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AAPA American Association of Port Authorities

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

Port Finance Seminar: Public-Private Partnerships

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Section 1

Overview of Infrastructure Market

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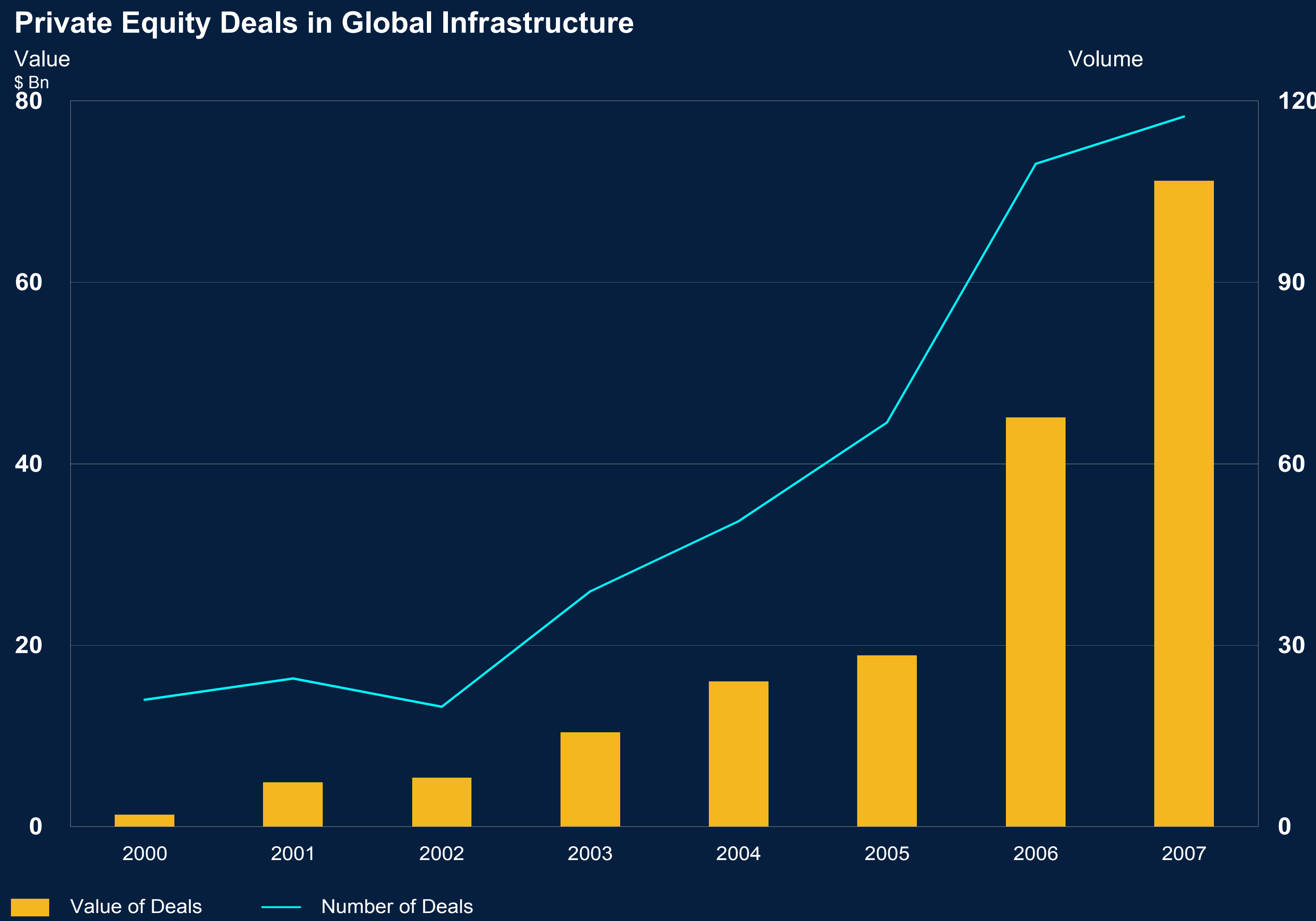
Private Equity Deals in Global Infrastructure

