Southport River Terminal

Efficiency and dedication to our customers and the environment — qualities that have served us well for more than 75 years — led us to redevelop a portion of our Southport River Terminal on Saint Paul's West Side to accommodate the operations of Upper River Services, our harbor operator, in a greener, more energy-efficient location.

We will begin construction in 2009 of a dock wall and a state-of-the-art storm water management system, including rain gardens in Southport. We also will contribute to wetland restoration nearby.

The relocation of Upper River Services out of the downtown area is better for the environment and, we believe, will help ensure the long-term viability of river shipping in the Port of Saint Paul for many years to come.

"Without expanding the development area of Southport, we are moving our harbor operator, Upper River Services, into the terminal, creating a higher-density use that will be more focused on river shipping," said Kelly Warden, Port assistant vice president of property development.

Partners in this project included the Minnesota Department of Natural Resources (DNR) and Department of Transportation, the U.S. Army Corps of Engineers, the City of Saint Paul and a variety of environmental groups and concerned citizens.

"We never made a decision in a vacuum," said Molly Shodeen, DNR area hydrologist who worked with the Port on state permitting requirements for construction in the public waterways. "Anytime we needed anything from Port employees, they were willing to sit down with us to provide information and to resolve issues."

ABOVE: Tom Diamond, community environmental advocate; Molly Shodeen, Minnesota Department of Natural Resources; Kelly Warden, Saint Paul Port Authority; and Phil Belfiori, City of Saint Paul.

Phil Belfiori, water resource coordinator for the City of Saint Paul and part of the team that helped the Port's Southport project through an elaborate approval process, agreed that the project posed unique water-quality challenges but that they were resolved to the benefit of the Saint Paul community.

"We all rolled up our sleeves and worked very hard together to make this project a success," Belfiori said.

Negotiations between the Port and the City also resulted in the Port's donation of about 10 acres of wetland area within Southport, as well as Upper River Services' current location in our Barge Terminal 2, to the city for open space and public access to the river.

"The Port committed to not just protecting the environment but enhancing it," said former City Council member and community advocate Tom Diamond. "The Port also committed to meeting the spirit and intent of the Critical Area preservation program and not just the minimums required."

With that in mind, the Port is working with the City of Saint Paul to provide trail access to the river at Southport, he added. Ten acres of wetland at Southport will be deeded to the city for preservation as open space. Wetland that was inadvertently affected will be restored on a full two-for-one basis. Eighteen additional acres of wetland in Saint Paul will be restored with a priority for the Critical Area. Four acres will be added to the city's parks along the river. The Critical Area program is a joint local and state effort working in partnership with the National Parks Service to protect the natural environment.



Rock-Tenn

Our green vision extends far beyond Southport and the inventory of what companies in our business centers are doing to conserve energy and clean up the planet. For the past year, a group of citizens and the Port have studied ways to reduce the city’s contribution to harmful greenhouse gases — most notably by repowering the Rock-Tenn paper recycling plant with cleaner fuel. We managed the \$2 million legislatively financed study.

In August, citizen volunteers participating as members of the Rock-Tenn Community Advisory Panel (RCAP), as well as other interested citizens, city officials and the Port, recommended that the Midway plant be repowered with discount-priced natural gas, utilizing carbon offsets from renewable biogas. The City Council accepted the recommendation in November.

The plan comes with a number of benefits: It will help continue operations of the plant, which employs 475 people in competitively paying jobs; improve air quality in the surrounding neighborhoods; protect public health; advance energy independence; help the State of Minnesota fulfill its pledge to reduce global-warming carbon dioxide emissions 15 percent by 2015; and promote vital economic development in Minnesota’s rural communities.

Rock-Tenn’s Saint Paul mill is the largest paper recycling plant in the upper Midwest. It recycles about 1,000 tons of paper every day, converting much of it to high-value, food-grade boxboard for the region’s food manufacturers. But Rock-Tenn, like other manufacturers, was experiencing a downturn in customer orders in a sagging economy.

