American Association of Ports Authorities

Trends and New Approaches In Port Financing

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Presentation Topics

- P3 101 Review
- Overview of Current Conditions in the P3 Market
- Current Trends for P3 Transactions

P3 101 REVIEW

Why do Public-Private Partnership?

- Encouraging private entrepreneurial development and operation of transportation infrastructure and related assets;
- Accelerating the implementation of high priority projects by packaging and procuring services in new ways;
- Increase operational efficiency by allowing the private sector to provide specialized management capacity for large and complex programs;
- Consolidation of similar asset classes under a single management program; and/or
- Enhance financing capacity by inviting private sector expertise in accessing and organizing project financing techniques.

P3 Investors Fundamentally Differ from Bondholders

- **Bondholders are passive lenders**
  - Seek timely payment of principal and interest
  - Investment decisions are based on third-party evaluations and “done deals”
  - Rating agencies and credit enhancement are key
- **P3 investors are active business partners**
  - P3 investor wants to manage the project
  - Interested in profit, in equity return, in risk allocation and in regulation
  - P3 investor will perform their own technical due diligence
  - The project & the business structure creates the credit, which in turn defines the financing options

Creditworthiness Still Matters - Seaport Credit Attributes

- **Market Position**
  - Location and local economy
  - Importers and distribution centers
  - Measuring Demand
- **Structural and Operational Factors**
  - Governance structure
  - Scope and nature of operations
  - Operating structure
  - Facilities, capacity, and transportation infrastructure
  - Cargo mix
  - Major trading partners
  - Major shipping lines and alliances
  - Labor relations and productivity
- **Financial Factors**
  - Financial performance
  - Operating & non-operating revenues
  - Revenue stability
  - Revenue diversity
  - Debt service coverage
  - Expense drivers
- **Debt Position and Capital Plan**
  - Debt levels
  - Capital and financing plans
  - Debt security & structure
- **Management and Business Strategy**
  - Responses to industry risks
  - Budgeting practices

P3 Business Considerations

Partnership Agreement	• Business terms, duration and termination options • Control of design/construction and mitigation • Delays, dispute resolution and liquidated damages • Capital expenditures over concession term • Change of control
Revenue	•Market forecast & projected revenues •Existing contracts & MAGs •Risk Assessment & Competition •Revenue sharing among parties
Operating Costs	• Automation & technology • Maintenance standards • Labor • Security/Regulatory
Financial	• Type of debt used & leverage ratios • Debt covenants & reserves • Refinancing restrictions • ROE estimated returns & any limitations

OVERVIEW OF CURRENT CONDITIONS IN THE P3 MARKET

Top Infrastructure Funds

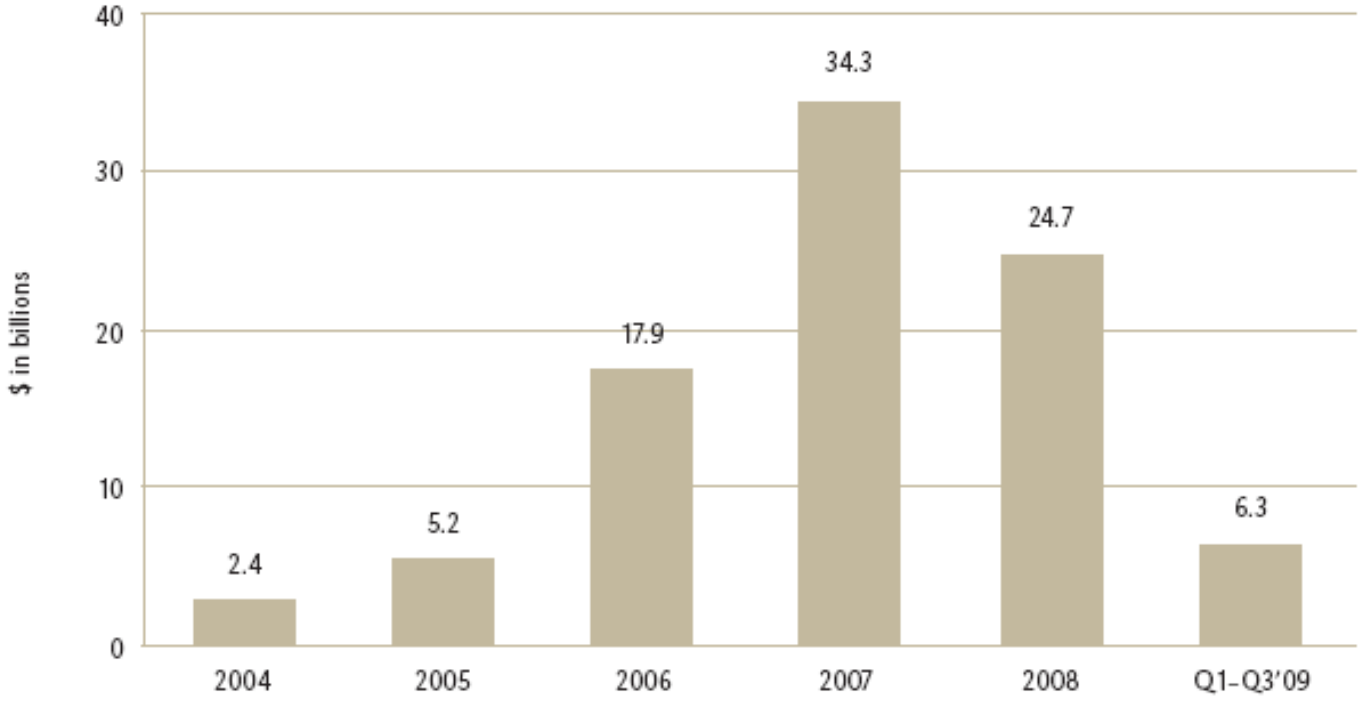
Top Infrastructure Funds Globally		
Rank	**Investor**	**US$bn**
1	Macquarie Group	$ 60.7
2	Goldman Sachs	$ 9.1
3	Alinda Capital Partners	$ 7.0
4	Industry Funds Management	$ 7.0
5	Ontario Municipal Employees Retirement System	$ 6.2
6	Caisse de depot et placement du Quebec	$ 6.1
7	Brookfield Asset Management	$ 5.8
8	Global Infrastructure Partners	$ 5.6
9	Ontario Teachers Pension Plan	$ 4.9
10	Highstar Capital	$ 4.3
11	Canada Pension Plan Investment Board	$ 4.3
12	Morgan Stanley	$ 4.0
13	Arcus Infrastructure Partners	$ 3.6
14	Citi Infrastructure Investors	$ 3.4
15	ABP	$ 3.2

