

AAPA Marine Terminal Seminar

“Surviving the Downturn”



PORT OF PORTLAND

Possibility. In every direction.

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Public Port Authority Structures

Economic Indicators: a look back

Short term implications for Public Port Authorities

How has Port of Portland responded

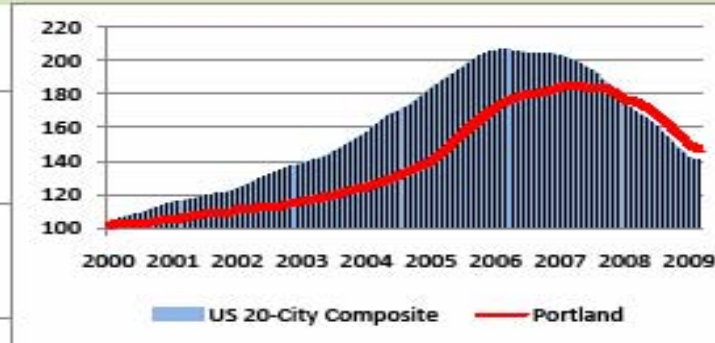
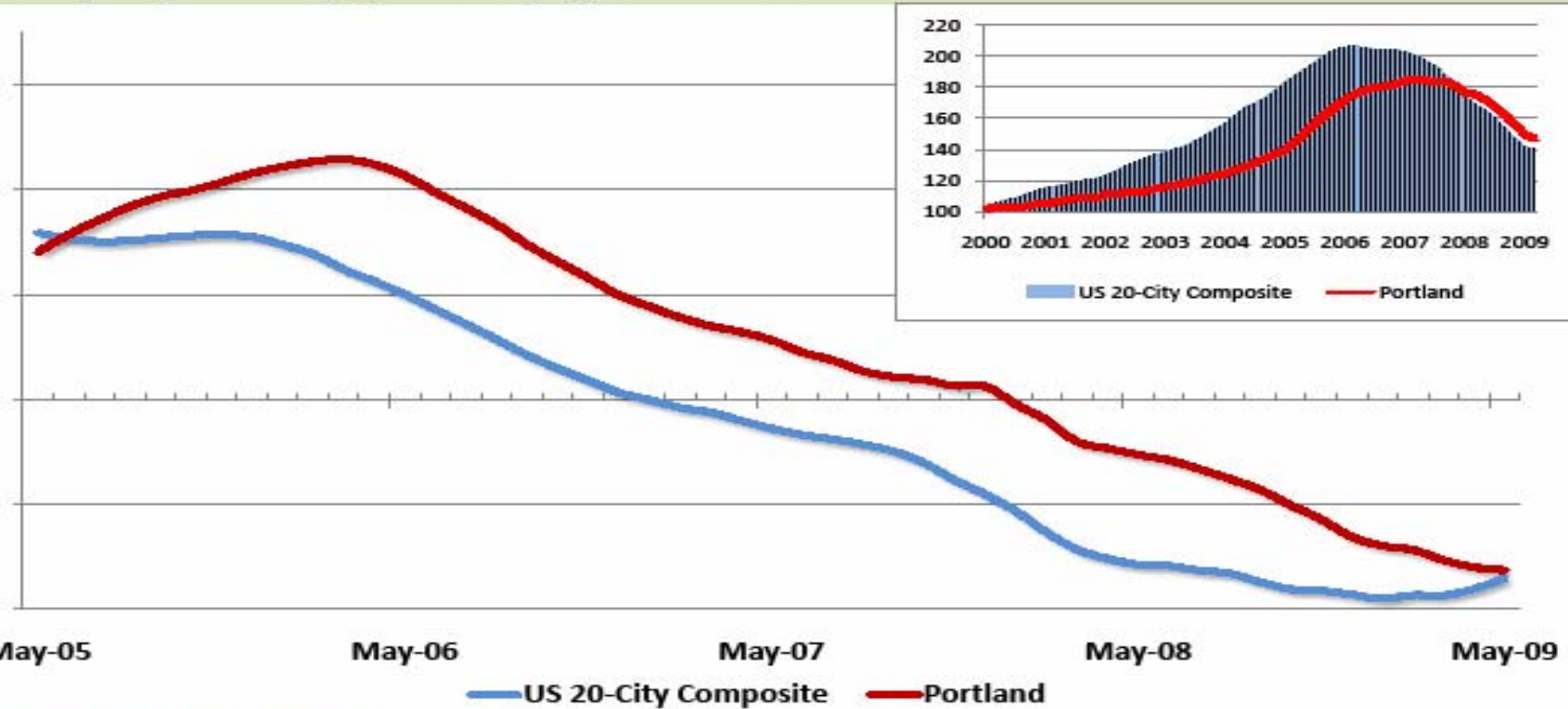
Forces impacting Public Port Authorities