“Two and a half to three years ago, when we learned that Xcel Energy would be cutting off our steam line, the market was oversupplied,” said Dave Briere, vice president and general

ABOVE: Pete Klein, Saint Paul Port Authority; Dave Briere, Rock-Tenn St. Paul; and Nina Axelson, Rock-Tenn study committee.

manager of Rock-Tenn St. Paul. “We weren’t sure we would even be able to restart our boilers. I was working for a competitor of Rock-Tenn at the time and I couldn’t understand why the company did not close down the plant. A shutdown was that imminent.

“Through a lot of work by the Port Authority, the city and state, we were able to get permission to start up our boilers. That was a critical milestone. Then in order to receive permission from the U.S. Environmental Protection Agency (EPA) to restart the boilers, we agreed with the EPA to look at alternative fuels and alternative energy to do that.

“That brings us to the project itself. We were not equipped to manage the politics involved with this study of alternative fuels. The Port Authority did a very good job of managing it and keeping the study transparent. You need to win the battle each day in order to win the war. And we’re proof of that. Here we stand three years later, one of the low-cost producers in the market with a good business mix that allows us to look to the future.”

Nina Axelson, the community outreach director for the Rock-Tenn study committee, was pleased with the resulting recommendation, given the turmoil under which the study was launched.

“To me, the commitment from the Port Authority to a community process was outstanding,” she said. “It is not a blueprint I would like to use again because we were pushed against the wall right from the start. But the way the Port adapted and stayed in there was just remarkable. Most institutions would have said forget it and closed the door. Yet, the Port committed to the community throughout.”

East Side Redevelopment



ABOVE: Monte Hilleman and Bill Morin, Saint Paul Port Authority; John Barbie, District 4 Community Council; Ryan Kapaun, District 5 Community Council; and Gary Unger, District 2 Community Council.

The Port's purchase in December of 35 of 46 acres of the 3M Co.'s Saint Paul campus sparked a community-wide reflection on the good old days when 3M, Hamm's Beer and Whirlpool were anchor employers for most of the East Side, and an energetic discussion of what kinds of businesses should replace them.

The area was home to 3M from 1910 to 1962, when the company moved its headquarters to a new Maplewood complex. Since then, production facilities in the area have closed, and two years ago, 3M announced it would sell all of its Saint Paul property.

The community discussion is expected to be ongoing as the Port begins the redevelopment process of the mostly vacant land while negotiating with 3M to purchase the remaining 11 acres of the Saint Paul campus. When combined with 15 acres of Port-owned property nearby, the redevelopment project will be the Port's largest single jobs-restoration effort in 20 years.

Not since the development of the 71-acre Westgate Business Center in the late 1980s has so much abandoned or underused property been redeveloped in an environmentally friendly way at one time. The Port's nearly 60-acre East Side project is expected to attract nearly \$90 million in private investment and 1,400 jobs to the area. While suburban developments routinely are bigger, this one goes to the core of what a major segment of Saint Paul residents think about themselves.

"The private sector essentially took a bye on this piece of property," said Bill Morin, the Port's director of real estate. "That's why we bought it. This is exactly the kind of work we do, redeveloping property the private sector isn't interested in, for the benefit of the community."

Port President Louis Jambois agreed, adding that the project is "central to the revitalization of the East Side."

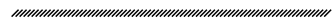
"We must come up with a plan that is amenable to the neighborhood and implementable in the marketplace," Jambois said. "And if we succeed, we will be taking a major step in the rebirth and revitalization of the East Side."

Neighborhood residents are eager to help define the vision for this and subsequent redevelopment projects on the East Side.

"This is an incredible opportunity for the community that we have to get right," said Ryan Kapaun, president of the District 5 Community Council.

District 4 President John Barbie said his goal is that whatever is developed meets the needs of both the Port and the East Side neighborhoods. "I have to think there is a way to make all of this work out."