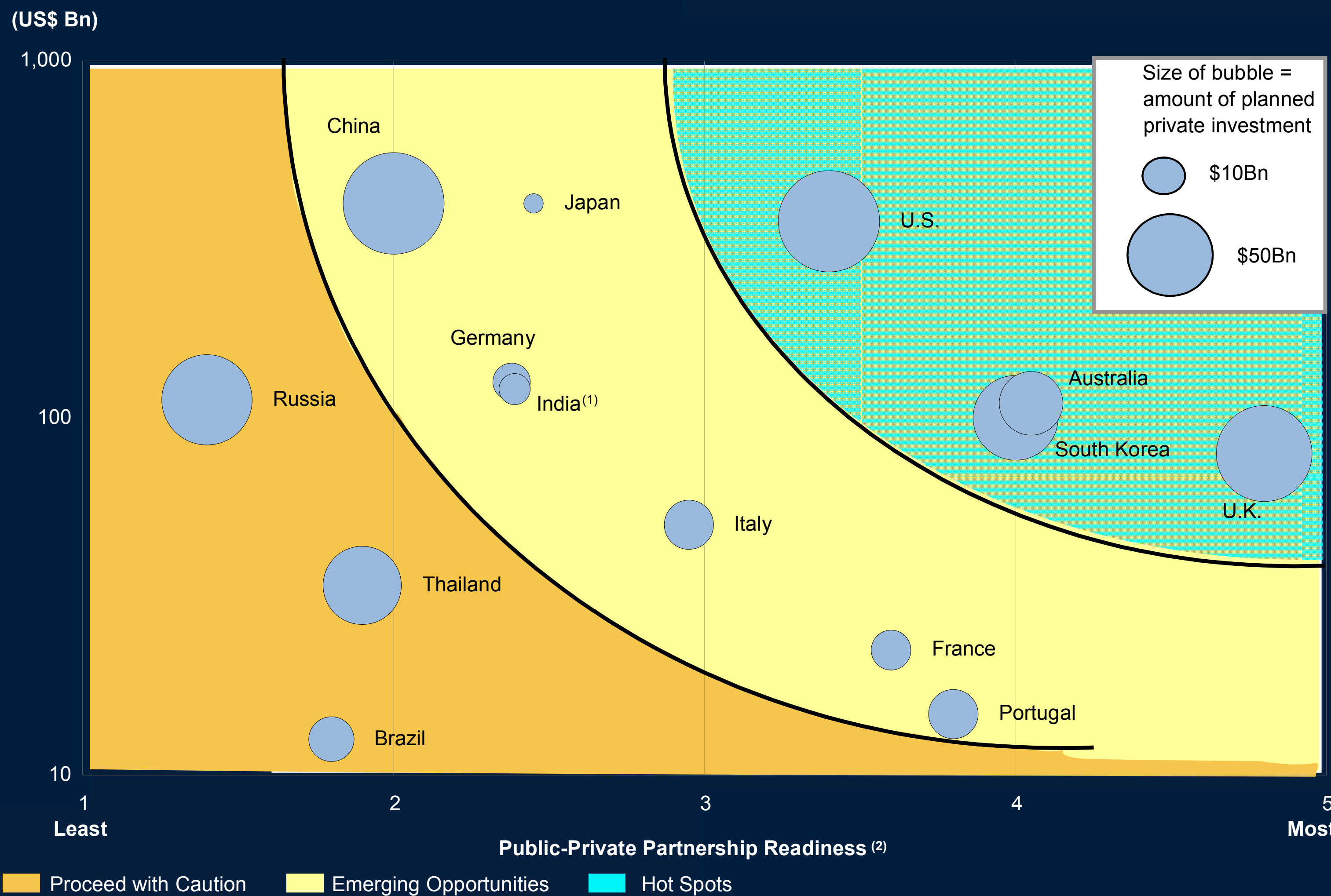
2000-2007



Source Dealogic, Financial News

Global Demand for Infrastructure Investment

Planned Infrastructure Spending (Public and Private) 2005–2010



Source McKinsey Quarterly

Notes
1. Recent plans indicate even larger opportunities in the future
2. Average of score on scale of 1–5, where 1 equals least ready and 5 equals most ready; measured across 9 dimensions, e.g., is there a robust legal and institutional framework in place?

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What Types of Assets Represent Infrastructure?

- Infrastructure is a diverse sector encompassing multiple asset classes
- Other assets such as oil and gas infrastructure have the potential to be more infrastructure like with contractual protection on volumes and/or puts on pricing
- Assets with high operating risk are typically not characterised as infrastructure
  - Hotels
  - Airlines
  - Railroads
  - Motorway stations

Transport	Utilities/ Energy	Communications	Social
• Toll roads	• Water and sewer	• Broadcast transmission towers	• Hospital and healthcare
• Airports	• Renewable energy	• Wireless communication towers	• Education
• Seaports	• Gas pipelines	• Satellite infrastructure	• Facilities
• Bridges	• Electricity networks		• Prisons
• Tunnels	• Power generation		• Housing
• Rail	• Storage facilities		
• Ferries			
• Car parks			

What Are The Characteristics of Infrastructure?

– Infrastructure assets are characterized by:
  - Limited competition, usually operating in quasi monopolistic location and with high barriers to entry
  - Operating in a transparent and clear regulatory environment, which allows for predictable revenue
  - Long-term organic growth arising from factors such as GDP growth
  - Usually proven stable demand/volume even under shock scenarios

Essential Infrastructure	✓ Limited competition ✓ High barriers to entry / local monopolistic characteristics ✓ Provider of critical/needed service
Useful Life	✓ Long useful life ✓ Able to support long tenor leverage ✓ Increasing returns to shareholders to offset long dated liabilities
Stable Earnings	✓ History and/or expectation of steady continued use ✓ Low correlation with economic conditions ✓ CPI linked price increases in some cases
Cash Generative	✓ Highly cash generative ✓ Favorable interest coverage position ✓ Strong margins
Favorable Regulation	✓ Favorable regulation, especially in businesses with significant capex requirement ✓ Transparency and consistency in tariff regime

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 an attractive 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

History of Restricted Private Sector Participation

Design → **Bid** → **Build**

Finance

Federal Funds

- Dredging funds
- Port security grants
- Highway tax funds for related roadway infrastructure

State / Local Funds

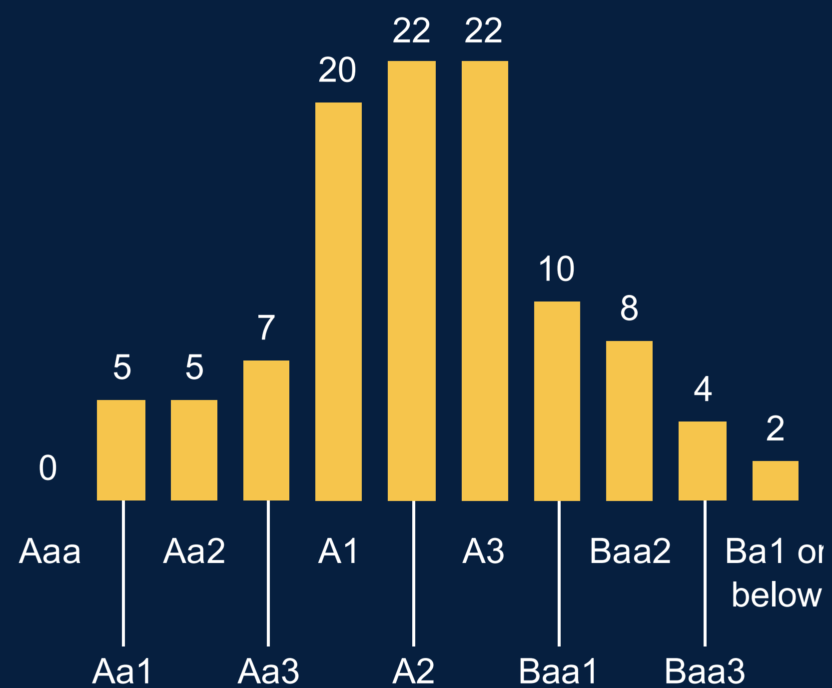
- Property taxes, such as WA, OR, FL
- State appropriations, such as VA, SC, GA, FL