Equity Terms

- Investments from $20M - $2B
- Expected returns 10-20%
- Some prefer high leverage, i.e. substantial debt component
- Others take on more market risk, especially “smaller” projects
- Pension-backed funds take a longer approach – 20, 50 or more years
- Firms with less leverage look to take on volume/demand risk
- Conservative funds seek availability payments, especially after poor performance of major projects including ports
- Some partner with developers, seek projects with construction component

Global Infrastructure Fundraising

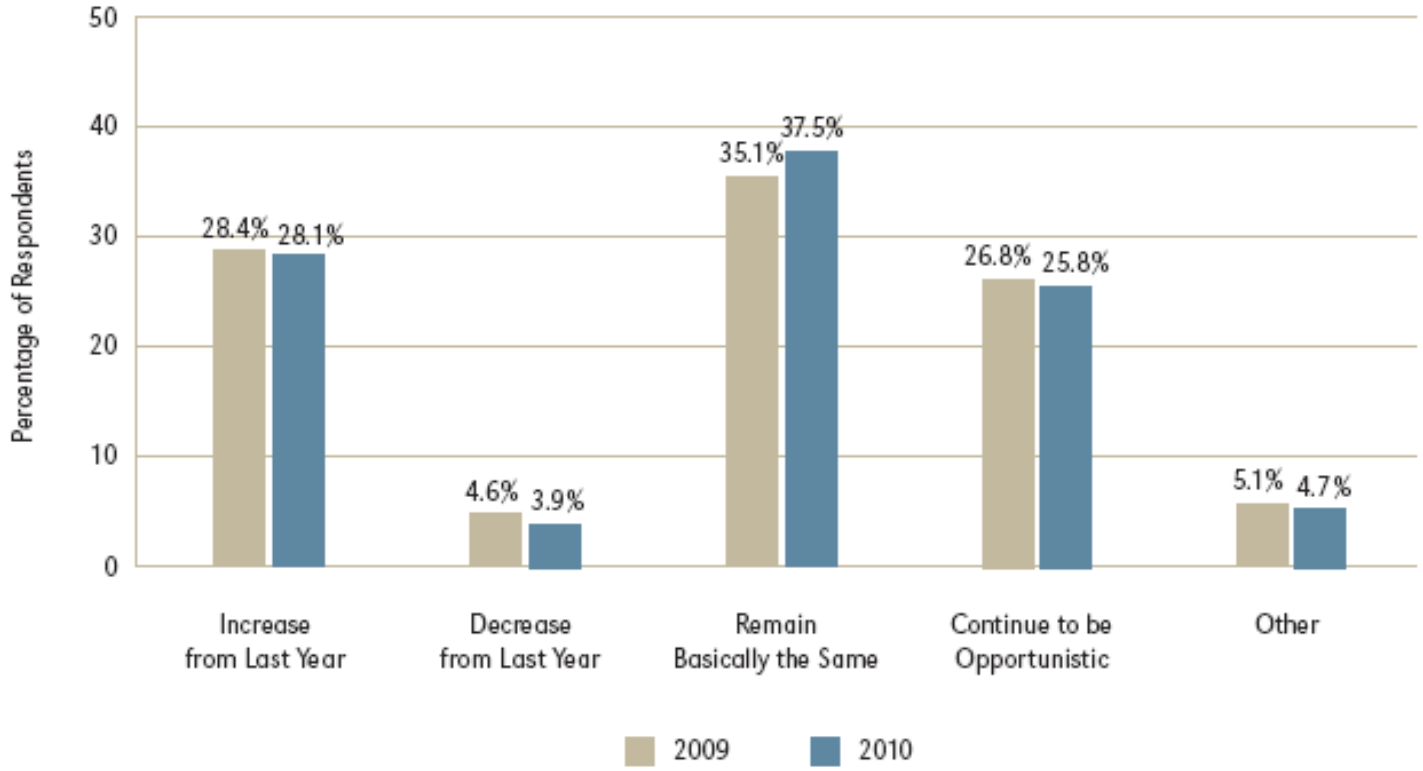
Chart I Global Infrastructure Fundraising



