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American Association of Port Authorities

Alliance of the Ports of Canada, the Caribbean, Latin America and the United States

Shifting International Trade Routes: Financing Future Infrastructure Needs

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Port Finance Observations

- Port and related infrastructure needs are large
- Public funding is constrained and competition for it is high
- Traditional tax-exempt financing provides a low cost of funds for most ports
- Private equity and taxable debt financings provide an attractive alternative
- Costs and benefits need to be evaluated in light of port objectives

Port Financing Alternatives

Traditional U.S. Model – Public Authorities	Project Finance Model – Special Facility Financing	Emerging U.S. Model – Long-Term Concession
• Leverages all port cash flow (may include taxes) • Government department or independent port authority issues tax-exempt bonds • Economic development goals often drive financing and investment decisions • No equity sold	• Leverages project cash flows • Port issues tax-exempt debt on behalf of private entity • Single purpose entity created as a public-private partnership • Limited number of port projects	• Aggressively leverages projected cash flows • Port facilities leased to private operator under long-term concession • Likely to involve private equity • Market discipline imposed • Government gives up control

Port Financing Alternatives (cont'd)

Debt ⟷ **Equity**

Debt	Equity
General Obligation (Government Supported)	Direct Investment / Private Equity
↕	↕
Tax-Exempt Revenue Bonds / Taxable Bonds (Enterprise Supported)	Public Floatation

History of Restricted Private Sector Participation

Design → **Bid** → **Build**

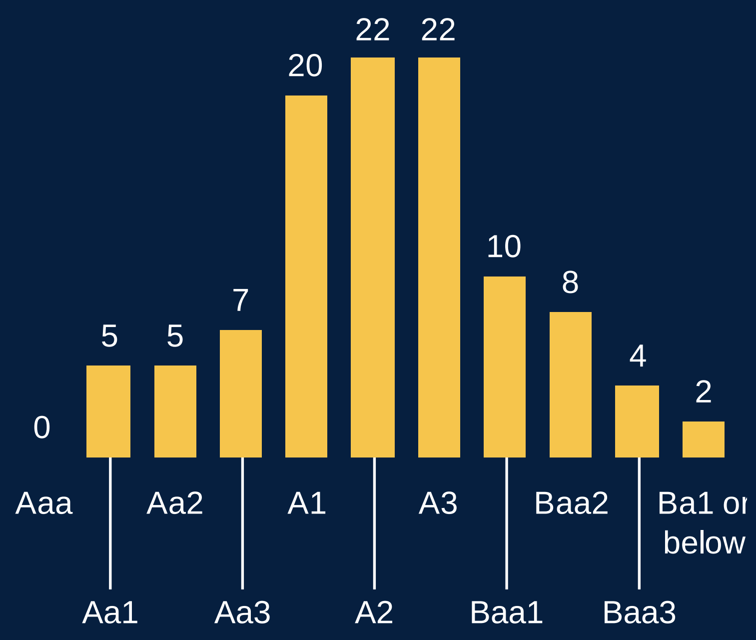
Finance

Federal Funds	State / Local Funds	Project Funds
• Dredging funds • Port security grants • Highway tax funds for related roadway infrastructure	• Property taxes, such as WA, OR, FL • State appropriations, such as VA, SC, GA, FL	• Tariffs • Rent • Clean Trucks Fee • TEU Infrastructure Fee

