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American Association of Port Authorities Finance Seminar

Session 5: Trends and New Approaches to Port Financing

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Everything Old Is New Again…

"The charm of history and its enigmatic lesson consist in the fact that, from age to age, nothing changes and yet everything is completely different"

- Aldous Huxley

"Each time history repeats itself, the price goes up"

- Anonymous

Where Have We Been?

2008 to 2010

- Credit Market Melt Down
  - Subprime mortgage defaults
  - Failure of mortgage backed securities
  - Credit default swaps triggered
  - Crisis of confidence/liquidity concern leads to bailout

Government Bailout

2008 to 2010

- TARP / government investments
- Guarantee of money funds / commercial paper
- Flight to quality leading to interest rates falling in US Treasuries
- Higher federal deficits / Deficit Reduction Commission
- Financial reform legislation – bankers, lenders, derivatives, rating agencies

Macroeconomic Developments

2008 to 2010

- Rate of GDP recovery?
- Unemployment / underemployment concerns
- Continuing depressed real estate markets
- Deficit / default concerns from Europe
  - Contagion to domestic municipal market?

Municipal Market Continues to Function

- Credit quality matters
- Yields remain low
- Reduced appeal / application of bond insurers
- Heightened investor focus on credit / reaching out to investors
- Build America Bond Program
  - A success story (so far)

Securing Funds for Port Development

- Municipal market investors continue to lend to ports
- Rating agencies have port industry under "negative outlook"
- Traditional bond financing provides attractive funding but involves more steps and time than several years ago
- Private/P3 transactions continue to play a role

