American Association of Port Authorities

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

Shifting International Trade Routes - *Finding Private Capital in Today's Economy*

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Morgan Stanley

Supply of Funds: Observations

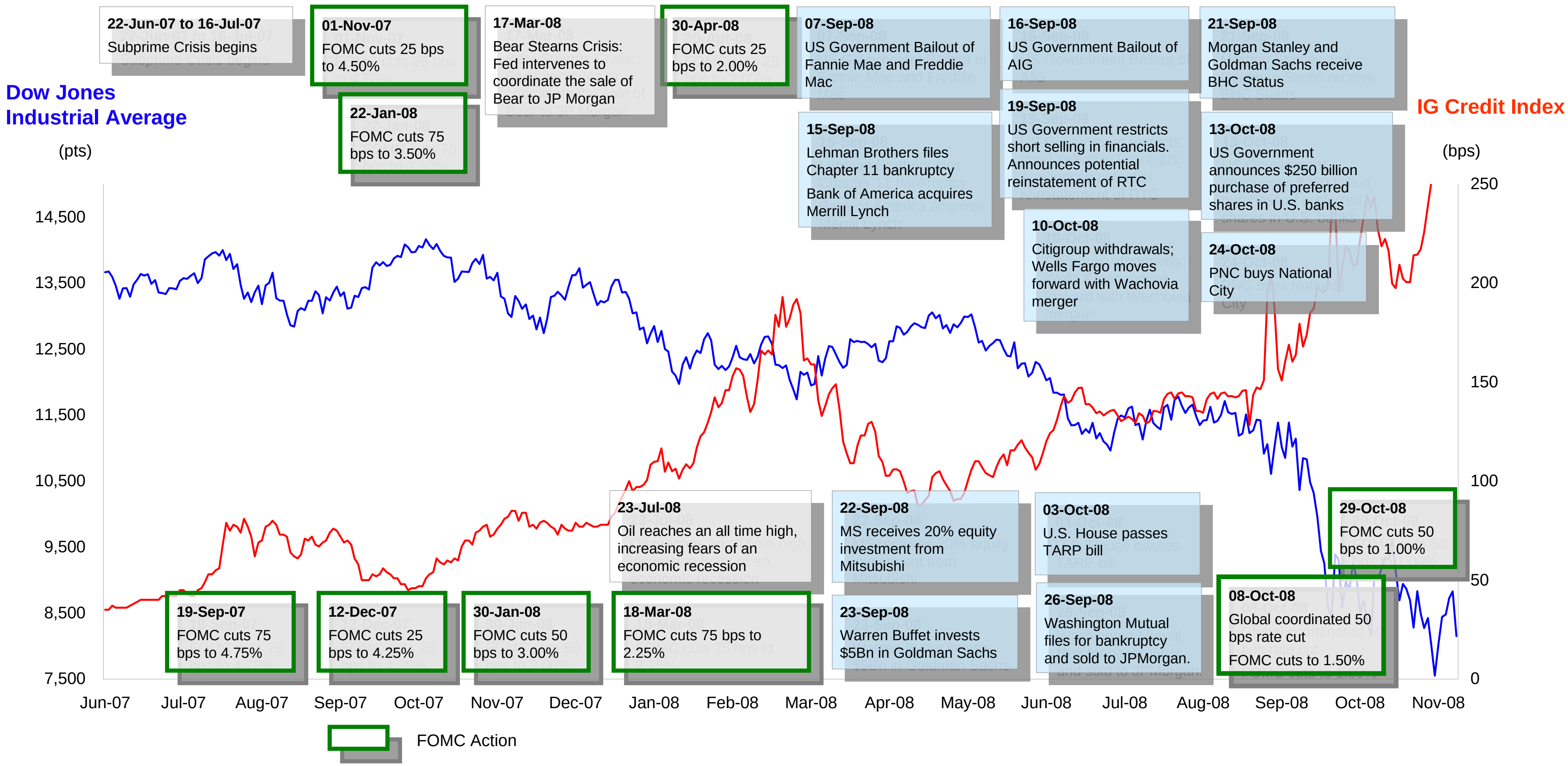
- Traditional funding sources are available, but may not be sufficient to meet mounting infrastructure needs on and off port property
  - Port operating revenues are likely to come under pressure in 2009
  - Private equity is in abundant supply but credit terms are more rigid

- Financing options are more expensive in midst of global financial crisis
  - Municipal bond market is functioning again
  - Stand-alone project financings are challenging to complete
  - Public-private partnerships remain an option, but also challenging

- Potential new or increased funding sources include:
  - Federal stimulus moneys for “ready-to-go” projects in the short term
  - Reauthorization of the transportation bill, which expires in October 2009, will determine longer term funding levels
  - Ports can expect to compete with other sectors (health care, energy, education, highways) for a share of those funds

The Credit Crunch, 18 Months Later

Extreme Market Volatility; Credit Spreads Widen



Source Bloomberg

Notes

1. As of December 1, 2008
2. IG Credit Index consists of 125 investment grade entities in North America and measures costs to protect against issuer default