Source: Probitas Partners Research

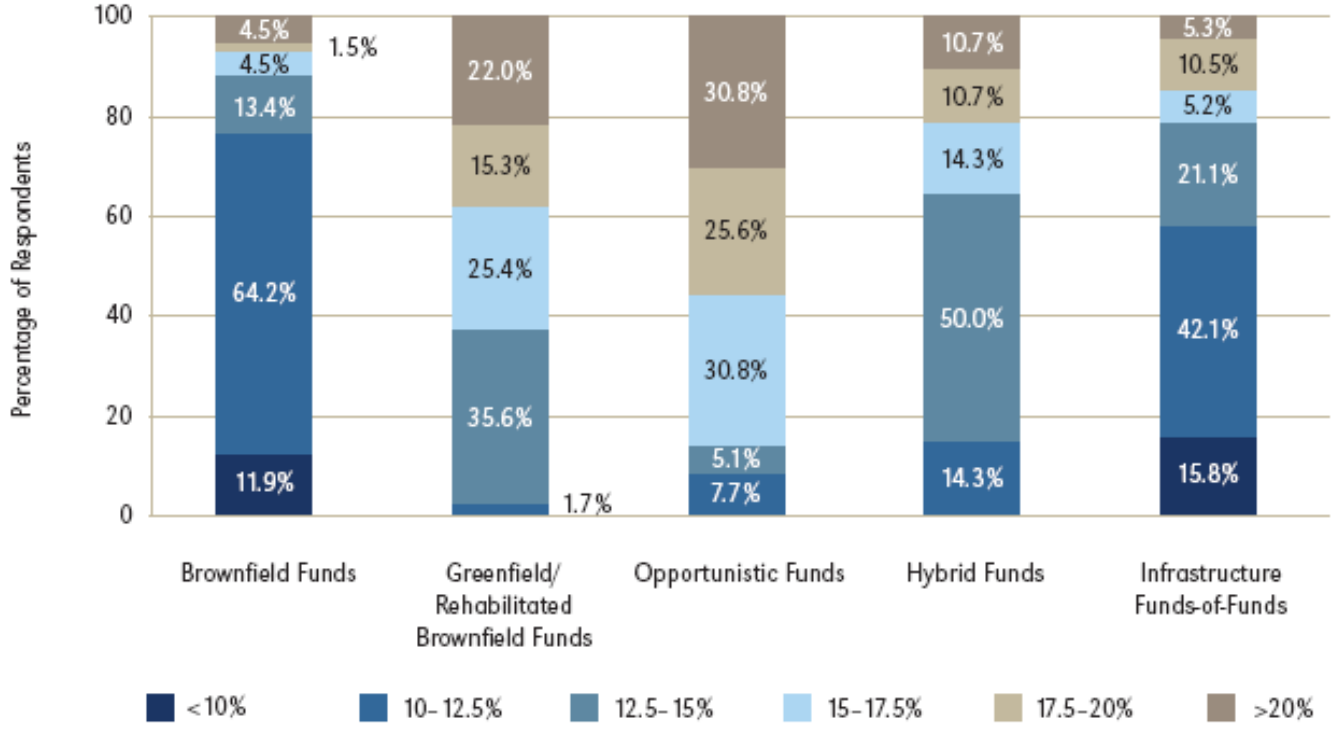
Current Interest

Chart XIII 2010 Appetite for Infrastructure
"I believe that my firm's appetite for infrastructure investments in 2010 will..."



Equity Targeted Returns

Chart XV Targeted Returns for Infrastructure
"For the major sectors of closed-end infrastructure funds operating in developed markets, my targets for net IRR are..."



