

**AAPA Port Property Management and Pricing Seminar**  
**Toronto, Canada**  
**June 25, 2008**

**3:00 – 5:00 Hypothetical for Afternoon Session – Fact Summary**

Cast of Characters

Port of Hollowcoyne

**Tia Boxer**, Executive Director  
**Penny Meiser**, Chief Financial Officer  
**Mary Mason**, General Counsel

Brown, Underwood, Carter, Killian & Smoot (“BUCKS”)—Private fund manager

**Eloise Smoot**

Boxes International Group (“BIG”) (Marine terminal operator and possible tenant/operator)

**Bertha Packer**

Gordon, Riley & Lane (“GORRILA”)—Real estate developer

**Leona Lane**

Key Facts

1. Port has 3 container terminals under lease, with different expiration dates over the next 5-15 years.
2. Port recently acquired 300 acres of undeveloped land that are well-suited for a new container facility. There appears to be future demand for the terminal
3. The Port is financially constrained to pay for the full development of the new facility.
4. Boxes International Group (“BIG”) is partnering with Brown, Underwood, Carter Killian & Smoot (“BUCKS”) on a public/private partnership proposal to the Port.
5. The Port also owns a downtown parcel of land known as ZION that is unlikely to be used for traditional port uses.
6. The real estate development firm Gordon, Riley & Lane are interested in partnering with the Port to undertake an urban redevelopment of the ZION parcel.

The Port of Hollowcoyne is a public port in the state of Orleans. The Port is situated on a deep harbor that can accommodate the largest container vessels without dredging. The City of McKenna (population 500,000) surrounds the corporate boundaries of the Port and all permits for operations and construction must be obtained from the city. A board of port commissioners appointed by the county government is the governing body for the port. The city is largely blue-collar, but high-tech and biomedical companies have shown interest in locating there because of its proximity to the University of Orleans's research center and relatively inexpensive land. The city is in transition, with one of three 80 year old manufacturing centers shutting down the previous year and the other two looking shaky. The unemployment from the last factory shutdown has left the city's unemployment rate at 6% and the closure of the other manufacturing centers would hit the community very hard.

The Port is largely a gateway for cargo moving to inland population centers over 1,000 miles away. The Port has three container facilities that are leased. The terms of these leases will all expire between the next five to fifteen years. Container business for the Port has been steady and good for the economy as nearly ¼ of the jobs in the City are directly or indirectly related to the Port. Independent studies show that future container growth in containers is assured. The infrastructure supporting the Port container traffic (rail and highways) has been sufficient to support its container volumes. Port studies suggest that growth of container volumes may involve expanding that infrastructure.

The Port recently acquired nearly 300 acres of undeveloped land on one side of the harbor that has spectacular potential for a new container yard development. The initial estimate for the development cost, including the cost for building roads and bridges and other infrastructure outside the container yard but necessary for the container yard to function properly, is \$300 million (\$200 million for the container yard, and \$100 million for the non-container yard improvements). The Port's Chief Financial Officer, Penny Meiser, reports that while the Port has a sizeable bond capacity left, it's not enough to finance the entire project.

Penny is aware that private capital is available in the marketplace for funding public infrastructure projects through something called public-private partnerships. Looking over the Port's asset portfolios, she concludes that now is a good time to take a long-term look at the Port's facilities and to decide what options the Port should consider for future development of the existing terminals as well as how to develop the new terminal. Penny meets with her boss, Executive Director Tia Boxer (AKA "TEU Tia") to discuss the issue.

Boxes International Group ("BIG") is a large stevedoring and marine terminal operator, with headquarters in the United States. It has a number of new shipping line customers who are eager to open their own container ship rotations, with the Port of Hollowcoyne as their first port of call for imports into the U.S. They have never done business at the Port of Hollowcoyne. Bertha Packer, BIG's senior director of operations, is anxious to secure use of the new terminal if it ever gets built. Bertha sees the terminal as integral to BIG's long-term competitiveness. Bertha is troubled, however, that the Port isn't rushing to

build the new terminal because of possible financial constraints. BIG joins a long line of interested potential users of the facility in discussing how a deal might be done to get the new terminal built. BIG, while a healthy company financially, doesn't feel it has the cash to do the development on its own, so it begins to search for a financial partner to approach the Port.