Topics in Public Private Partnerships: 3P's

Lines of Business	Funding	Commission	Marine Terminal St
<ul style="list-style-type: none"> ▪ consolidated ▪ marine ▪ PDX ▪ general aviation ▪ real estate 	<ul style="list-style-type: none"> ▪ tri country tax levy-\$8M ▪ business transactions ▪ airport: bond finance 	<ul style="list-style-type: none"> ▪ Appointed by Governor 	<ul style="list-style-type: none"> ▪ port operating-T6 ▪ Private terminals through leases at other facilities
<ul style="list-style-type: none"> ▪ consolidated ▪ marine (cargo) ▪ Sea-Tac ▪ marinas ▪ cruise ▪ real estate 	<ul style="list-style-type: none"> ▪ King Country tax levy-\$65M ▪ business transactions ▪ bond finance 	<ul style="list-style-type: none"> ▪ Elected 	<ul style="list-style-type: none"> ▪ private terminal leases through term leases for container terminals
<ul style="list-style-type: none"> ▪ consolidated ▪ marine (cargo/cruise) ▪ bridges/tunnels ▪ Logan Airport ▪ parking ▪ other airports ▪ real estate 	<ul style="list-style-type: none"> ▪ state of Mass. budget ▪ parking ▪ tolls-bridge/tunnels ▪ real estate ▪ business transactions ▪ bond finance 	<ul style="list-style-type: none"> ▪ Appointed by Governor 	<ul style="list-style-type: none"> ▪ port operating container terminal ▪ cruise terminal ▪ private auto terminal
<ul style="list-style-type: none"> ▪ marine terminals ▪ real estate 	<ul style="list-style-type: none"> ▪ state of Pennsylvania budget ▪ business transactions ▪ bond financing backed by State 	<ul style="list-style-type: none"> ▪ 11 member board appointed by Governor/Mayor of Phil/state of PA legislature/local counties 	<ul style="list-style-type: none"> ▪ private terminals leases ▪ government funded infrastructure
<ul style="list-style-type: none"> ▪ marine terminals ▪ real estate 	<ul style="list-style-type: none"> ▪ tax levy- \$16M ▪ business transactions ▪ bond financing ▪ Some real estate ▪ Intermodal rail fees ▪ bond finance 	<ul style="list-style-type: none"> ▪ Elected 	<ul style="list-style-type: none"> ▪ private terminals through leases

Economic Data: Housing Starts

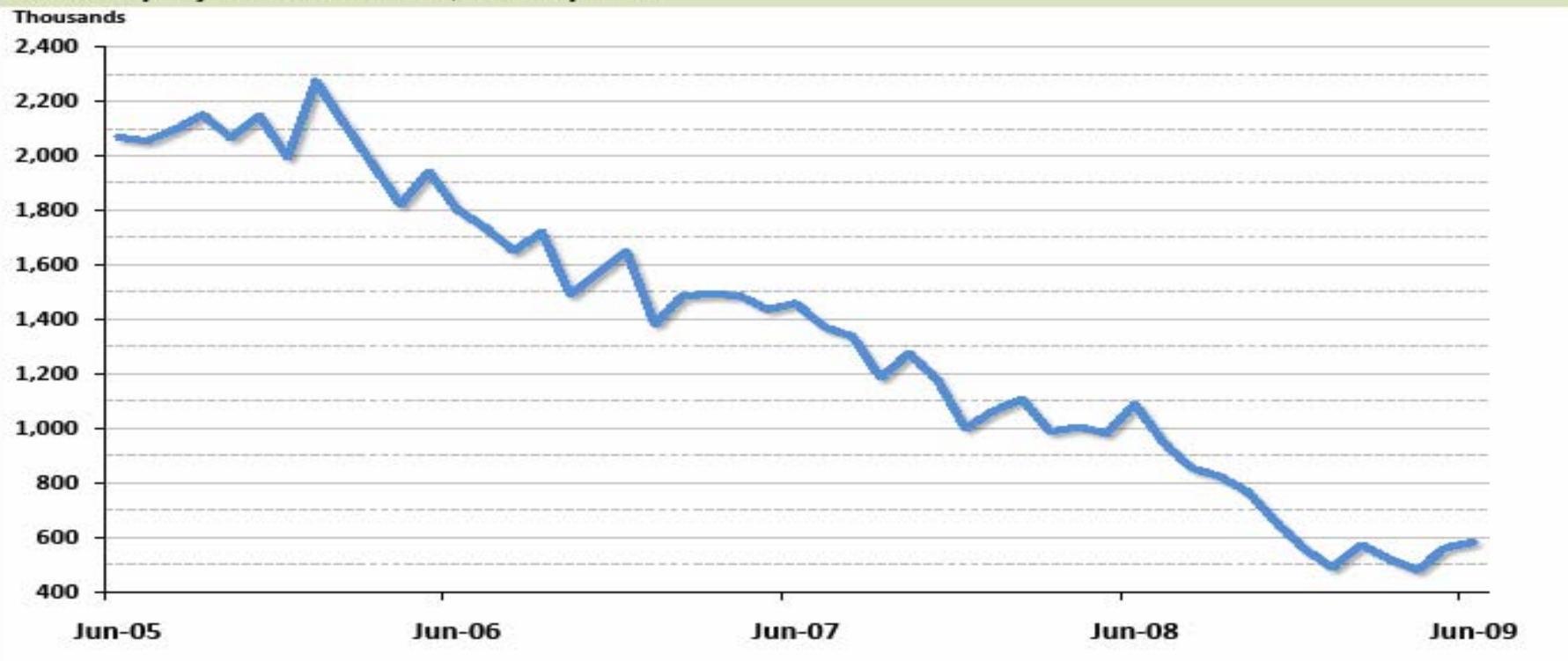
S&P/Case-Shiller Home Price Indices
Year over year percent change, seasonally adjusted