Major Project Finance Lenders in US

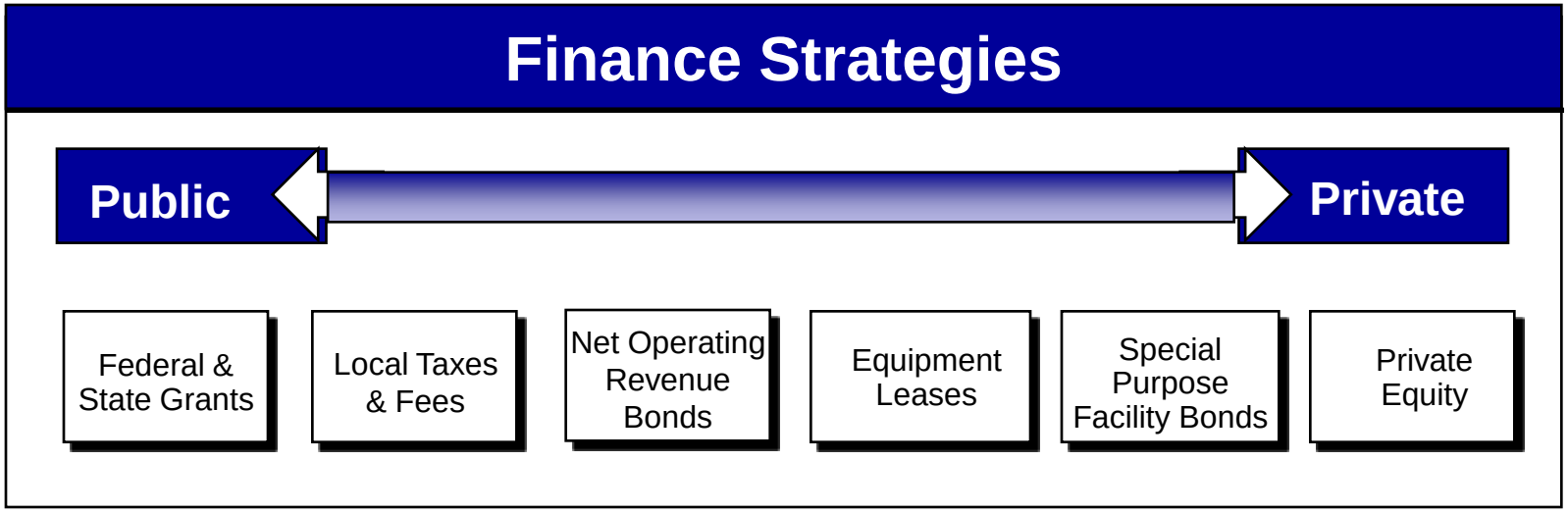
Axis Bank Limited	Leighton Contractors Pty Limited
BBVA	Lloyds TSB Bank plc
Calyon Credit Agricole CIB	National Standard Finance, LLC
CIC Credit Industriel et Commercial (Paris)	National Bank of Greece (NBG)
Commonwealth Bank of Australia	Natixis
Deutsche Bank Trust & Securities Services	Nord/LB
Dexia Credit Local	Santander
DZ Bank	Scotia Capital
HSH Nordbank	Societe Generale
ING	Sumitomo Mitsui Banking Corporation
Investec Bank (Australia) Limited	UniCredit Group
KBC Global Project Finance	WestLB AG

Project Finance Lending Terms

- Loans from $30-$600mln
- Market rates ~ LIBOR + 2%
- 10-40 year loans, most comfortable with 20
- Will go to 90% gearing with availability payment
- For demand risk, 60% max gearing
- Many cautious on ports
- Some banks still reeling from crisis, not aggressive