Eloise Smoot, a partner at an investment firm known as Brown, Underwood, Carter, Killian & Smoot (aka BUCKS) read a trade journal describing the Port's predicament. Her firm has recently decided to diversify its portfolio of investments and has set aside \$1 billion for public infrastructure development. After discussing the article with her other partners, BUCKS staff begin the process of undertaking some quiet investigation of the Port and the merits of this project. They move quickly as they realize that their competitors are probably reading the same news reports and might get in ahead of them. Shortly after they begin their research, Eloise receives a call from a BIG representative, suggesting that they discuss the possibility of partnering on the project. After an intense but relatively brief due diligence exercise, the two companies decide to join forces and approach the Port with their proposal.

When the BIG/BUCKS group arrives to meet with Port representatives, they learn that other companies have been by to visit the Port with development proposals. The Port's Executive Director, Tia Boxer, has had a number of calls and visits about proposals to build the new container facility under a public/private partnership model. Other than the recent briefing she had from Penny, Tia is not familiar with the way this kind of arrangement works, so she turns to the Port's General Counsel, Mary Mason, and Penny to lead an internal task force to recommend a course of action to examine the Port's options. With Tia's consent, Penny and Mary agree that they intend to take a larger look at whether and how private capital can be used for all of the Port's assets.

In addition to its container facilities, the Port owns a 70 acre piece of land in the downtown area of the city on the waterfront. This area combines two neighborhoods known as the Zebulon Interurban and Overton Nodwig (aka "ZION"). ZION was part of the original Port holdings and was used for industrial purposes until recently, when most of the tenants, whose businesses were tied to the factory that closed down, chose not to renew their leases. The city is devastated by the loss of these businesses, as it leaves a large hole in the downtown core. The Port commissions a study that shows ZION probably isn't feasible for further industrial uses, but that the highest and best uses might be in areas of commercial, retail, and even residential.

There are significant challenges on the site, however, not the least of which is contamination left behind by the previous tenants. The Port's preliminary investigation shows the contamination to be concentrated in two distinct portions of the site. State law requires that any time development or construction occurs, a contaminated site must either be remediated or capped sufficiently to prevent the further dispersal of the contaminants.

The City is enthusiastic for such a project as it would revitalize its downtown core and developers begin approaching the city and the Port with presentations and expensive models showing the kinds of developments that would be possible. The ensuing brawl that erupts among and between staff and the governing board within the Port over the future of ZION makes headlines. Thanks to generous public disclosure laws, staff memos and notes shine a light on the bitter debates raging within the Port whether or not such a development venture would take the Port outside of its core mission which for years has focused on marine transportation and industrial development. On the other side, ZION development proponents believe the site can generate significant cash flow for the Port as well as giving the city a much needed shot in the arm. The developers' correspondence and artists' renditions also make their way into the paper after a public disclosure request, much to the developers' consternation. The City uses the buzz created by these reports to push a vision of a large public meeting area with lots of green parks and waterfront vistas. The Port is miffed that the City issued these ideas without discussing them with the Port.

Leona Lane, a principal with the nationally known real estate development firm of Gordon, Riley & Lane (aka "GORRILA" to its many detractors), reads the same news article and is intrigued with the possibility of urban revitalization in the city of McKenna. She assembles a project team and begins to get engaged in the financials and risks involved in this project. They come up with several proposals, consisting of different mixes of commercial, retail, and condominiums. One issue which jumps out right away is the fact that Orleman state law limits the length of leases to 40 years. Ms. Lane also reads an article online about a couple of new citizen groups that have formed around the development. There's the "Save ZION From Perdition" group which is dedicated to maintaining the historic character of the ZION site. There's also a group that is pushing for the establishment of a new museum on the site, featuring displays of different kinds of boats. Ms. Lane shifts uncomfortably in her chair...