S&P/Case-Shiller Home Price Indices

Economic Data: Housing Starts

New Privately Owned Housing Units Started
Seasonally Adjusted Annual Rate, Monthly Data



Source: [U.S. Census Bureau](#)

Economic Data: Bulk Charter Rates

Bulk Carrier Timecharter Daily Rate

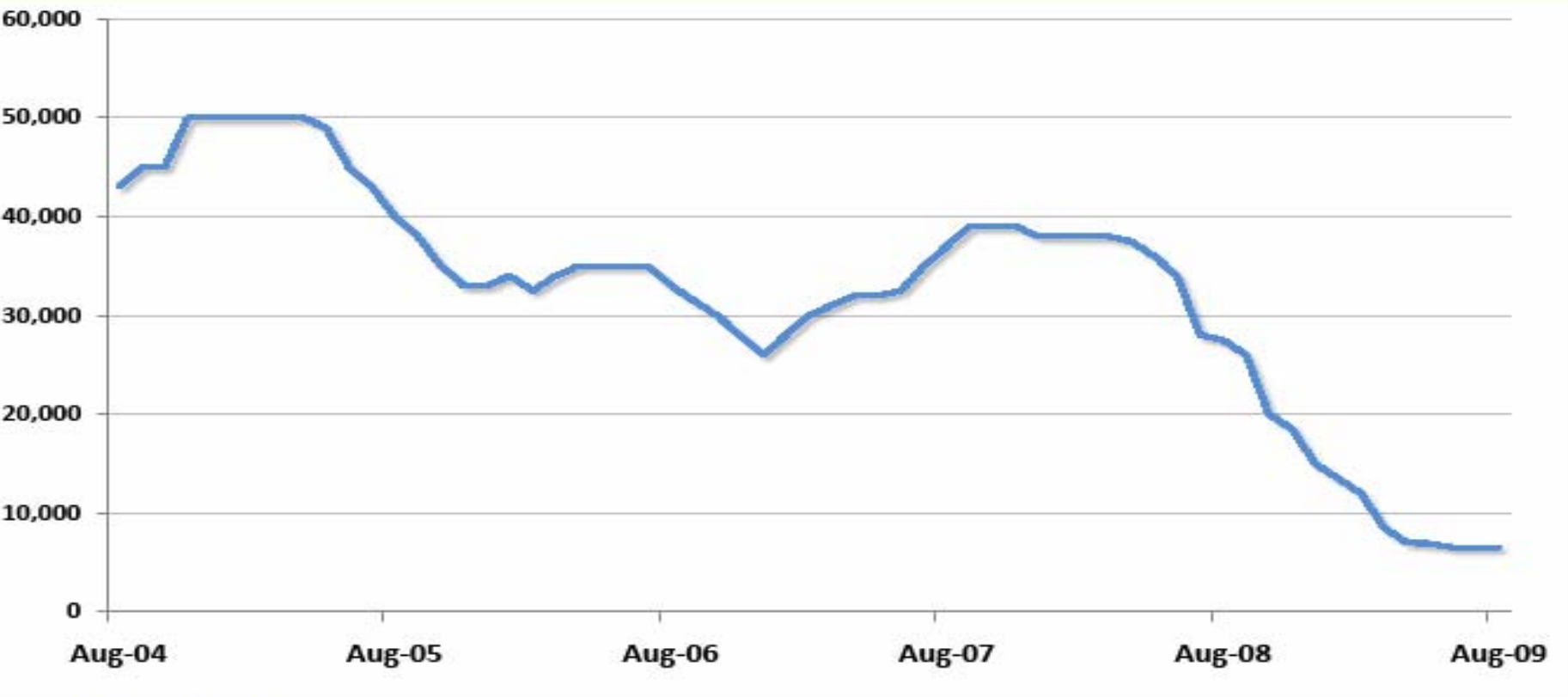
5,000 DWT, 1 Year Timecharter Rate, US\$ / Day, Weekly