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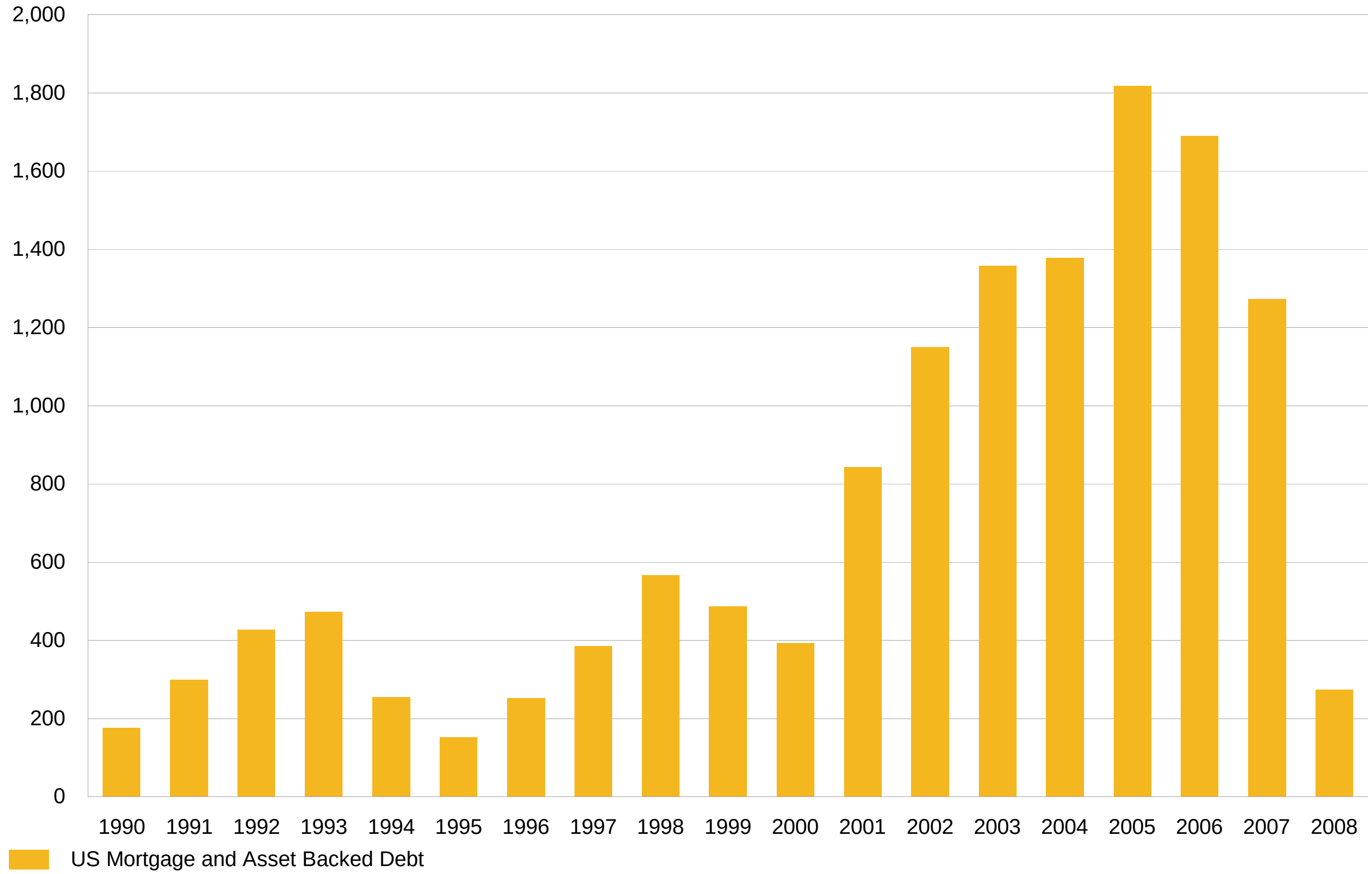
Growth in, Then Demise of, Securitization Market

- Asset securitization rose dramatically since the late 1990s
- Funding of mortgages shifted from primarily a bank function to a global capital market function
- Investor demand for higher yields led to origination of lower credit quality mortgages – sub-prime and Alt-A
- Increased delinquencies led to global write-downs of mortgage assets
- Mortgage and asset-backed securitization market returns to pre-boom levels

Mortgage and Asset-Backed Securitization Issuance

1990 to Present

($ billions)



Source Thomson Financial

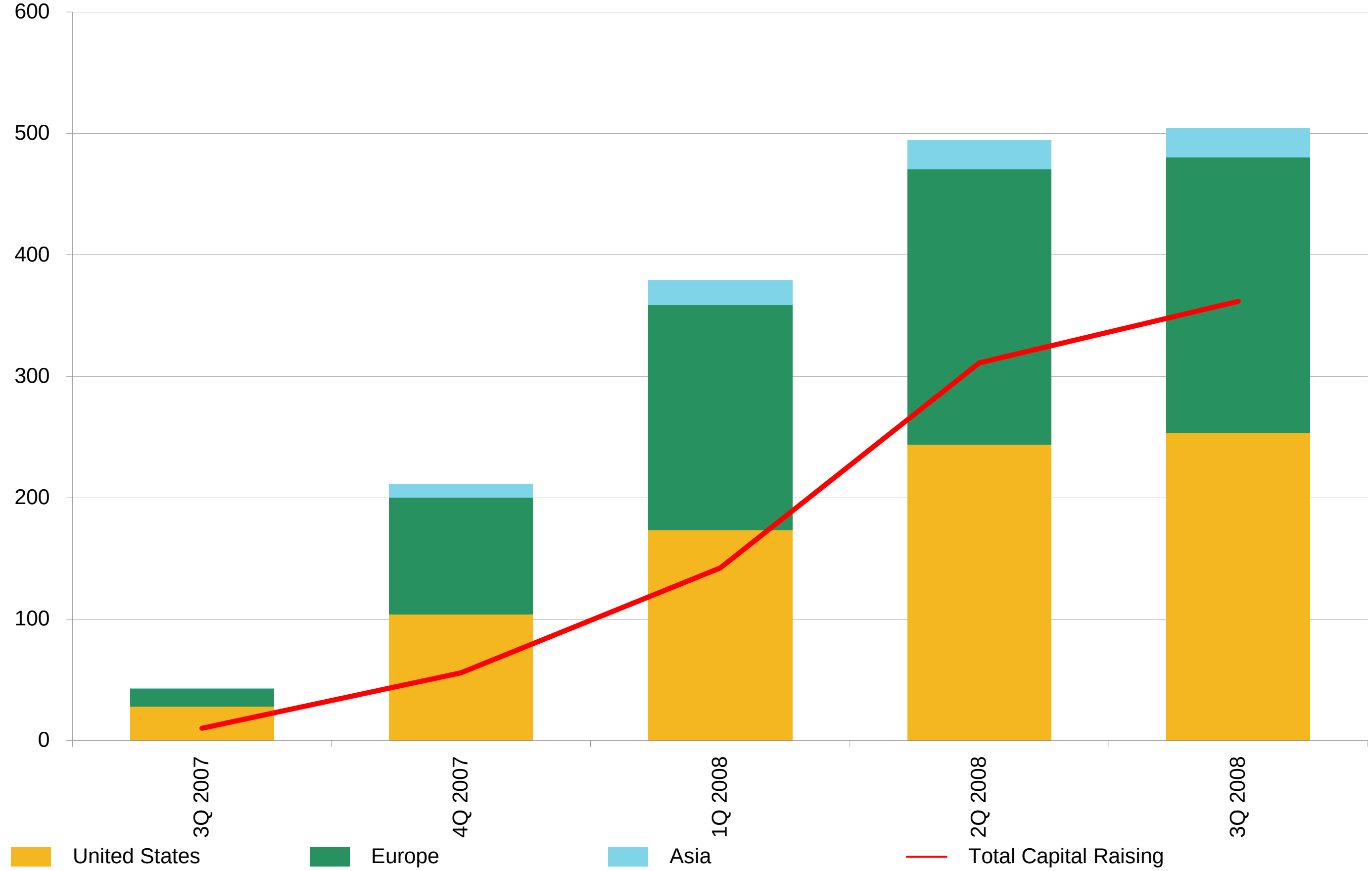
Credit Crisis Caused Large Write-downs

- Since the beginning of 2007, banks have announced over $500 billion of write-downs
- Write-downs have been global
- Large amount of write-downs have reduced capital available for lending
- Capital constraints at broker dealers have affected secondary market liquidity in most financial markets