CURRENT TRENDS FOR P3 TRANSACTIONS

Typical Public Infrastructure Capital Methods

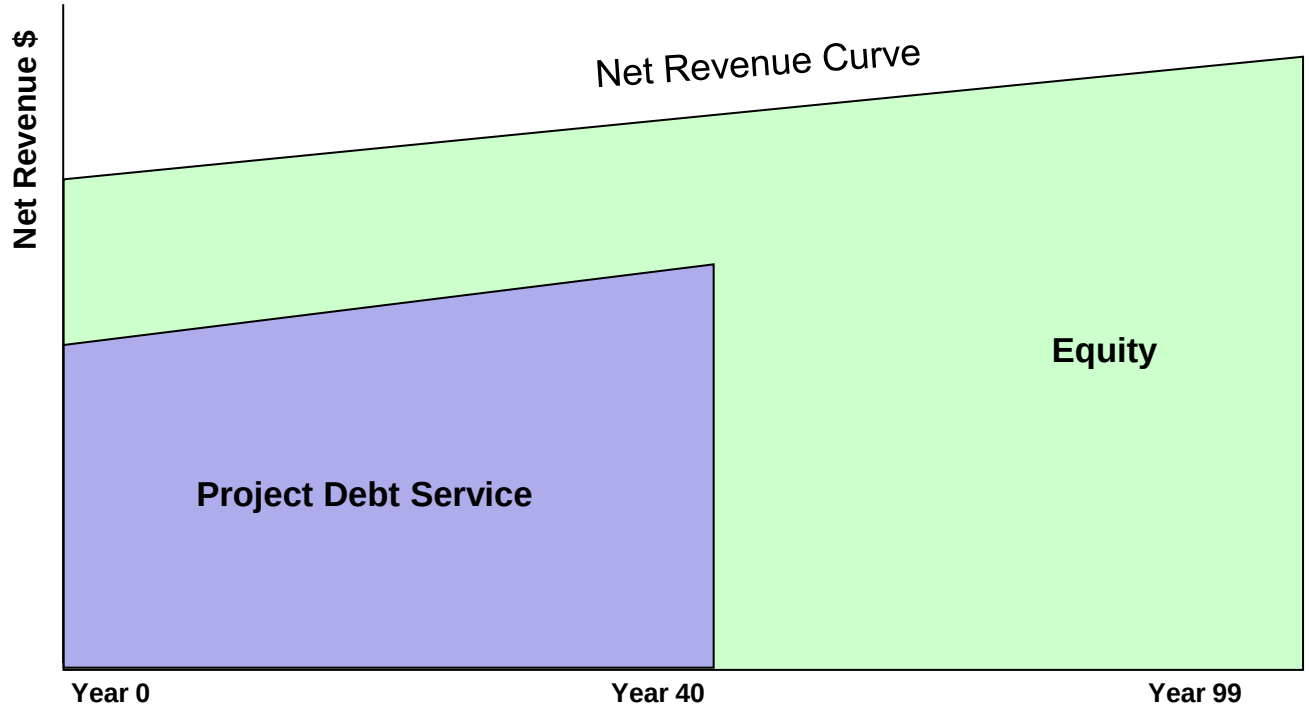


- Most U.S. infrastructure debt financing is via tax-exempt debt, which has a lower cost of capital. Seaports are exempt facilities – PABs can be used with P3s!
- Seaports have used a variety of revenue sources as security and a variety of debt products, all of which remain viable for good credit quality projects.
- Private equity investment is a relatively new capital raising opportunity that should be considered one of numerous infrastructure financing alternatives.

How Can Equity Add Value?

- Bank loans and municipal bonds monetize up to 40 years of value, including refinancing risk, while equity investors may take risk to 99 years of cash flow in order to enhance the present value.

- Cash flows monetized by equity are typically discounted back at rates of 10% to 20% depending on project attributes.



Evolving Methodology / Key Drivers

1. Prepare Revenue Forecast
2. Indentify operating model and O&M cost estimates
3. Life cycle R&R costs estimates
4. Develop business terms
5. Determine enterprise value of terminal operations
6. Evaluate impact of alternative pricing and financing strategies

Value Model Considerations

- Cargo/passenger throughput
- Vessel calls
- Changes in rates and terms
- Minimum Annual Guarantee
- New investment requirements
- Market factors
- Labor costs
- Overhead costs
- Other fixed costs
- Utility costs
- Equipment replacement schedule & costs

Valuation Methodology

EBITDA Multiple

- Data points are few and statistically insufficient
- Method ignores future projections, cost of capital and financing technique

Discounted Cash Flow

- Project specific and relatively easy to calculate given estimated cost of capital
- Requires good input data for revenue projections, capital costs and O&M expenses

Project Specific Plan of Finance

- Takes into account project cash flows, same as DCF method, but assigns specific capital & debt structure
- Specific to the project credit profile
- Method incorporates financing reserve requirements, coverage requirements, and cost of capital with product and lien specificity

Project Specific Plan of Finance

Net Project Revenues Secure Debt Financing

- Gross operating revenues less routine/recurring O&M expenses
- Fixed rent/lease payments may be incorporated before or after debt
- Capital renewal and equipment replacement may be before or after debt

Senior Lien & Subordinate Lien Debt

- Senior Lien: Bank lending and Private Activity Bonds
- Subordinate Lien: Government loan programs, equipment leases & asset backed
- Incorporates debt service coverage, liquidity covenants/reserves, and debt/equity ratios in order to be feasible/marketable

Return on Equity

- Excess revenues after all other uses provide returns to equity
- Depreciation and other tax benefits can have a material impact
- Additional leveraging for ROE takes place at the excess revenue/profit level