Ports Enjoy Strong Credit Ratings

Moody's U.S. Ports Portfolio by Rating Category

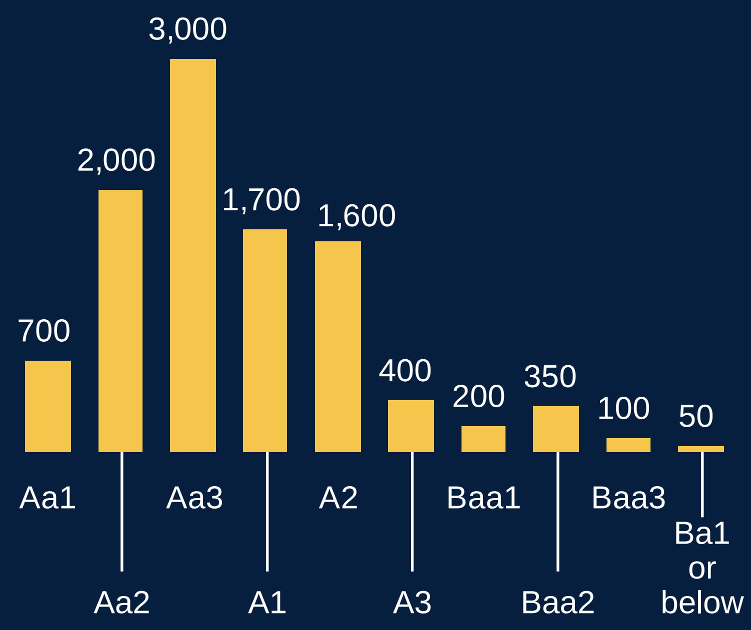
(%)



Source: Moody's Investors Service

U.S. Port Debt Outstanding by Rating Category

($MM)



Source: Moody's Investors Service

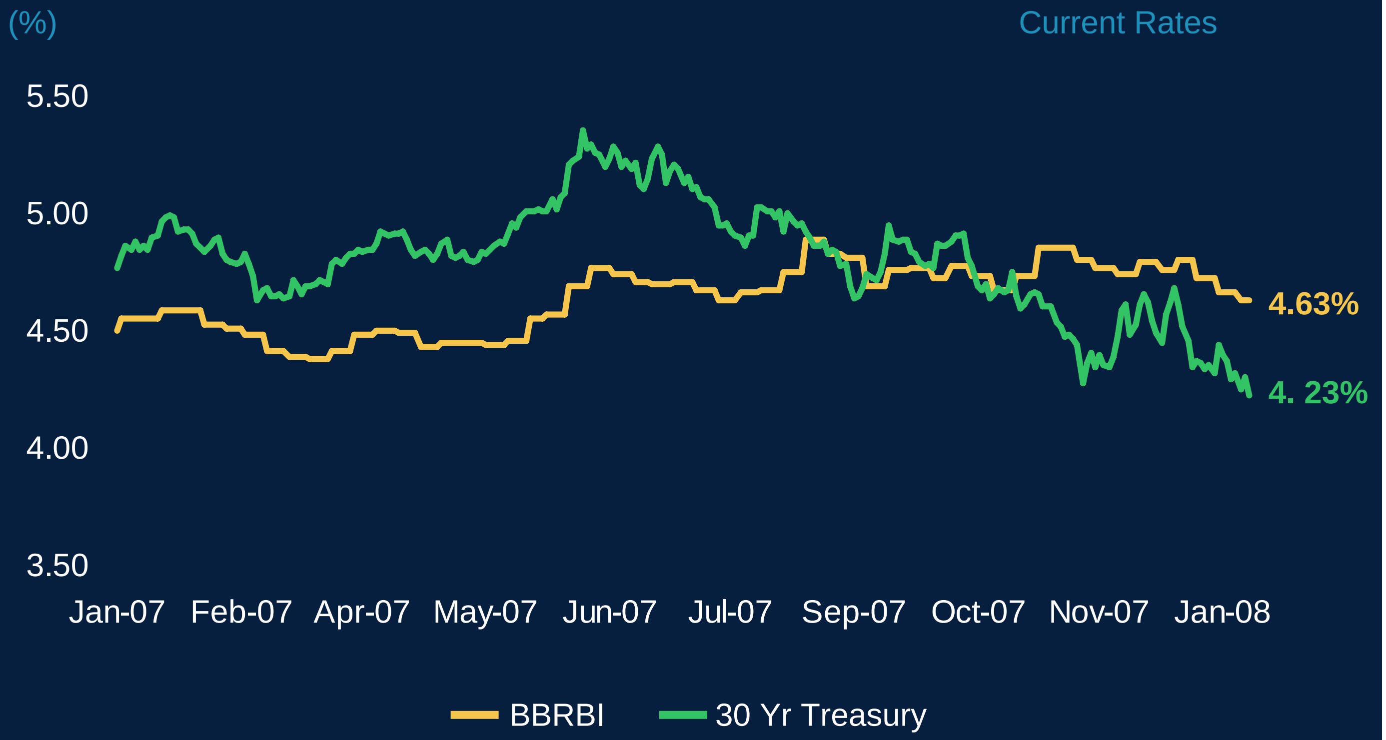
Recent Interest Rate Movements

January 10, 2007 to January 22, 2008

Interest Rates

	BBRBI	30 Yr Treasury
High	4.89%	5.36%
Low	4.38%	4.28%
Average	4.64%	4.81%
Current	4.63%	4.23%