Cumulative Write-Downs by Region and Total Capital Raising by Financial Institutions

3Q 2007 to Present

($ billions)



Source Bloomberg

Bank Credit Default Spreads Widened

- As banks have announced further write-downs, credit default swap spreads have widened
- Increased credit default swap spreads have increased bank funding costs
- Increase bank fund costs have increased cost to municipalities
  - Underwriting Fees
  - Swap Unwinds
  - Hedges

Financial Sector Credit Default Swap Spreads

2007 to Present

Source Bloomberg

Investment Banks Change Their Operating Model

- Federal government approved on September 21st the applications of Goldman Sachs and Morgan Stanley to become bank holding companies

- Move from Investment Banks to Bank Holding Companies
  - Provides additional access to Fed window
  - Allows for a stable deposit base
  - Federal Reserve granted greater oversight over investment banking operations

Troubled Asset Relief Plan (TARP)

- Dramatic inter-day volatility began the week of September 15
  - Lehman bankruptcy
  - Merrill sale to Bank of America
  - Fed bailout of AIG
  - Fed conservatorship of Fannie and Freddie
  - Flight to quality/crisis of confidence
  - Short-term liquidity crunch

- Established by federal government to buy troubled assets
- Banks: Capital to remove troubled assets from leveraged lenders
- Money-market funds: Insurance and liquidity backstops
- Short-selling ban on 800 financial services names
- Liquidity: Expanded both eligible collateral and supply, foreign swap lines

Treasury Rates Reach Historical Lows

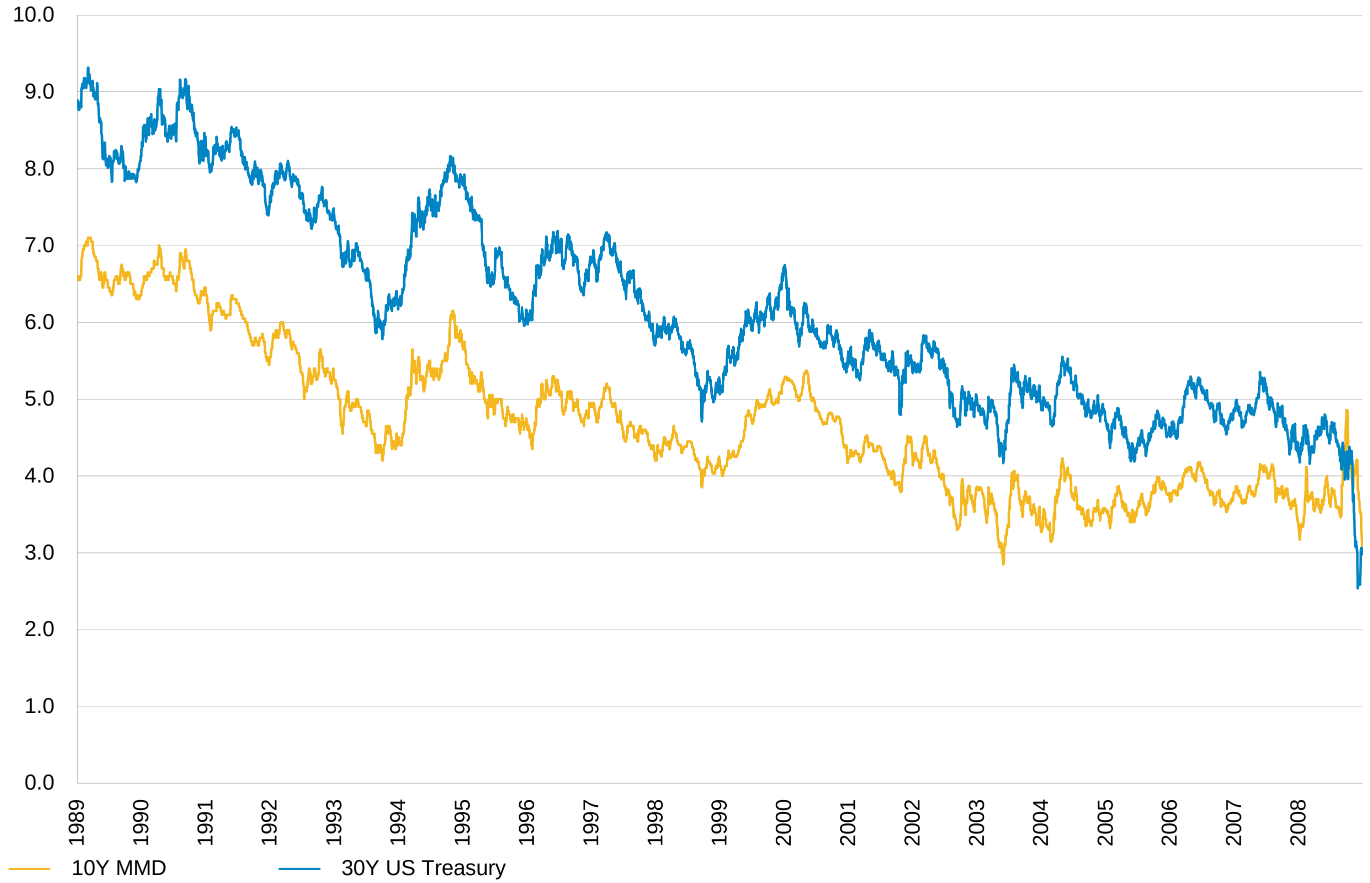
As of January 12, 2009

- Flight to quality continued through the end of 2008 as investors sought a safe haven from equity and other fixed income markets

30Y Treasuries vs. 10Y MMD

1/1/1999-Current

Percent



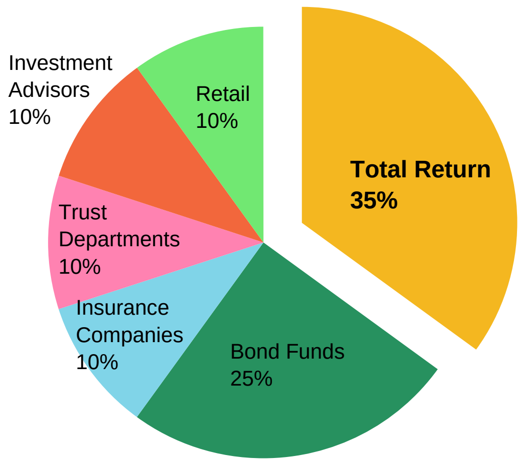
Source MuniMon

Impact on Municipal Market: Retail Buyers Dominate

2007 vs. 2008

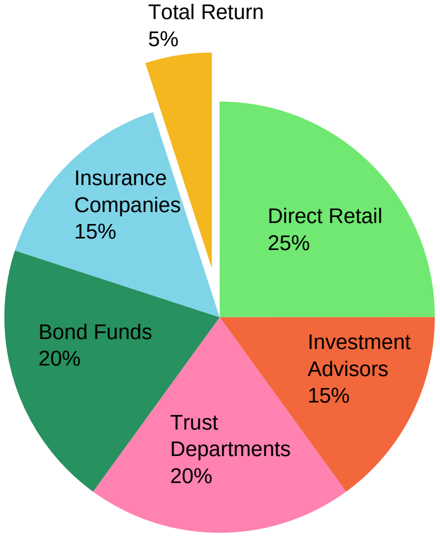
- Total return buyers (hedge funds, tender options buyers, etc) have severely reduced their holdings in the municipal market as they have been forced to de-lever
- In 2007 investors perceived municipals as interest rate products for leveraged arbitrage
- In 2008 and into 2009, investors perceive municipals with regards to credit and investment