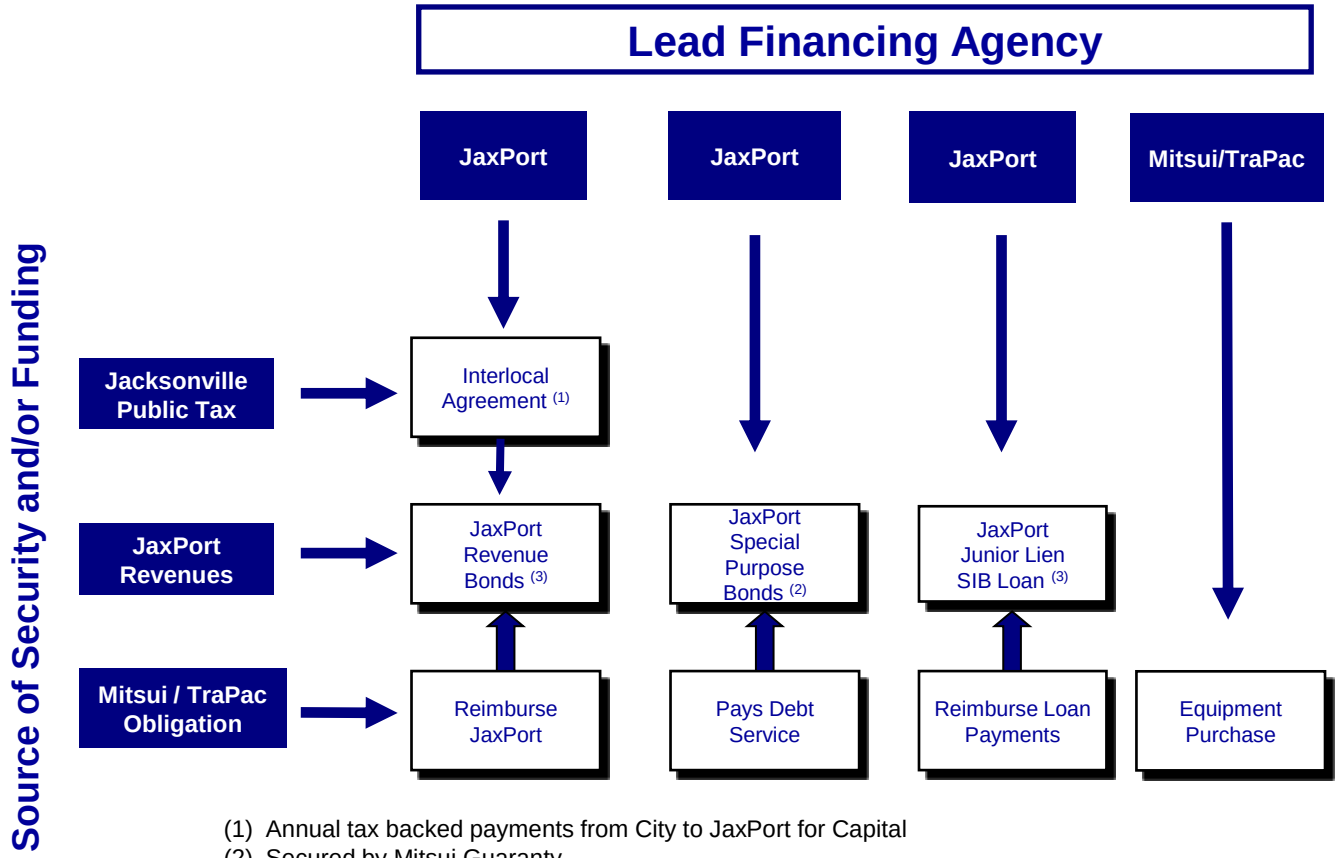
Jacksonville Port Authority

- Project: Long-Term Landlord 30+year operating lease for development of new container terminal
- PFM Role: Led development and execution of financial plan
- Status: Final bond financing closed in April 2008

- JaxPort long term lease agreement with Mitsui/TRAPAC to finance, build and operate a new $220 million container terminal
- Typical concession financing using bank debt was replaced with innovative lower cost public finance structure
- Includes ongoing rent payments to Jaxport based on container volume thresholds being met
- The success of the lease agreement and the bond financings are attributable to:
  - Clear goals and selection of a preferred concession/lease model
  - Alignment of Jaxport interests to expand terminal capacity and Mitsui goal of operating terminal
  - Jaxport willing to serve as conduit issuer, and Mitsui used a parent corporate guaranty

Jacksonville Port Authority

- Financing incorporated a multi-tiered plan including 1) JaxPort tax-exempt parity senior revenue bond issue, 2) JaxPort conduit special purpose facility bond backed by Mitsui guaranty, and 3) JaxPort subordinate revenue SIB Loan, with all debt payments the responsibility of TraPac/Mitsui.