Recent Interest Rate Movements



Source: Morgan Stanley

Changing Needs of Players in U.S. Infrastructure

State and Local Catalysts

- Budget crises – States are struggling to balance their General Fund budgets and may look to monetize value of profitable state owned enterprises, including ports
- Container volumes are growing at an unprecedented rate
- Large scale capital investments require high degree of leverage

Federal Catalysts

- Federal legislation is far more accommodative toward the private sector
- Inadequate public sector transportation funding continues to drive focus on private sector alternatives

Private Sector Catalysts

- Private equity seeking stable and reliable long-term investment opportunities
- “Investor patience” and essentiality of port assets allows for maximizing value over long concession term

Strong Interest from Infrastructure Funds in Ports Sector

- Container throughput growth, paired with a finite amount of coastal land allocated to shipping terminals, has lead to significant pricing power resting with the port operators
- Financial and strategic buyers have been able to lever the assets in a considerable fashion and pay attractive purchase prices
- AIG Global Investment Group has been particularly active, acquiring Dubai Ports World's interest in Port Newark Container Terminal, AMPORTS, MTC Holdings
- Transactions involving the transfer of leasehold interests at strategically important
  ports demonstrate
  - High market valuations of port assets
  - Willingness of investors to make upfront and ongoing investments in these terminals

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Strong Interest from Infrastructure Funds in Ports Sector (cont'd)

- Ports emerged as a viable infrastructure asset in the U.S.
- Infrastructure buyers have looked towards ports and terminal operating companies as having many similar characteristics to toll roads
  – Steady volumes
  – High barriers to entry
  – Inflationary annual price increases
- Ports have slightly higher competitive and operating risks, and tend to have lower debt levels than toll roads
- Understanding what pricing power exists at the port will be a critical diligence point

Infrastructure Assets Have Not Caught Up With the Supply of Infrastructure Equity and Debt Capital

Total Available Infrastructure Fund Equity ≈ $100Bn [1]
Total Leveraged Purchasing Power ≈ $500Bn

Supply of Investor Capital

Available Resources

- Large sums of uninvested equity and debt capital
- Increased competition for scarce resources
- Focus on U.S. as growth market
- Proven global track record of successful projects
- Willingness to team with experienced operators

Demand of Municipalities

Significant Capital Needs

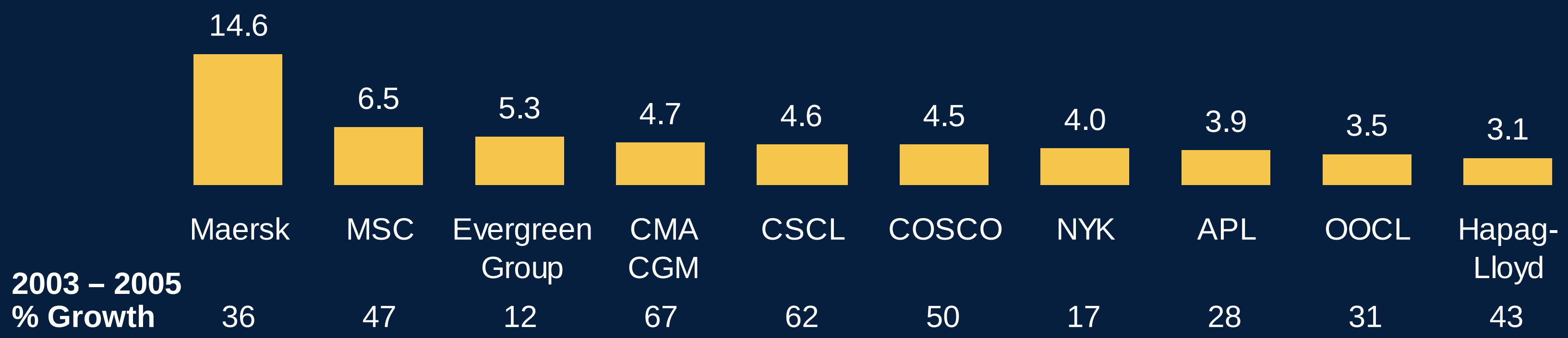
- Looming large maintenance and expansionary capital expenditure requirements
- Unfunded projects
- Tax increases as a funding mechanism increasingly unpalatable