2007 Long-Term Buyers



Source Morgan Stanley

2008 Long-Term Buyers



Source Morgan Stanley

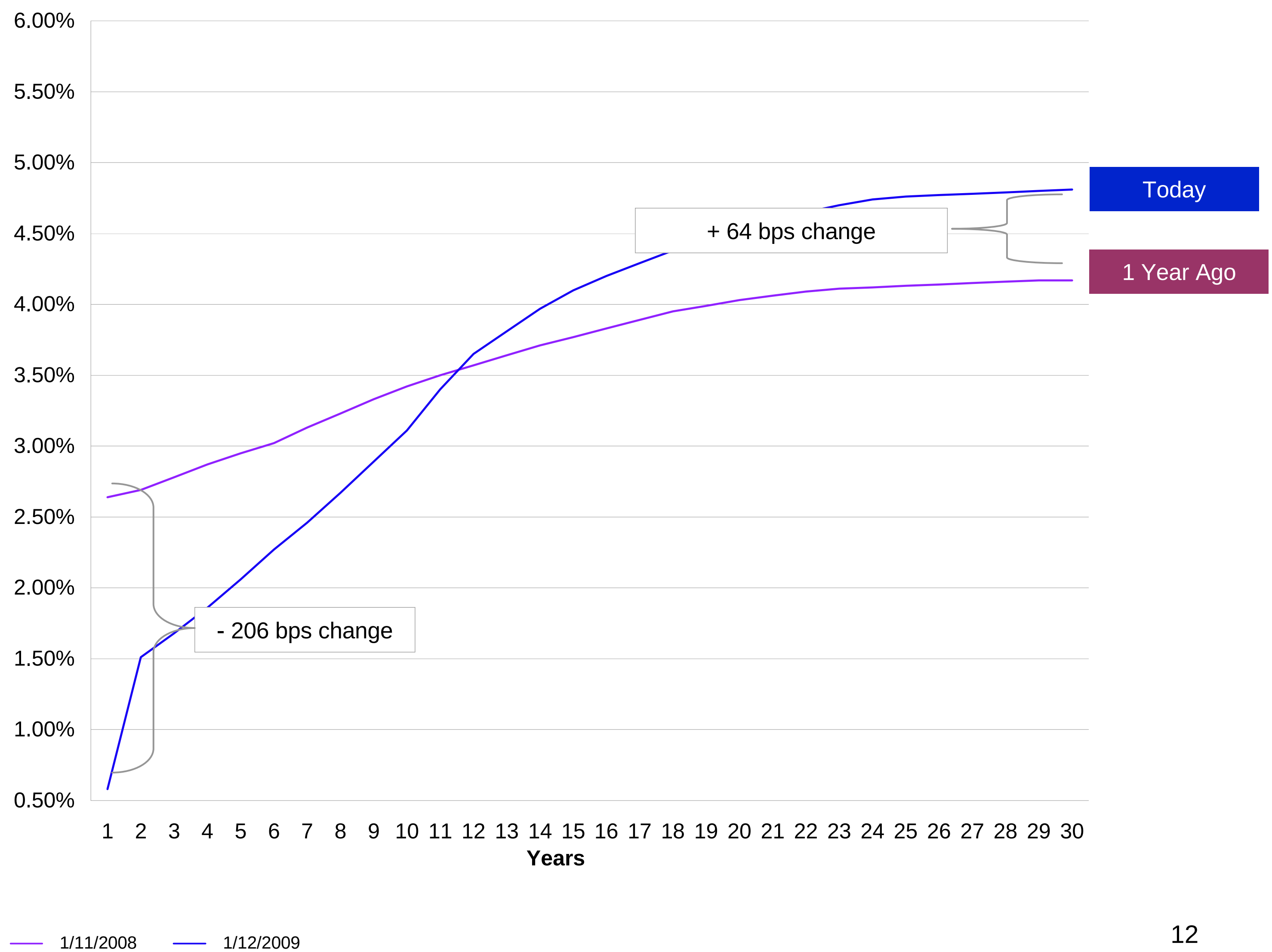
Retail = Direct Retail + Investment Advisors + Trust Departments

The Municipal Yield Curve Has Steepened

As of January 12, 2009

- The municipal yield curve has steepened dramatically
  - The spread between the 1-year and 30-year MMD has widened to 423 basis points compared to 153 basis points one year ago

Shift in Municipal Market Data Yield Curve (MMD)