(1) Annual tax backed payments from City to JaxPort for Capital
(2) Secured by Mitsui Guaranty
(3) Secured by JaxPort Net Operating Revenues and Interlocal Revenues

Maryland Port Administration

- Project: 50 year private concession for Seagirt terminal operation and berth expansion
- PFM Role: Led overall feasibility and concession procurement process
- Status: Concession/Lease Agreement approved; Bonds priced & will close this January

- MPA concession process
  - With assistance, MPA determined the appropriate P3 structure
  - Guided MPA through entire P3 procurement process
  - Developed innovative P3 financing (non-bank debt) to increase benefit to MPA
  - Developed concession and financial documents
- Ports America will enter into a 50 year lease concession with MPA who will receive
  - $140 million upfront payment as reimbursement to Maryland Transportation Authority
  - Construction of fourth berth at a cost of $105 million that will accommodate post-Panamax ships
  - Capital reinvestment for the terminal over 50 years
  - Ongoing fixed and variable payments to MPA
- Equity partner expects reasonable return for revenue, construction and operational risk

Maryland Port Administration

- Concession financial model used tax-exempt debt to lower costs and increase the upfront value to MPA as well as the ROI to the private partner
- Additional comparables show that the EBITDA multiple for the MPA upfront value is significantly high
- Factors for Success
  - Clear goals and preliminary analysis showing project feasibility and valuation range
  - Proper coordination and dissemination of information during the procurement stage
  - Targeting potential bidders in a pre-marketing stage
  - Proactive negotiations that balance equitable risk allocation with securing the best financial and project benefits for the public sponsor
- Low cost public finance combined with private long-term concession has produced an innovative P3 model

Maryland Port Administration

- Seagirt successfully closed on January 12, 2010 with $166.9 million of tax-exempt Series A bonds, $81.8 million of Private Activity Series B bonds and a $75 million equity contribution from Highstar Capital
- The all-in interest rate was under 6% and the issue was 6 times oversubscribed
- Received a rating of Baa3 from Moody's

Sources and Uses				
Sources	**Series A Bonds**	**Series B Bonds**	**Equity Contribution**	**Total [6]**
Par Amount of Series 2010 Bonds	$166,920,000	$81,755,000	-	$248,675,000
(Original Issue Discount)	-2,496,249	-1,223,653	-	-3,719,902
Equity Contribution	-	-	$75,000,000	75,000,000
Total Sources	**$164,423,751**	**$80,531,347**	**$75,000,000**	**$319,955,097**
Uses				
Authority Project Costs	$140,151,028	-	-	$140,151,028
Terminal Project Costs		$66,412,602	$39,542,766	105,955,367
Debt Service Reserve Requirement	15,048,225	7,487,100	-	22,535,325
Capitalized Interest	5,022,018	5,022,018	-	10,044,037
Capital Reserve Account	-	-	7,750,000	7,750,000
Operating Reserve Account	-	-	4,750,000	4,750,000
Deposit to Start-up Operations	-	-	12,525,682	12,525,682
Costs of Issuance and Other	4,202,479	1,609,627	10,431,553	16,243,658
Total Uses	**$164,423,751**	**$80,531,347**	**$75,000,000**	**$319,955,097**

Comparable Port Transactions

Transaction	JaxPort Mitsui	JaxPort Hanjin	Oakland Ports America	Baltimore Ports America
Operating Model	Long Term Landlord	Long Term Landlord	Passive Landlord	Passive Landlord
Primary Mgmt Control	Public-Private	Public-Private	Private	Private
Typical Contracts & Lease Agreement	Single Tenant; Term Covers Debt	Single Tenant; Term Covers Debt	Single Tenant; 50-year Term to Cover Debt & Equity Return	Single Tenant; 50-year Term to Cover Debt & Equity Return
Facilities Financed	2 berth container terminal on 158 acres	2 berth container terminal on 90 acres	5 berth container terminal on 202 acres	**3 berths going to 4 berths container terminal on 201 acres**
Sources of Revenues and Security for Debt	Corporate Rental, Minimum Guarantee & Throughput Fees	Minimum Guarantee & Throughput Fees	Tariffs/Lease Revenue; Received by Private Concessionaire	Tariffs/Lease Revenue; Received by Private Concessionaire
Type of Debt	Special Purpose Conduit Bonds and JaxPort Revenue Bonds	JaxPort Revenue Bonds	Concessionaire Private Equity	PABS, Tax-Exempt Debt & Private Equity
Tax Status/ Term	AMT Tax-Exempt Up to 33 years	AMT Tax-Exempt Up to 33 years	Taxable 50 years	Tax-Exempt and AMT 50 years
Primary Private Partners	Shipping Company/ Terminal Operator/ Corporate Guarantor	Shipping Company/ Terminal Operator	Private Equity Concessionaire	Private Equity Concessionaire