Board of Commissioners



(FROM LEFT TO RIGHT)

Scott Hutton, Commissioner
President, Drake Bank

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Director of Risk Management and Local Government
Affairs, Securian Financial Group

Joan Grzywinski, Vice Chair
Retired President, Wells Fargo, Saint Paul and South
Minneapolis Districts

Nneka Morgan, Commissioner
Financial Advisor, Merrill Lynch

Richard Anfang, Chair
President, Minnesota Building Trades Council

Daniel Bostrom, Commissioner
Councilmember, Saint Paul City Council, Ward 6

Kathleen Lantry, Secretary and Treasurer
President, Saint Paul City Council, Ward 7



REACH OUT AND TOUCH US DIRECTLY ...

The Saint Paul Port Authority staff can now be reached directly by telephone, Port President Louis Jambois announced.

“It is very important to me that we be very accessible to our customers,” Jambois said. “I want to encourage direct interaction between our customers and their main contacts at the Port. Therefore, please refer the staff list below or visit our website at www.sppa.com.”

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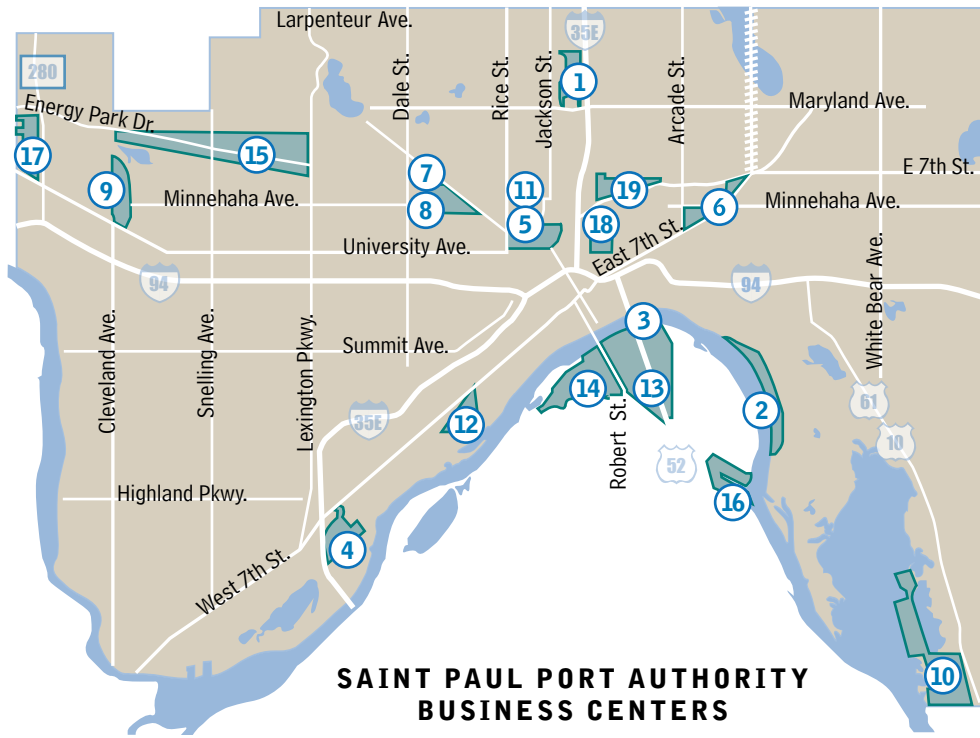
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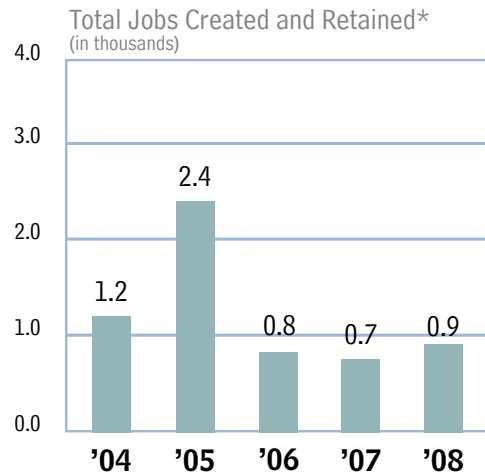
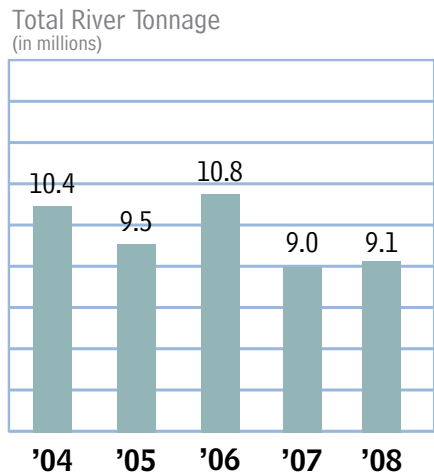
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1. Arlington–Jackson
2. Barge Terminal #1
3. Barge Terminal #2
4. Crosby Lake
5. Empire Builder
6. 3M Campus and other East Side sites
7. Great Northern North
8. Great Northern South
9. Midway
10. Red Rock
11. Sycamore–Rice
12. River Bend
13. Riverview
14. Riverview West
15. Energy Park
16. Southport
17. Westgate
18. Williams Hill
19. Westminster