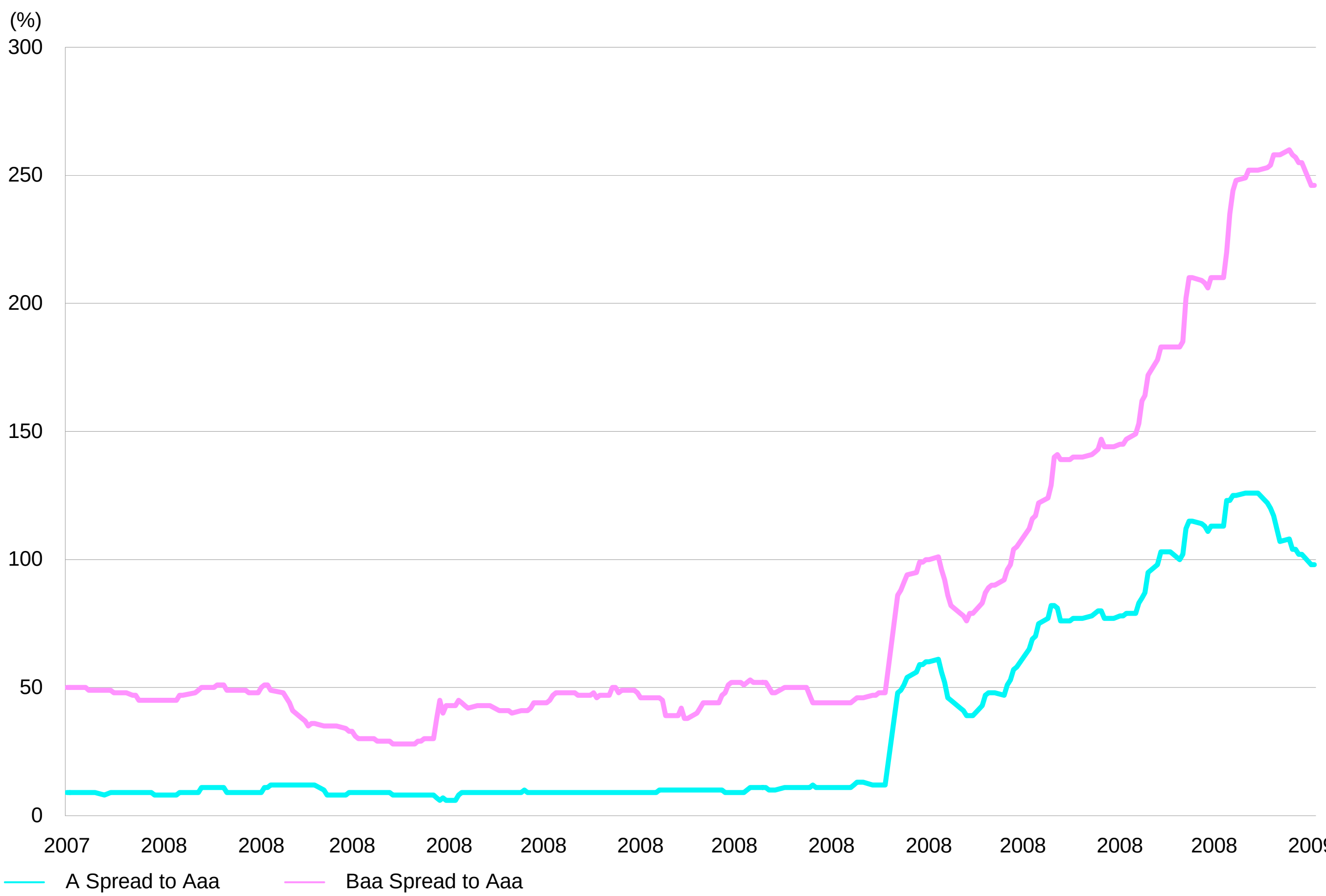


Credit Spreads Are At Historically High Levels

- The spreads of Baa and A General Obligation MMD to Aaa MMD have increased significantly since the credit crisis began
- Aa MMD spreads to Aaa have remained stable
- Municipal issuance is now segmented into the “haves,” Aa and better, and “have nots,” A and below

30-Year General Obligation MMD Spreads

2007 to Present



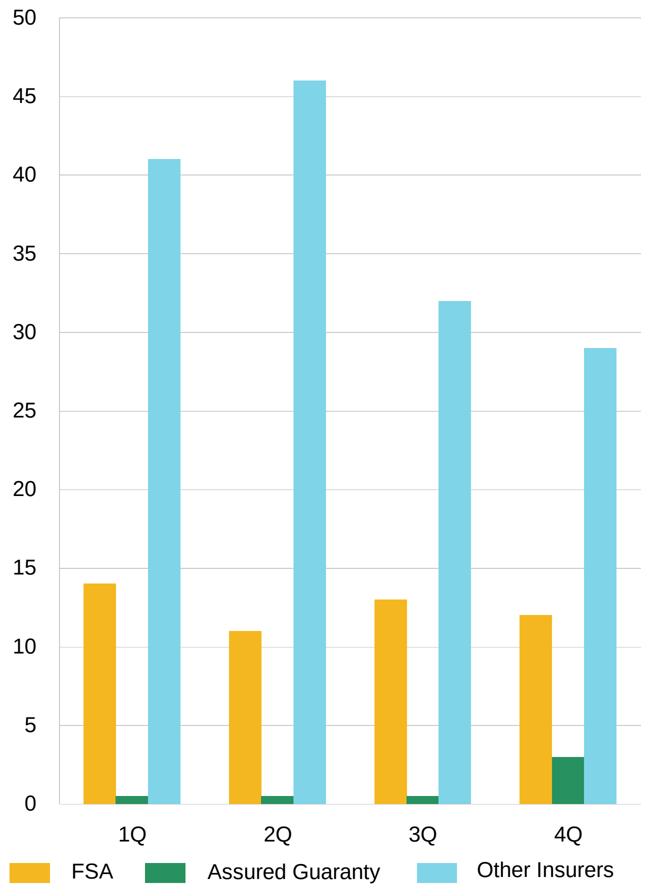
Source MuniMon

Insurance Use by Municipals Has Dissolved

- As the bond insurers suffered from souring mortgage investments, rating agencies cut ratings across the sector
- 18 months ago, all bond insurers were AAA-rated
- Insurance use decreased dramatically in fixed-rate market
- Municipal issuers can no longer rely on bond insurance for borrowing
- YTD in 2008, only 19% of municipal financings have utilized bond insurance while 39% of financings through the same period in 2007 were insured