Thousands

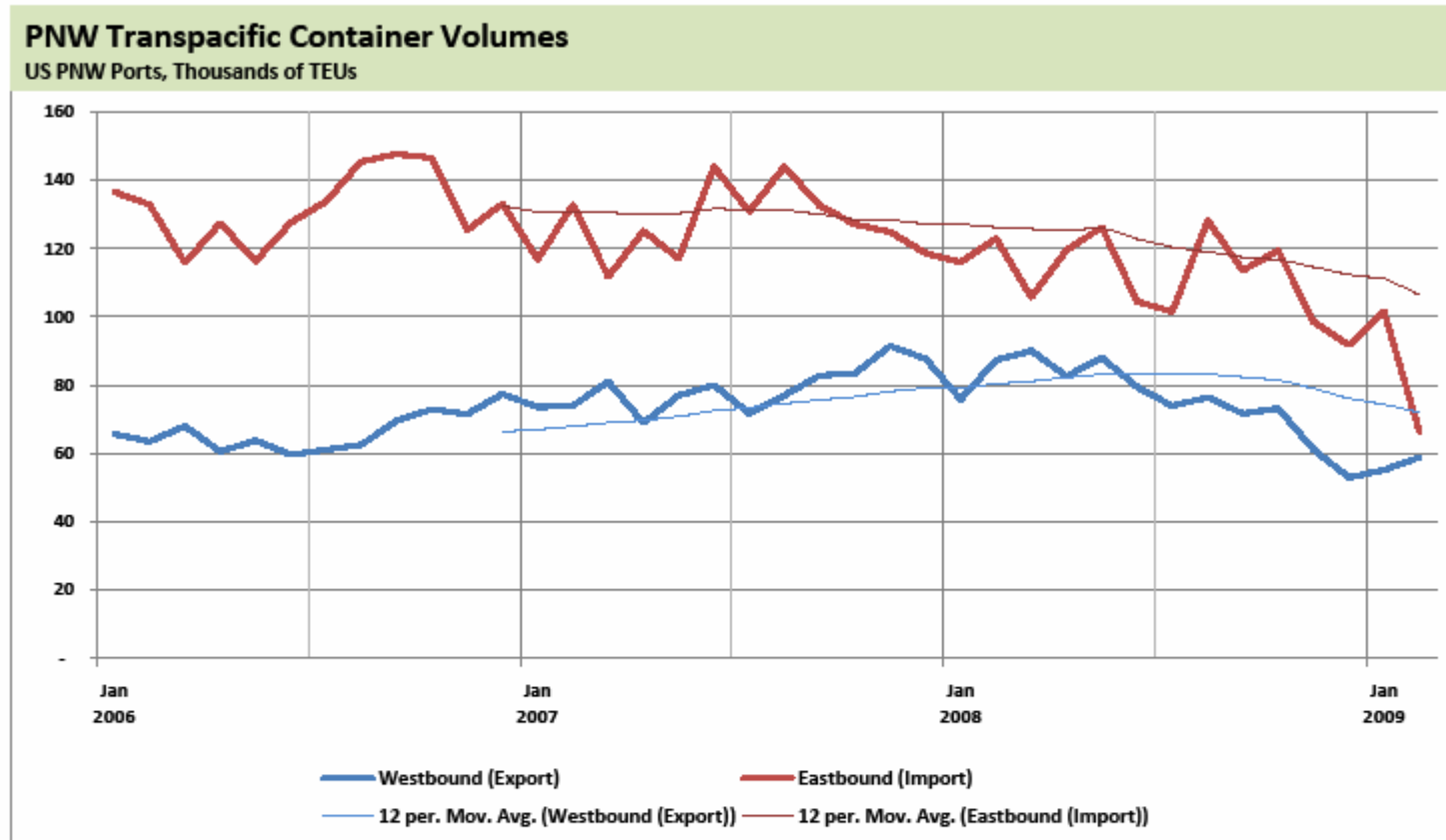


Source: Clarkson Research

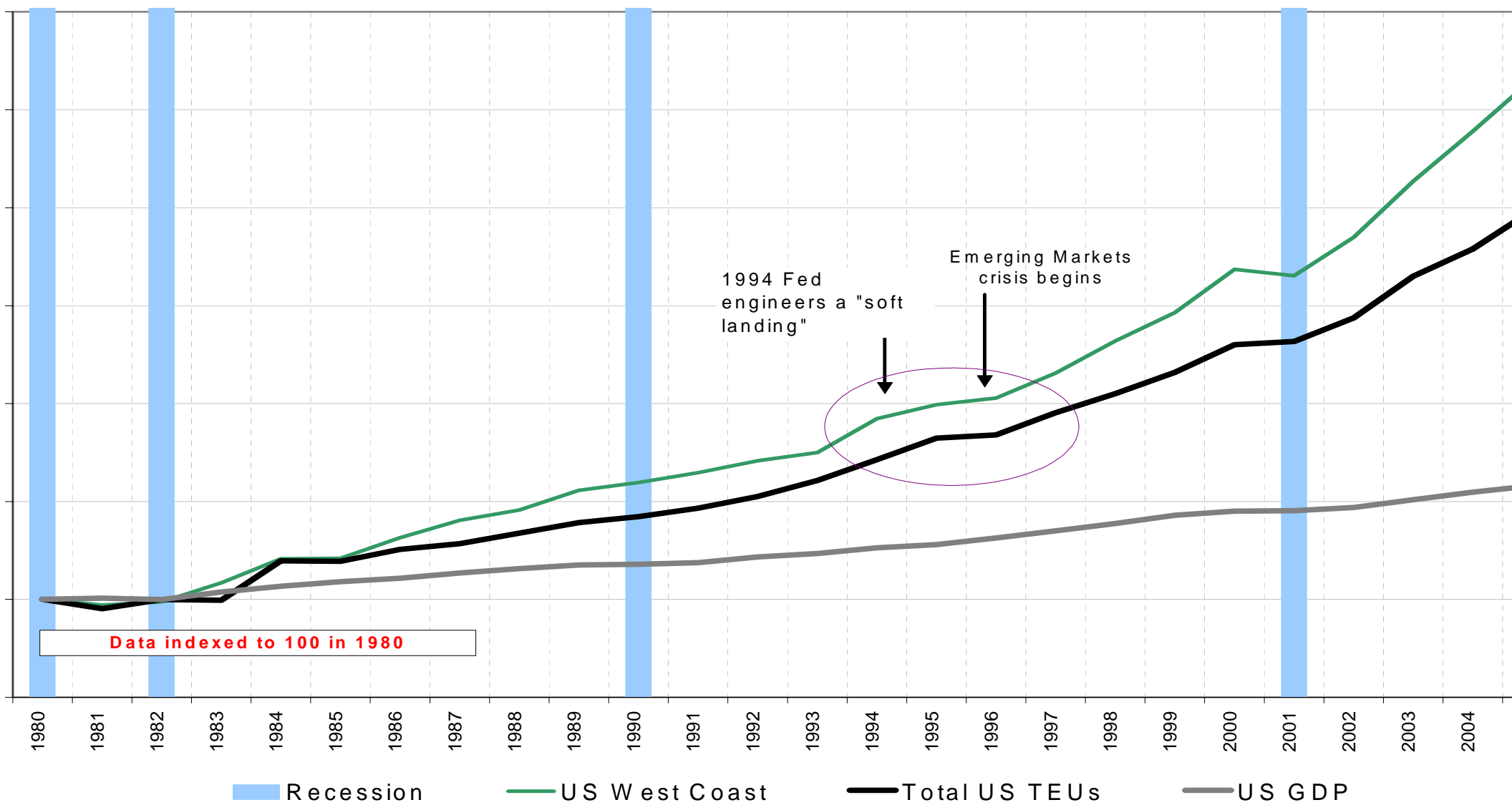
Panamax Containership Timecharter Rate
1,400 TEU Panamax, 6 - 12 months, US\$ / Day, Monthly Data