Project Funds

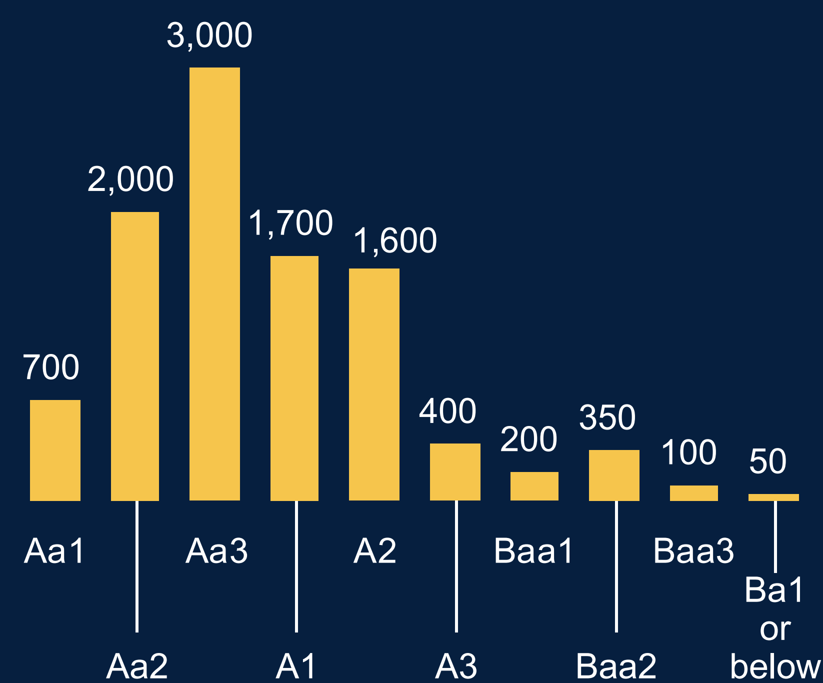
- Tariffs
- Rent
- Clean Trucks Fee
- TEU Infrastructure Fee

Port Authorities Enjoy Strong Credit Ratings

Moody's U.S. Ports Portfolio by Rating Category
(%)



U.S. Port Debt Outstanding by Rating Category
($MM)



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Source:
Moody's Rating Methodology for U.S. Ports, February 2005