* These totals include jobs retained and projected to be created by the end of our customers' 10-year Workforce Agreements.

SAINT PAUL PORT AUTHORITY PARTNERS

- Capital City Partnership
- City of Saint Paul
- Economic Development Association of Minnesota
- Great River Greening
- Hmong American Partnership
- Lao Family Services
- Metropolitan Council
- Midway Chamber of Commerce
- Minnesota Agri-Growth Council
- Minnesota Department of Employment and Economic Development
- Minnesota Hmong Chamber of Commerce
- Minnesota Pollution Control Agency
- Minnesota Ports Association
- Neighborhood Development Center
- Ramsey County
- River Resource Alliance
- Saint Paul Area Chamber of Commerce
- Saint Paul Riverfront Corporation
- Upper Mississippi Waterways Association
- U.S. Economic Development Administration
- U.S. Environmental Protection Agency

Johnson refocused Port and strengthened neighborhood and business partnerships



“An impeccably thorough professional.”
“A consummate public servant.”
“A master of all details.”
“Tenacious and a visionary.”

Those are just some of the qualities attributed to Ken Johnson by community leaders as he moves ever so deftly from managing Saint Paul’s pre-eminent economic development agency to retirement after nearly 40 years in public service.

Just as it was the worst of times for the Saint Paul Port Authority in August 1991, it was the best of times 17 years later in September 2008. The two dates serve as bookends on Johnson’s career at the Port.

When Johnson assumed the economic development agency’s presidency on Aug. 19, 1991, the Port, which once was the largest agency of its kind in the state, was teetering toward financial collapse. The Port was forced to write off tens of millions of dollars in the value of its real estate holdings after numerous defaults on projects financed by the Port and projects in the Port-managed 876 Common Revenue Bond Fund, which forced repossessions of downtown office towers, hotels and big retail/office projects in the 1980s.

It was up to Johnson to slog through the morass, while attempting to keep the organization’s lights on. While the Port’s beacon flickered for a time during the early 1990s, Johnson’s tenacity certainly made a difference. Refocusing on its original mission to manage the harbor and clean up polluted land in Saint Paul paid dividends as the Port’s business — and its influence — improved.

“Ken and I started to change the Port Authority back to an industrial redevelopment agency after I brought him on in 1990,” said Jim Bellus, who preceded Johnson as Port president. “Ken has continued that vision so much so that if you look at the Port Authority today, it is no doubt now the pre-eminent economic development agency in Saint Paul.”

From 1991 through 2008, Johnson guided the Port in developing eight of its 19 business centers throughout Saint Paul, and he recently led the purchase of most of what could become the Port’s crown jewel — the former 3M Saint Paul campus. If the Port buys the remaining 11 acres of 3M’s campus, as expected, and redevelops another 15 acres of land it already owns nearby, the project will be the agency’s largest redevelopment in 20 years. It could generate nearly \$90 million in private investment and \$2 million in local property taxes annually, and employ 1,400 people.