Source: [Clarkson Research](#)

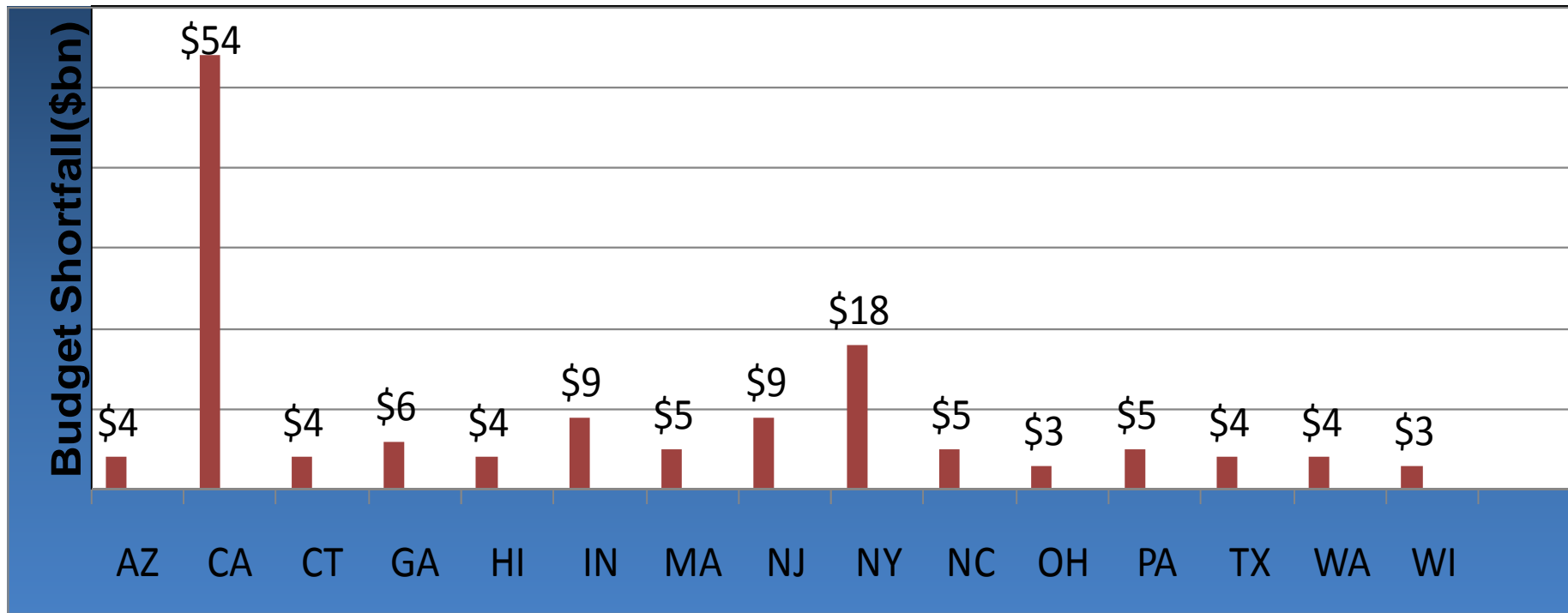


Source: PIERS

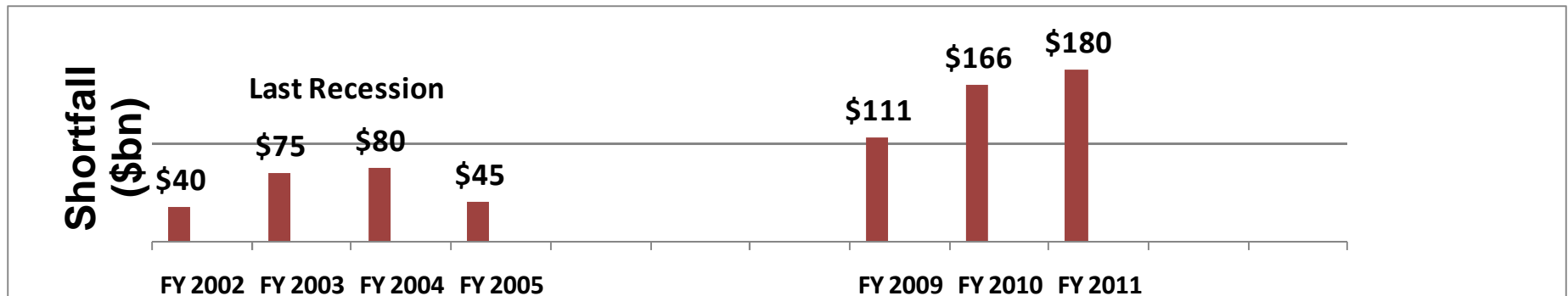


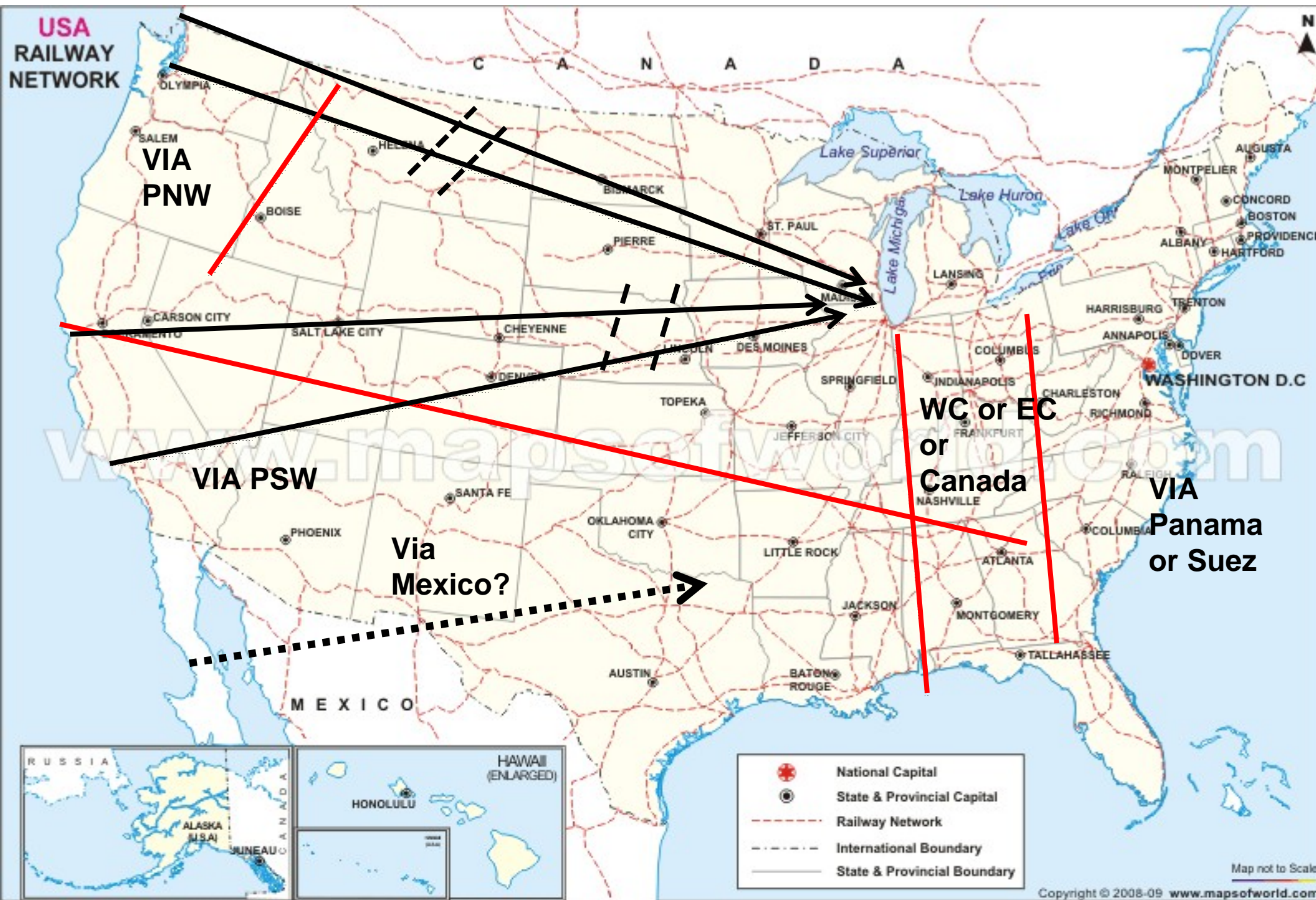
Period	Real GDP CAGR	US TEU CAGR	US TEU/GDP growth ratio	West Coast TEU CAGR	West Coast TEU/GDP growth ratio
1980 - 2005	3.1%	6.6%	2.12	7.9%	2.52
1995 - 2005	3.3%	6.5%	1.96	7.8%	2.33

48 States and the DC Face FY 2010 Budget Shortfalls



How Bad Can it Get?