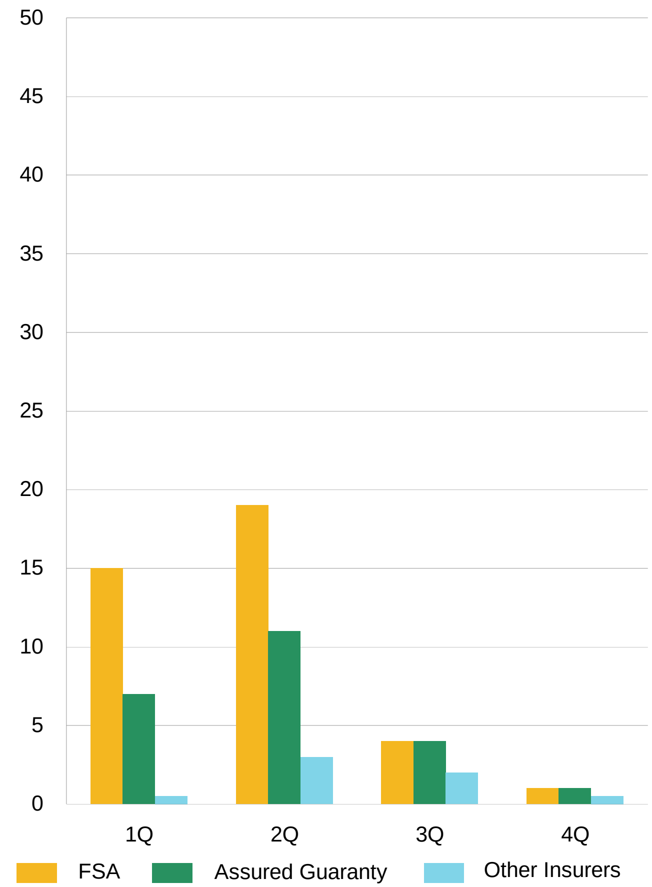
Quarterly Bond Insurer Activity 2007

$MM



Quarterly Bond Insurer Activity 2008

$MM



Source The Bond Buyer

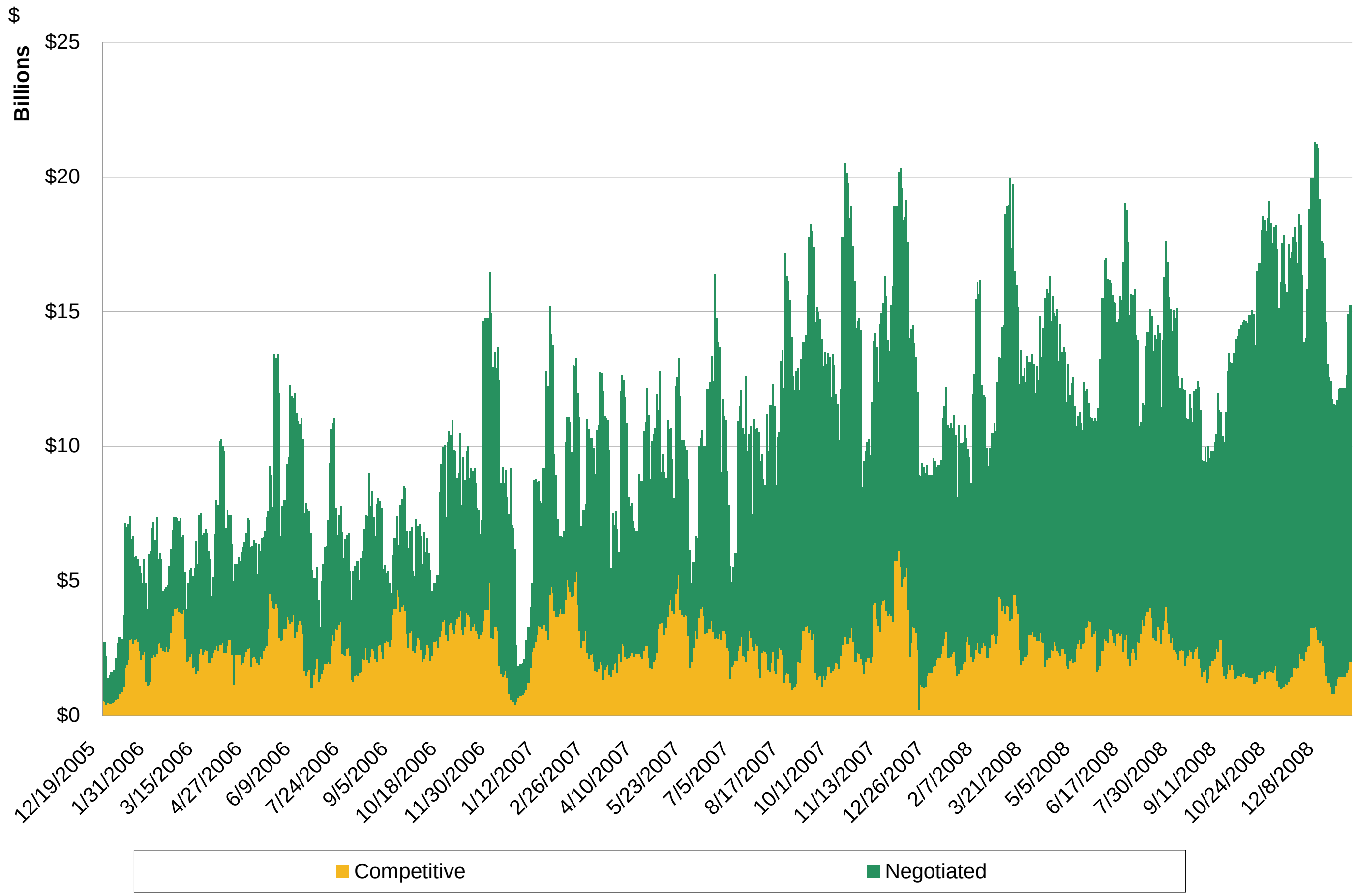
Large Backlog of Deals on the Horizon

Large Supply Could Add Upward Pressure on Capital Costs

- The Bond Buyer Visible Supply Index, which is a daily measure of the aggregate amount of new issues scheduled to be issued within the upcoming 30 days, recently has spiked above historical levels
- Elevated supply in the primary market, combined with the decreased demand for municipal bonds, has placed upward pressure on rates for issuers
- As of January 2, 2009, there is approximately $15.2 billion of bonds scheduled to come to market over the next 30 days
- Notably competitive supply has declined below historical peak levels
- Many ports and airports have been frozen out of the capital markets as investors have shied away from AMT bonds
  – No AMT bonds of significant size since September 2008

Bond Buyer Visible Supply Index

Past Three Years



Source The Bond Buyer

Flexibility Remains Key for Port Market Access

- Ports may want to review their capital improvement programs to determine:
  - Essentiality of projects
  - Timing of funding needs
- Essential projects should be funded sooner while the capital market continues to function, and not risk waiting as the market may close again
- Non-essential projects may be deferred for more favorable market conditions

Market Development	***Implications for Port Issuers***
High Market Volatility	Remaining flexible with timing and structure of bonds
Investors Focused on Underlying Credit	Actively market credit to attract buyers; Buyers are not guaranteed
Yield Curve Steepening	Funding in more than one transaction may help reduce negative arbitrage in construction funds
Lagging MMD Benchmark	Establish an interest cost threshold; Get “market ready”
Changing Investor Makeup	Consider retail order period, retail-focused marketing plan and non-traditional buyer bases