(1) **Source:** Morgan Stanley

Port Operators Are Expanding Their Global Presence and Appetite for Strategic Investments

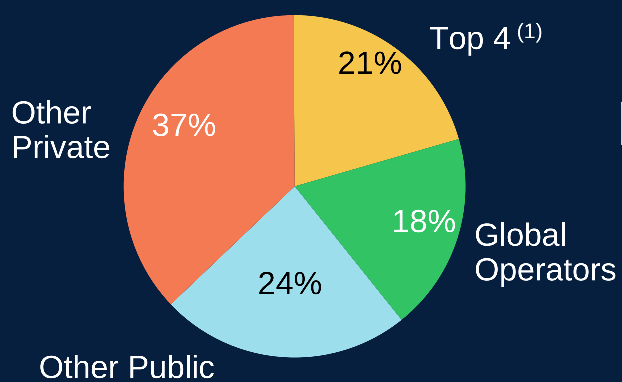
Leading Global Port Operators

2005 TEUs Throughput (MM)



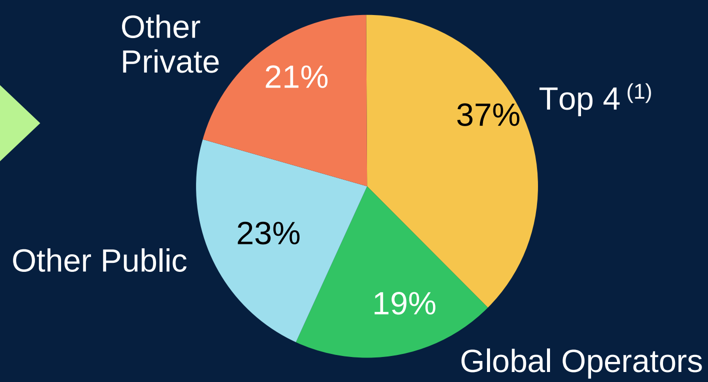
1996 Market Share

By Type of Port Operator



2005 Market Share

By Type of Port Operator



Source: The Drewry Container Market Quarterly

(1) Top 4 players include HPH, PSA, APM Terminals and P&O Ports.

Strategic and Financial Buyers Looking Closely At Port Opportunities

Strategic Investors –
Shipping Lines, Terminal Operators

- Ports will be viewed as an opportunity to solidify or break into competitive market
- Key investment questions
  - Does port provides good rail connection and capacity to the residential and manufacturing centers of the U.S. mid-west?
  - How well established is the inter-modal service?
  - How accessible to roads and interstate systems?
  - Can existing management structure and systems be leveraged to achieve cost savings?

Infrastructure Funds –
Financial Firms

- Ports are viewed as a very attractive opportunity relative to other asset classes in North America
- Lots of equity looking for assets to invest in
- Funds will focus on positioning within the market
- Key investment criteria include:
  - Significant capacity constraints
  - Barriers to entry
  - Pricing power

Ports Have a Number of Available Strategic Alternatives to Both Maximize Value and Achieve Policy Objectives …

	Long-Term Concession Lease	Conventional Landlord Lease
Description	• Full sale of equity via competitive bidding process • Private investors who are experienced operators and/or major infrastructure funds • Governance retained by the Port • Operator assumes throughput risk	• 100% control of the asset retained by the Port • Continues to access tax-exempt financing markets on its own
Considerations	• Complete **transfer of operating risk** • Proceeds collected by the Port **upfront** at closing, or **over time** • Detailed operating manual ensures maintenance **at or above Port standards** • Asset **reverts back to the Port** at no cost at the end of the concession	• **More conservative** growth rates, term limits and leverage targets likely in tax-exempt • **Port retains** operating risk and control • The Port retains ability to monetize equity over time but takes market and financing risk
Operating Control	**Private Operator**	**Port**
Relative Proceeds	**High**	**Low**