Some FTE reductions plus merit freeze/furlough program

Early retirement program

Include represented (union) staff in expense reduction program

Manage cash flow: OIBD as key metric

Reduce capital spend: sources of funds=uses of funds

Reduce general/administrative expense budget: 12.1% for Marine

Optimize grant/stimulus programs

Postpone projects/programs: “Not Now” list

Strategic response to customer requests to mitigate charges/fees

Serve the local market (containers)



Columbia River Deepening (F)

approx: \$100 M

Columbia River Deepening (S)

approx: 27.5 M

Connect Oregon: (S)

approx: \$ 35 M

State Loan Program: (S)

approx: \$12 M

Federal Stimulus:(F)

approx: \$9 M

Bridge Grant Application: (F)

approx: \$ 35 M

State source of funds

Federal source of funds

Preservation of working capital balances in current economic climate is a must!

Despite or perhaps given the economic slow-down, the bidding climate for infrastructure is excellent

Implications for Port Authorities

P and container growth: correlation or relationship or just a bad dream?

sourcing can only go to 100% for each commodity: footwear outsourced decades ago

a Financial Crisis + U.S. monetary policy easing + U.S. banking deregulation contributed to the 10 year import growth bubble that drove vessel investment and port expansion.

hope for a “v” shaped recovery-led by the American consumer, is likely not going to happen in the near term: slow growth over time remains the likely scenario

little support for export growth given low dollar, robust agricultural yields and more protein based consumption in Asia

investors want to see their money!

ports as a strategic asset class: the rise of the 3P

the U.S. container trade has not been sized for exports as the dominant leg of the supply chain

some container commodities may shift to bulk due to structural equipment imbalance

WU-PMA July 1, 2009 assessment increase represents a long term structural problem of the container sequence

since Rupert, Vancouver, BC, Seattle, Tacoma, Oakland, LA, Long Beach are all chasing the same declining intermodal cargo base to the mid-west/Chicago.

direct intermodal via the West Coast to the East Coast has run its course: no growth

Topics in 313

Over the past 5 years, the Port sector has undergone a global re-valuation as strategic and financial players have become attracted to the cash flow (and stability) generated by container port assets.

- A number of port leases and stevedore company assets were acquired at significant multiples
- One carrier affiliated terminal (OOCL) operator was a net seller of assets at the peak of market excitement
- "High water mark" for these transactions was likely in 2007 before the volume declines

The acquisition financing of some of the earlier transactions has come under pressure given the underperformance of the assets versus the base case projection.

Nevertheless, the port sector continues to be attractive given strong entry barriers (environmental lead time, the lack of substitute modes for containerized cargo)

The GDP-TEU relationship remains intoxicating to many in the investment community

Many infrastructure funds remain committed to the port sector asset class

Private equity that remained on the sidelines during the previous port/terminal transactions are looking for opportunities---though the acquisition prices are likely to trend downward

Container terminals continue to be the center of attention with far less activity in bulk and non-container assets

Port Sector Activity Summary

Private Terminal Operators

- Private terminal operators with concession/long term leases have sold their concessions
 - OOIL to Ontario Teachers pension Plan (2006)
 - Hanjin to Macquarie (2006)

Family Owned Operations

- Several family owned operations sold their port asset interests, either in whole or a large stake
 - Maher to RREEF (2007)
 - Carrix to Goldman Infrastructure Partners (2007)
 - MTC to Highstar/Ports America (2007)

Major Ports

- Based on high valuations, several ports (Portland, Oakland, Baltimore, Virginia) have moved toward 3P concession arrangements through a variety of methods including auctions (2008/2009)

Field

- Several projects are underway/contemplated for new terminal development given the long term view of port scarcity
 - Nova Scotia
 - Coos Bay
 - NYK-Tacoma
 - Philadelphia

Through many types of arrangements, lump sum upfront payments allow states/municipalities to use funds for other purposes

Retire debt: Port of Oakland

Shifting of commercial risk and revenue risk (volatility)

Shifting and/or minimizing capital exposure

Private equity cost of capital can compete favorably with tax free cost of capital in the public port sector.

Structural budget deficits in some states makes privatizing of public infrastructure an tempting target: Look at lessons from toll road privatizations.