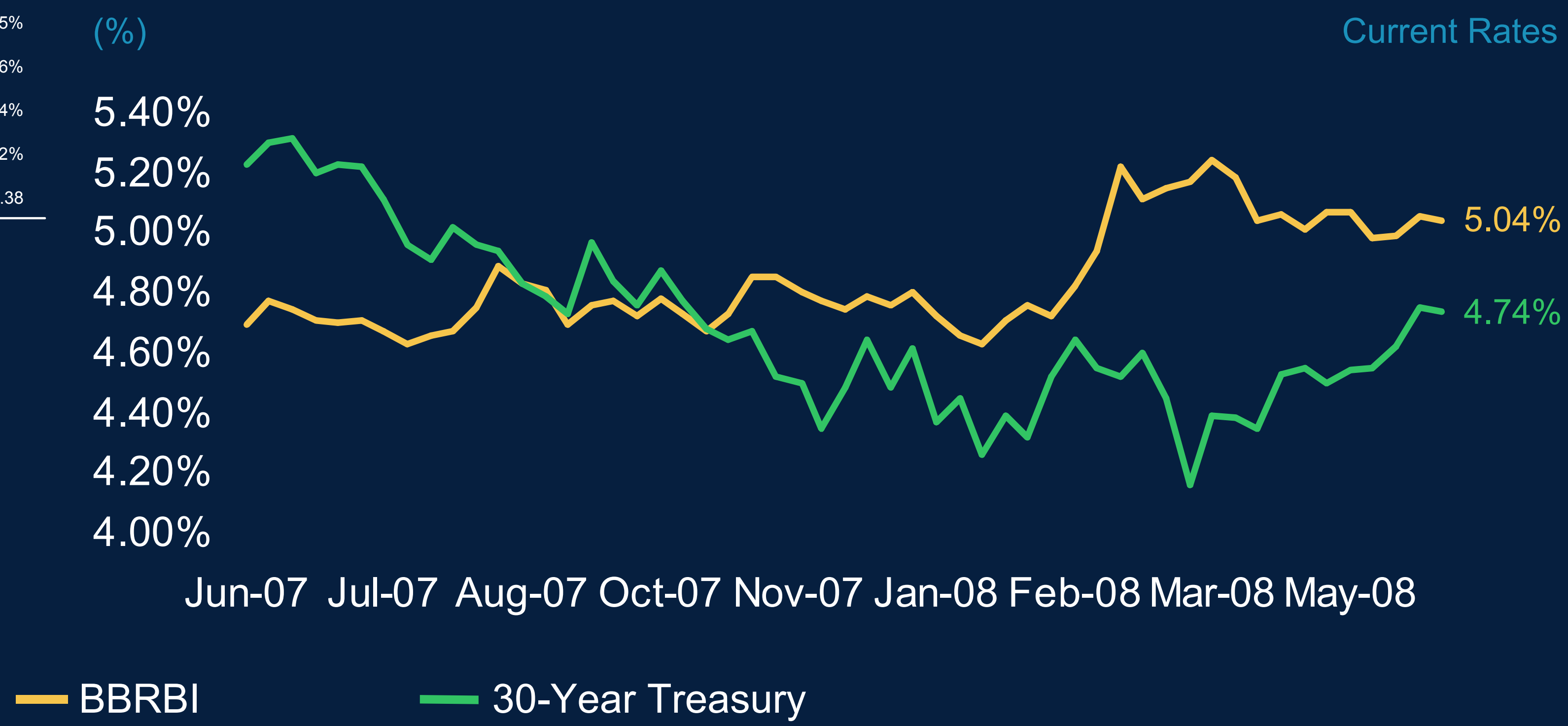
The Municipal Market Provides Attractive, Low Cost Financing

June 2007 to June 2008

Interest Rates

	30-Yr Treasury %	BBRBI %
1-Yr Average	4.68%	4.85%
5-Yr Average	4.83%	4.96%
10-Yr Average	5.17%	5.24%
High	15.07%	14.32%
Low	4.16%	4.38

Recent Interest Rate Movements



Changing Needs of Traditional 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

- Administration is far more accommodative toward the private sector and P3s
- 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 price
- 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

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

- Ports emerged as a viable infrastructure asset in the U.S. in early 2006
- 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
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