Source: Morgan Stanley

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Ports Should Evaluate Value and Policy Considerations to Determine the Optimal Approach

	Long-Term Concession Agreement	Conventional Landlord Lease
Benefits	• Creates maximum present value proceeds to the port if successful • Off-shoulders future capital and operating risks to a private operator • Current market conditions create favorable bidding environment	• No substantial change in functions • May be shorter-term in nature • Could finance certain capital projects
Considerations	• Long-term nature of lease requires strong win-win partnership • U.S. port privatization has never been accomplished • Lack of established process and legal documentation • Market conditions could worsen	• Counterparty risk drives up cost • Lease payments are tied to operating risks • Capex may be required in future to support lessee • Time and resources are similar to Concession Lease with less potential PV proceeds

Source: Morgan Stanley

Case Study: Jacksonville Port Authority

Jacksonville Port Authority

- $100 million Special Purpose Facilities Revenue Bonds for the Mitsui O.S.K. Lines, Ltd. ("MOL") Project
- The bonds were issued as weekly VRDBs to finance the acquisition, construction and installation of a container terminal to be located at the Dames Point Marine Terminal facilities
- Facilities will be leased to MOL and its wholly owned subsidiary, TraPac
- The bonds are payable from rent to be paid to the Port under an operating and lease agreement with MOL

Transaction Structure

- The bonds are backed by an irrevocable direct-pay Letter of Credit issued by Sumitomo Mitsui Banking Corporation (New York Branch) and carry the bank's ratings of A1 / VMIG-1 and A / A-1
- Morgan Stanley worked closely with the Authority, its financial advisors, MOL and the Bank to help structure a new trust indenture and bond covenants that were acceptable to all parties to the transaction
- Morgan Stanley serves as remarketing agent for the bonds

Source: Jacksonville Port Authority Series 2007 Official Statement

Port of Portland is Exploring P3 Alternatives for Terminal 6

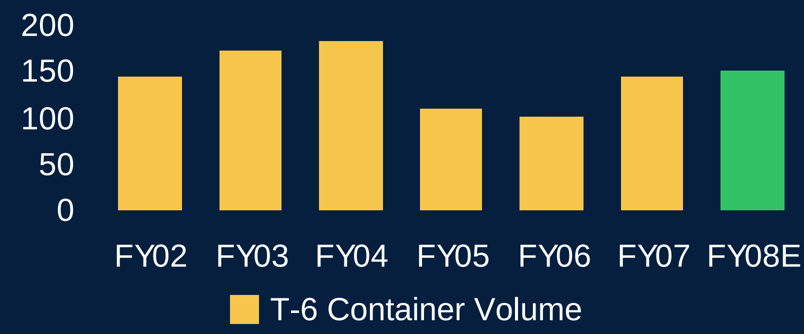
T-6 Facility Overview

- Deep-draft container terminal, with 200 acres for containers
- 400,000 TEU capacity, with significant dock extension possibilities
- Length / Depth of Berths: 2,850 feet/43 feet
- Stevedore Services: MTC
- Non-container tenants include AWC, Oregon Steel Mills, and American Honda Motors

Rail, Shipping and Inland Barge Connectivity

- Railroads with Direct Access to On-Dock Intermodal Yard include BNSF and UP
- Shipping lines calling on T6 include CKYH Alliance, China Shipping, and Hapag Lloyd
- Container barging serving the hinterland provides significant cost savings vs. trucking

Historical Container Volume
($MM)



Rail, Shipping and Inland Barge Connectivity

Source: Port of Portland

Conclusion

- Ports have access to the capital markets based on
  - Steady, predictable cash flows
  - Essentiality
  - Economic and demographic strength
  - Financial structuring
- Debt financing has evolved to monetize a port's aggregate or discrete cash flows on an overall basis or project basis
- Taxable debt markets at the moment are strong for infrastructure asset transactions
- Equity will focus on operational and capital efficiency
- 2008 will continue to test P3 market for U.S. ports

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