Value and Risk Sharing

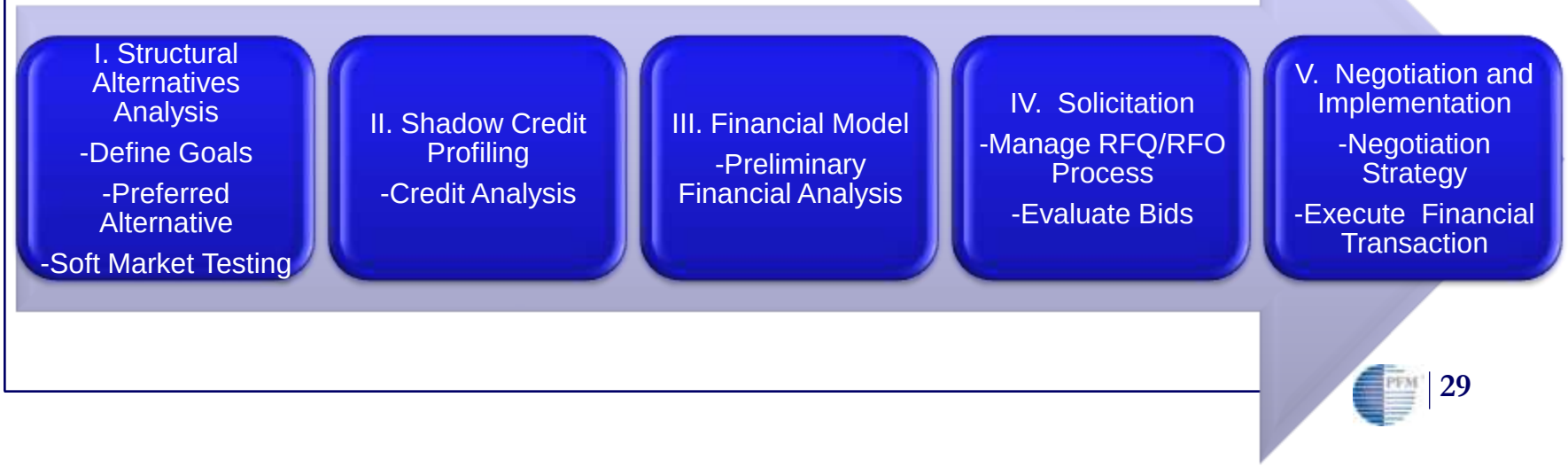
Transaction	JaxPort Mitsui	JaxPort Hanjin	Oakland Ports America	Baltimore Ports America
Upfront Capital	$100M SPB + $95M PABs; PV of DS Rent $147M; Mitsui buys cranes $65M	$165M PABs; PV of MAG $193M; Hanjin buys cranes $90M	$60M Equity	$140M Upfront Payment and $105 for Construction (Financed with $167M Tax-Exempt Debt; $82M PABS; $70M Equity)
Revenue Sharing	$7/container; Adjusted by CPI, capped at 5%	$5/container over MAG; Adjusted by CPI starting in contract year 9	$19.5 million/year + $26.55/lift over 900,000	$3.2 million/year + $15/lift over 500,000
Interest Rates	JaxPort has Risk	JaxPort up to 6.5% Cap	N/A	Private has Risk
Completion Costs	Shared; Mitigated by Const Contract	Shared; Mitigated by Const Contract	N/A	Private Pays and has Risk; Mitigated by Const Contract and 95% Design
Market Revenues	Private has Risk	Private has Risk	Private has Risk	Private has Risk; Partially Transferred to Debt
O&M Costs	Private Pays and has Risk	Private Pays and has Risk	Private Pays and has Risk	Private Pays and has Risk
Technology Performance	Private has Risk	Private has Risk	Private has Risk	Private has Risk
Long Term Capital	Private Pays and has Risk	Private Pays and has Risk	Private Pays and has Risk	Private Pays and has Risk

P3 "Takeaway"

- Need to establish clear rationale for pursuing P3 along with desired objectives
- Shipping lines and terminal operators may prefer longer term leases/concessions and are willing to take certain risks, however they are likely not able to use their balance sheets in near future
- Plenty of equity capital is available for port investment
- While capital markets have improved from 2008-09, bank lending is still constrained and covenants more stringent
- Municipal private activity bonds offer an attractive debt alternative and can be used together with equity
- Need thorough due diligence and financial feasibility assessment
- A clear and transparent solicitation process can yield the best results

PFM Approach for Successful P3 Execution

- PFM's independent evaluation of alternatives ensures that the P3 choice selected has the best value proposition
- Our objective approach to P3s allows our clients to pursue a strategy that is financially feasible, properly allocates risks between the public and private partner and facilitates timely and cost efficient project delivery
- PFM has developed an efficient methodology to ensure a successful procurement, focusing early on credit & feasibility



Questions??

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