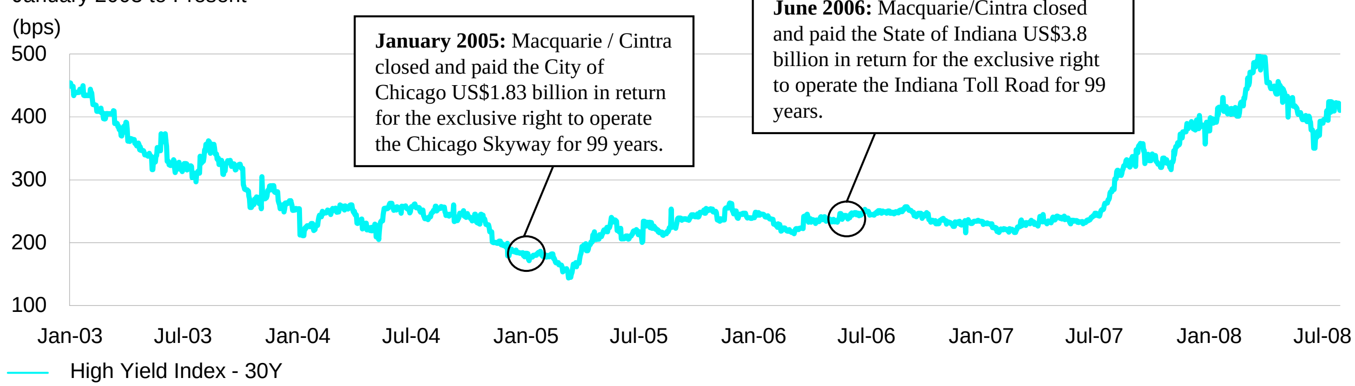
PPPs Affected by Global Credit Crisis

- Current market allows less leverage and has higher capital costs

- Private investors finance their Public-Private Partnership projects using a combination of debt and equity
  - Debt is generally less expensive than equity
  - In strong credit markets, 80/20 debt to equity
  - In weaker credit markets, 50/50 debt to equity
- Recent market conditions make PPP projects more expensive
- The high yield market has been largely closed for issues of significant size:
  - Taxable high yield volume has fallen from $40.5 billion in 2007 to $14.9 billion in 2008

Spread of 30 Year Taxable High Yield Corporate Bonds to 30 Year Treasury

January 2003 to Present



Source Bloomberg

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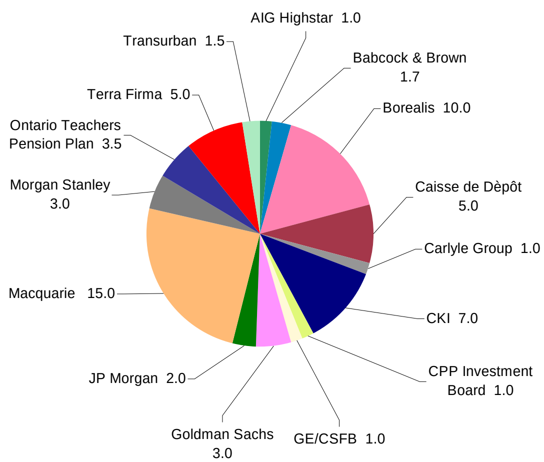
Infrastructure Equity Capital Has Doubled Since 2006

- Since 2006, over $500 Bn of incremental levered purchasing power has been generated for infrastructure

Infrastructure Equity Capital – 2006E

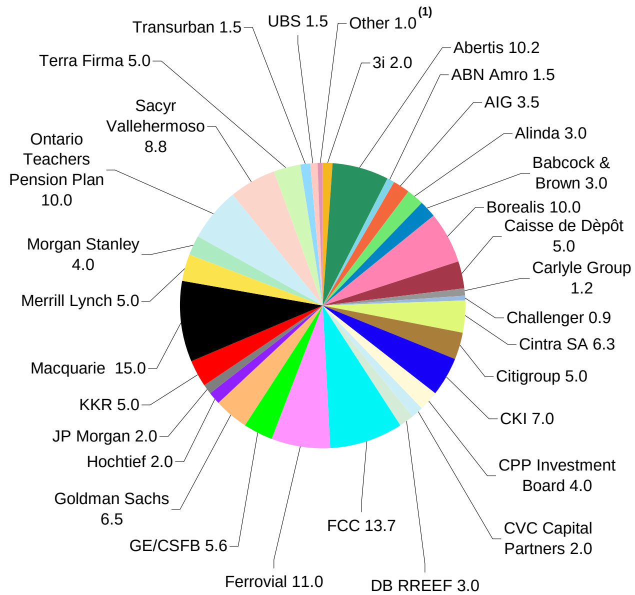
~$60 Bn



Infrastructure Funds: ~15
Available Equity Capital: ~$60 Bn
Levered Purchasing Power: ~$300 Bn[2]

Infrastructure Equity Capital – 2008E

~$165 Bn



Infrastructure Funds: >30
Available Equity Capital: ~$165 Bn
Levered Purchasing Power: ~$825 Bn[2]

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Notes
1. "Other" includes Lehman Brothers, John Laing and other firms
2. Estimated fund sizes levered at 80% debt-to-capitalization

Credit Fundamentals Remain Strong for Many Ports

Strategic Investors – Shipping Lines, Terminal Operators

- Ports are 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
  - –Growth prospects

PPPs Affected by Global Financial Crisis

Selected Key PPP Impacts of the Global Financial Crisis

	Pre-Credit Crisis	Post-Credit Crisis
Debt	• Aggressive lending practices across asset classes, including ports, power, water, & surface transportation • Up to 80% debt-to-capitalization permitted for high quality brownfield infrastructure assets	• While credit spreads have widened, lenders are still willing to fund high quality U.S. assets • 50 / 50 debt to equity ratio for most brownfield assets • Greenfield projects are challenging
Equity	• Returns modeled off growth scenarios • Oil super-cycle risks not fully appreciated • Approx. ~$35 Bn of new infrastructure equity capital raised in 2007(1)	• Returns modeled in light of stress tests and downside cases • Oil at ~$150/barrel recalibrated interest in transport assets • Over $21 Bn raised in the first 9-months of 2008 (> 2006)(1)
Market Focus/ Awareness	• Fast-growing sector, but secondary to traditional private equity / LBO markets • Politically charged brownfield and greenfield initiatives impacted market acceptance	• Market awareness is high and very positive • Federal stimulus package likely to include funds for infrastructure projects

1. Probitas Partners – Infrastructure Market Review & Institutional Investor Survey – October 2008.

Terminal 6 at the Port of Portland Is On Hold

Key Investment Highlights

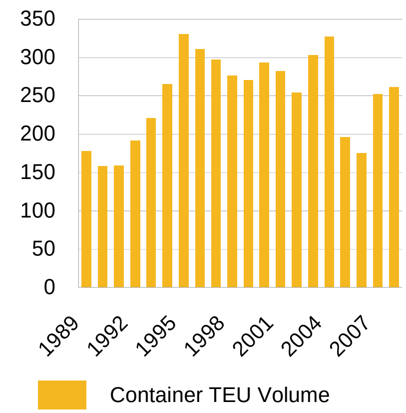
- 33-Year Operating History
  - Current throughput capacity of 700,000 TEU[1]
- Platform for Throughput Growth
  - T-6 Development Plan, leading to 2 million TEU capacity
- Positioned in a Region of Economic Vitality
  - Major international distribution centers located in region
- Direct Rail and Highway Access
  - BN, UP river-grade mainline rail routes; I-5 and I-84 proximity
- Local Market Share Capture
  - Capture cargo volumes flowing through other West Coast ports
- Cost Competitive Port of Entry
  - Key Midwest markets, including Kansas City and Chicago
- Complementary Inland Barging Services
  - Weekly inland service on second-largest river system in the United States