Strategic and Financial Buyers Looking Closely At Port Opportunities

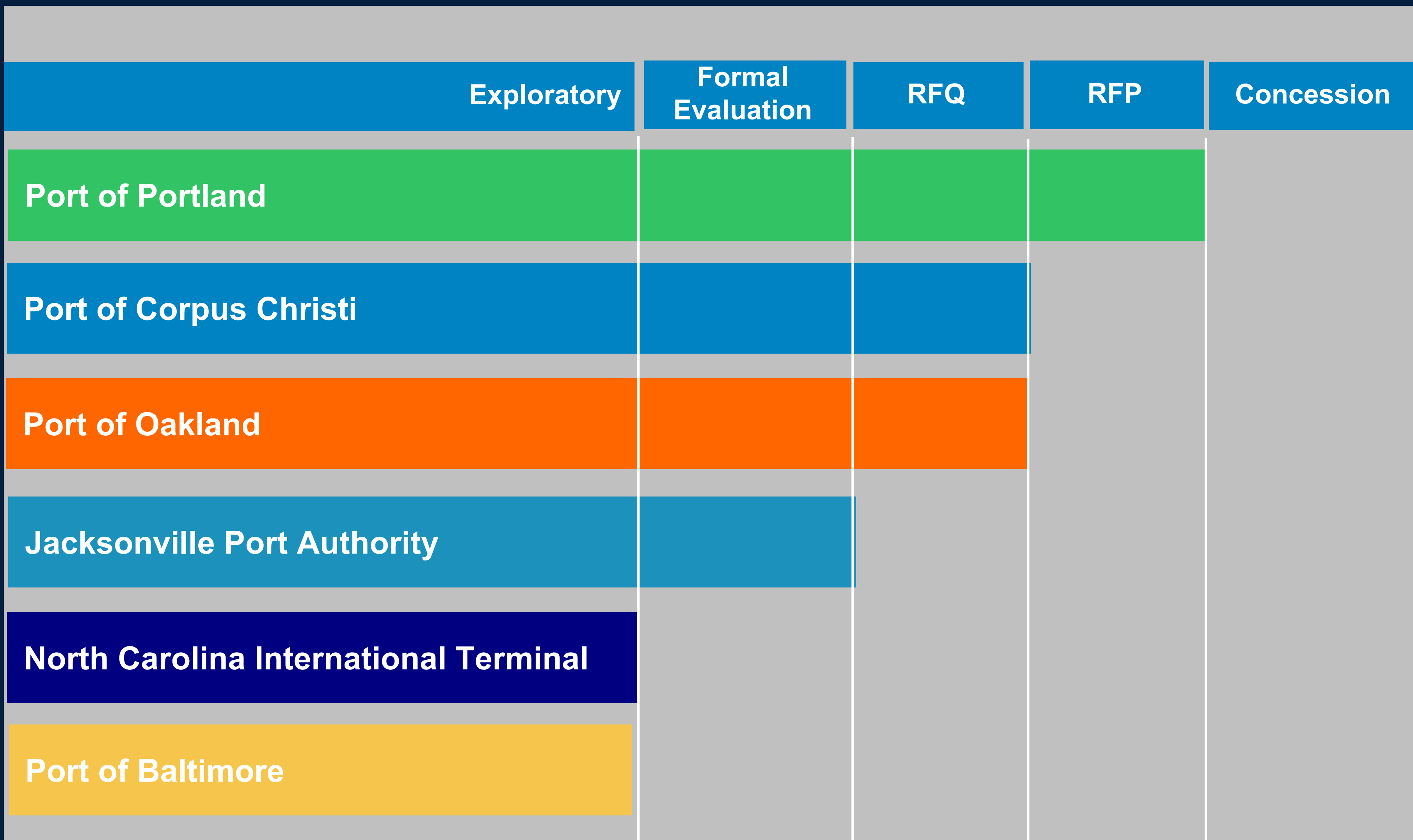
Strategic Investors – Shipping Lines, Terminal Operators

- Ports will be viewed as an opportunity to solidify or break into competitive market
- Key investment questions
  - Does port provide good rail connection and capacity to the residential and manufacturing centers of the U.S. Midwest?
  - 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

Several U.S. Ports Are Focused on Possible Long Term Concessions



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