In total, under Johnson’s leadership, the Port fully redeveloped 155 acres of abandoned or polluted inner-city land, attracting nearly \$150 million in private investment to those sites from businesses that now employ nearly 3,560 people in competitively paying jobs and pay about \$5.4 million a year in property taxes.

He also refined the Port’s lending practices by instituting the first internal and board-driven credit committees, which scrutinize debt proposals to ensure the Port returned to its once-stated goal as lender of last resort for expansion-minded companies. And he constantly looked for new and creative ways to make the Port Authority more relevant to Saint Paul’s economic

development outlook. The mantra “it’s all about jobs” is behind every Port project.

Former Saint Paul Mayor Jim Scheibel recalled Johnson’s early years at the Port as image building — particularly with Saint Paul neighborhoods.

“The Port had done a lot of development before Ken came on board, but it wasn’t seen as connected to the neighborhoods,” Scheibel said. “A lot of people at the time didn’t understand why we needed a Port Authority.

Ken really did bring the Port into connection with the neighborhoods and business community, and he cemented those partnerships. He made it really clear that the purpose of the Port Authority was jobs and a growing tax base for the city. Over time, the message changed from one where the Port created not just jobs but competitively paying jobs. And the relationship between the Port and the city’s economic development department, the labor unions, the business community and other community redevelopment organizations seems a lot more natural right now.”

Those efforts would never have borne fruit, however, if Johnson had been unable to stop the financial hemorrhaging of Port-managed funds in the early to mid-1990s. The sudden collapse was attributed to a nationwide depression in commercial real estate. The Port reported a net loss of \$41.4 million in 1989 and a \$31.4 million loss in 1990. If that weren’t bad enough, the credit rating on the Port-managed 876 portfolio dropped from A- to BBB, the lowest investment-grade rate, in one year.

When he assumed the presidency, Johnson found the Port mired in \$134 million in troubled debt. With hard work and tenacity, he and the Port staff eliminated or restructured the majority of that debt by 1995. The remainder of the debt was eliminated or restructured over the next decade.

“I knew Ken had the combination of real estate experience and grit and determination to work out the troubled projects,” said Bellus, who, like Johnson, previously worked for the City of Saint Paul on economic development projects.

“When I left, we had made substantial progress in dealing with the defaults

on the 876 properties. But the financial conditions for the Port Authority were very difficult at the time. Ken had a challenge — one that he met — to figure out how to dispose of repossessed real estate in a way that maximizes value to investors.

Johnson, however, was never content with time-tested investment strategies or the limits they can put on job creation in an ever-changing market.

When it looked, for example, like a four-acre parcel in the Port’s Energy Park Business Center would never be redeveloped because of extensive pollution clean-up costs, Johnson and the Port formed the first public-private joint equity partnership in the country to do the job. The result was the 100,000-square-foot Energy Park Corporate Center, which now houses the headquarters of Kemps Ice Cream and a national testing center, Thomson Prometric. The Port has since formed three other such joint equity ventures on redevelopment projects throughout Saint Paul.

When the State of Minnesota and the City of Saint Paul were looking for leased space to house employees, the Port built two office buildings downtown — the Orville L. Freeman Office Building, housing the state Agriculture and Health departments, and the Elmer L. Andersen Human Services Building. A new city Fire State 8 was built into the Andersen office building.

It would be difficult over the past 17 years to name a public project in Saint Paul — big or small, on shore or inland — that doesn’t have the Port Authority’s fingerprints on it somewhere, and that’s thanks to Johnson.

“The guy is an impeccably thorough professional — a master of all the details,” said former Saint Paul Mayor George Latimer, who appointed Johnson to head the city’s Housing and Redevelopment Agency. “I had and still have total trust in his judgment and integrity. He’s the consummate public servant. He surrounds himself with good people. He has a good report up as well as down.”

Added former Port Authority Board Chair Lyn Burton: “I’ve worked with Ken for years. He’s earned the respect of the business community and has credibility in the neighborhoods. That’s no small feat.”

SAINT PAUL PORT AUTHORITY

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