Terminal 6 Facility Operations

Business Line	Acres	Description	
Container Facility	175.3	• 261,017 TEU (FY08) • 3 vessel berths (2,850´) • 9 cranes • 82 acres storage space	
Breakbulk/ Steel	17.0	• Import business • 20 vessel calls • ~800K short-tons	
Automobile/ Ro-Ro	227.2	• Auto Warehousing Corp. (160.5 acres) • Honda (61.3 acres)	

Historical Container Volume

FY1988-2008

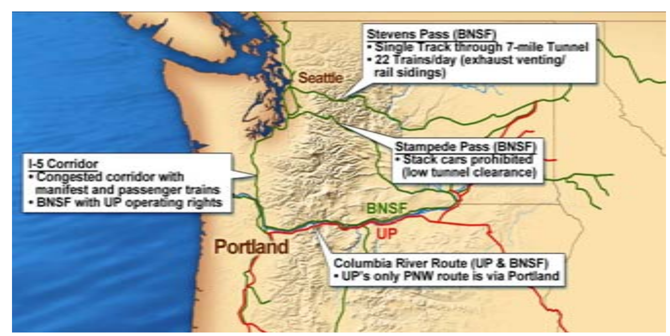


Shipping, Rail & Inland Barge Connectivity

- Railroads with direct access to on-dock intermodal yard include Burlington Northern Sante Fe & Union Pacific
- Ocean carriers currently calling at Terminal 6 include the CKYH Alliance & Hapag-Lloyd
- Container barging serving the hinterland provides significant cost savings versus trucking

Rail Access

Only River-Grade Rail Corridor in the Pacific Northwest



1. TEU is a customary measure of container traffic in the shipping industry. A TEU is equal to one 20-foot container or its equivalent

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Investors Focused on High Quality Assets

Chicago Midway International Airport ($2.52 Bn Transaction Announced September 30, 2008)

- The 99-year concession lease of Chicago's Midway Airport is the first privatization of a major U.S. airport
- The transaction is enabled by the Federal Aviation Administration's (FAA) Airport Privatization Program, adopted by statute in 1996
- Proceeds will be used to defease approximately $1.3 Bn of outstanding Midway Airport debt
- Illinois state law requires that 90% of the proceeds after debt defeasance be used for infrastructure investments
  - $1 Bn of Midway net proceeds will be devoted to infrastructure
  - The remaining 10% is unrestricted
  - As of transaction announcement, the City did not specify the intended use of these available funds

Transaction Overview

- On 30 September 2008, the City of Chicago announced that the Midway Investment and Development Company, LLC consortium is the winning bidder of a 99-year concession lease of Chicago Midway Int'l Airport
- Four of the 5 airlines operating at the airport signed a new 25-year airport use agreement which will be honored by the concessionaire
  - The signatory airlines (Southwest, AirTran, Delta, and Northwest) represent over 80% of the airlines and over 95% of the traffic at Midway
- The transaction requires FAA, TSA and Chicago City Council approval prior to closing

Consortium Description

Memeber	Description
YVR	• Owns and operates 18 airports in seven countries including Canada • 50% owned by Vancouver Airport Authority, with the remainder owned by CII
citi	• Infrastructure fund founded in 2007 as part of Citi Alternative Investments • Total estimated equity of up to $5 Bn being raised
John Hancock	• Part of John Hancock Financial Services, a unit of Manulife Financial Corporation of Canada • Serves millions of customers in 19 countries and territories worldwide

Key Transaction Terms

Term	99 years
Airline Agreement	Concessionaire must assume new 25-year use agreement with airlines
Airline Rates	Caps airline rates and charges at a level below 2008 charges and frozen for 6 years, after which fees can be raised by no more than "core CPI"[1]
Employees	Airport's 190 employees are offered "substantially similar" jobs at comparable pay
Improvements	Airport improvements are completed as part of strict operating standards; Concessionaire may raise rates to reflect capex only with airline approval unless federally-required

Notes
1. 'Core CPI' is total CPI excluding food and energy costs.

Investors Focused on High Quality Assets

Chicago Metered Parking System, $1.16 Bn Transaction Announced Dec 2008)

- On December 2, 2008, the City of Chicago announced a $1.157 Bn privatization of its metered parking system with a private consortium consisting of Morgan Stanley Infrastructure Partners and LAZ Parking

Asset Description

2nd Largest Municipal Metered Parking Operation in U.S.

City Operations

- Portfolio includes 126 "Pay and Display" machines, ~31,207 electronic and mechanized single-bay parking meters and ~1,427 electronic double-bay parking meters capable of metering ~34,327 on-street parking spaces and 17 metered parking lots containing ~1,215 spaces

Park District Operations

- Assets include 5 "Pay and Display" machines and 327 single-bay electronic parking meters capable of metering ~547 spaces located in parks along or near Chicago's lakefront

Source P3Americas

Historical Financial Performance[1]

$MM

	2003	2004	2005	2006	2007
Operating Revenue	$19.7	$18.9	$19.1	$21.9	$22.9
% Growth	*N/A*	*-4.1%*	*1.1%*	*14.7%*	*4.6%*
Operating Expenses	3.7	5.3	4.4	5.4	4.0
% Growth	*N/A*	*43.2%*	*-17.0%*	*22.7%*	*-25.9%*
EBITDA	**$15.9**	**$13.6**	**$14.8**	**$16.6**	**$18.9**
% Margin	***81%***	***72%***	***77%***	***76%***	***83%***

Source: City of Chicago, Chicago Park District

1. Excludes All Parking Enforcement Revenues

Selected Transaction Milestones

Long-Term Concession Process

Feb. 2008
City releases RFQ for the concession for the metered parking system

Mar. 2008
City receives Statements of Qualifications (SOQs) from 10 teams

Apr.-May 2008
Bidder due diligence period begins (incl. management presentations & tours)

Spring-Summer '08
Various legal issues arise (competition, road maintenance, enforcement, congestion pricing, etc.)

Nov. 21, 2008
Binding Bids submitted to the City; Best-and-Final Offer (BAFO) round triggered due to narrow bid spread

Dec. 2, 2008
MSIP and LAZ Parking announced as winning consortium with a bid price of $1.157 Bn for a 75-year lease

Feb 2008 | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec 2008

Conclusions

- Financing sources are available, but more selective and more expensive than 1 year ago
- U.S. municipal market is functioning again and continues to stabilize
  - Access to the bond market is no longer guaranteed
  - Strong investor preference for Aa or better credits
  - Lower rated tax-exempt, AMT and taxable bonds remain challenging and more expensive
- PPPs and long term concessions remain a viable option for ports
  - Strategic investors likely to have a more prominent role
  - Some financial firms could be sidelined for a period
- Federal stimulus package could present additional funding opportunity for ports with "ready-to-go" projects
  - Funding distribution likely to come through existing channels
  - State matching requirement expected to be reduced or waived
  - Ports will compete with other sectors (health care, education, highways) for a share of the funding