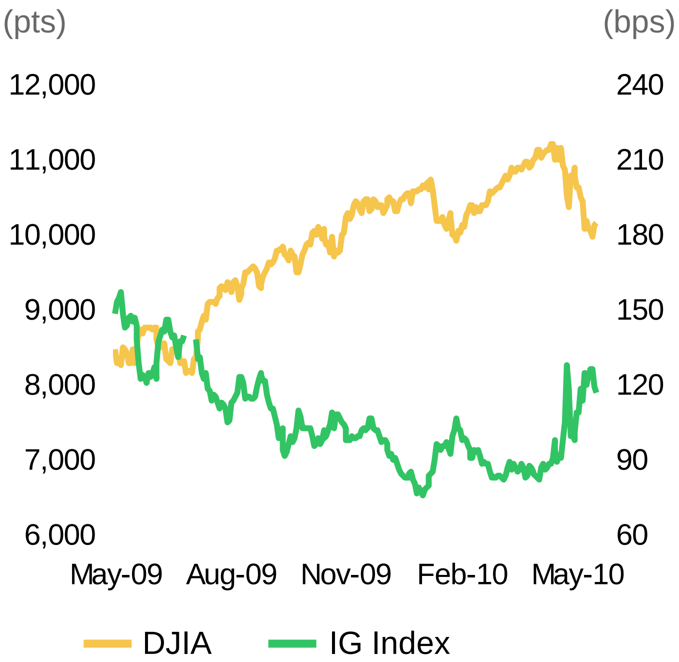
Economic Update

The Macro Lens: Turning A Corner

Fundamentals Show a Strengthening Recovery

Dow Jones and IG Indices

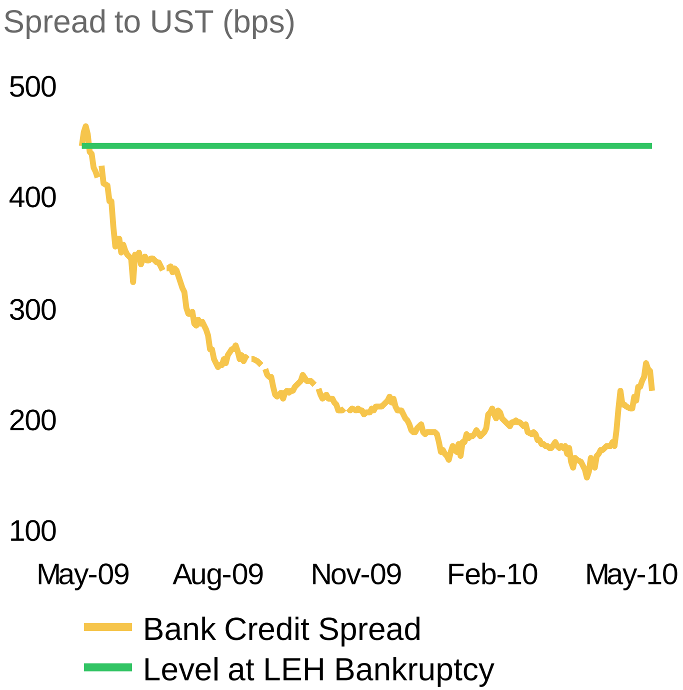
LTM



Source: Bloomberg

Bank Cash Spreads

LTM

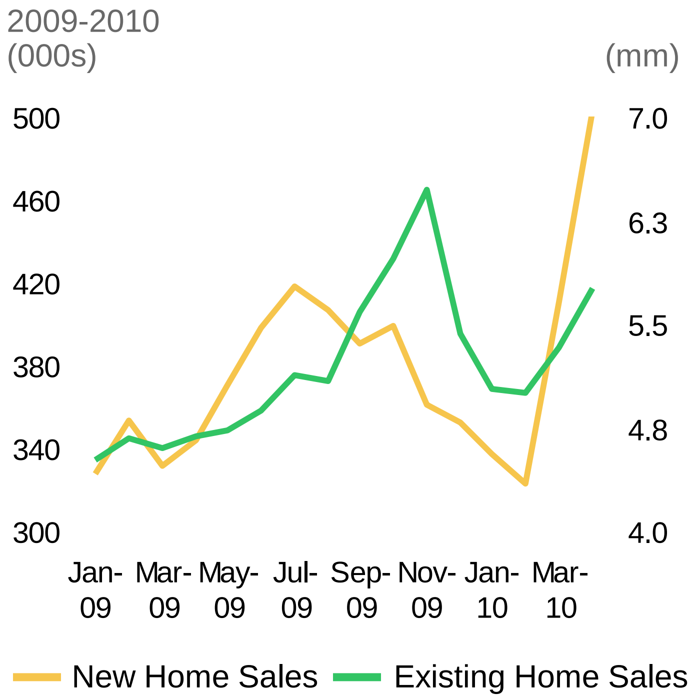


Source: Morgan Stanley

The Macro Lens: Turning A Corner (cont'd)

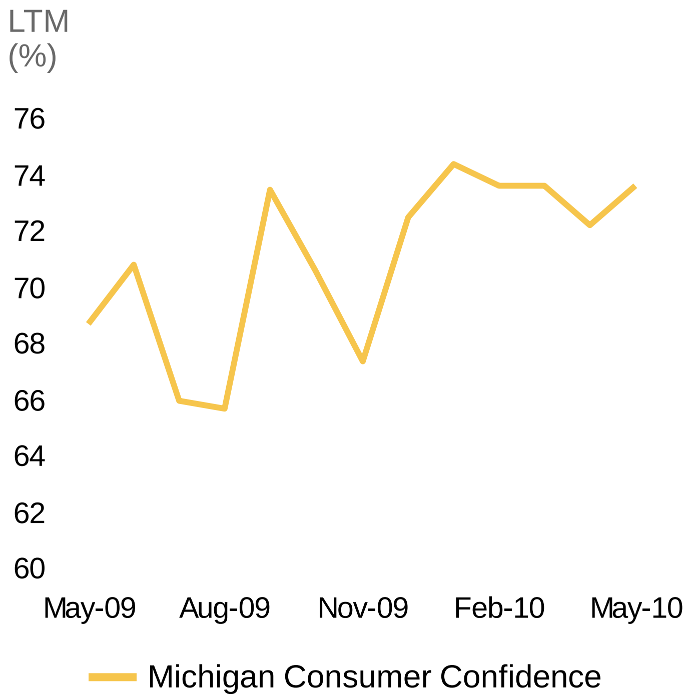
Fundamentals Show a Strengthening Recovery

New/Existing Home Sales



Source: Bloomberg, U.S. Department of Housing and Urban Development

Consumer Confidence

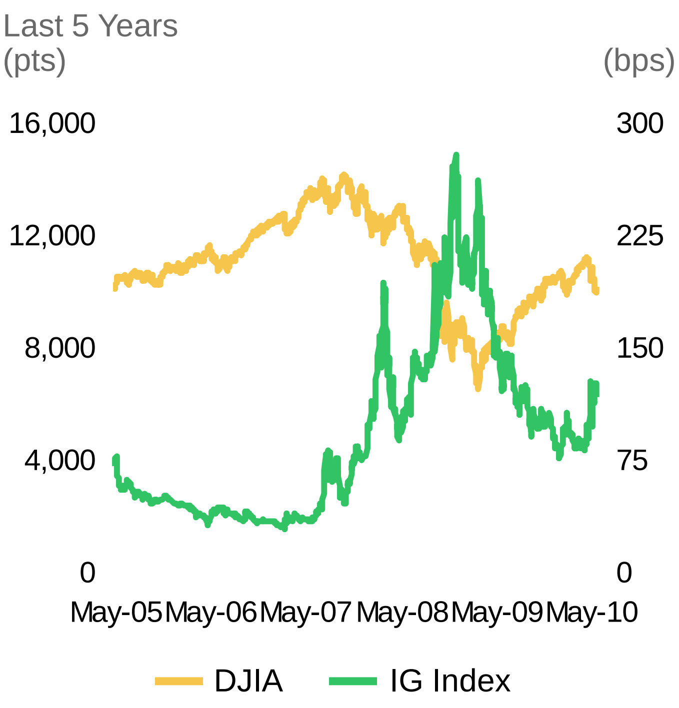


Source: Bloomberg, University of Michigan Survey Research

The Wide Angle Lens: Progress is Relative

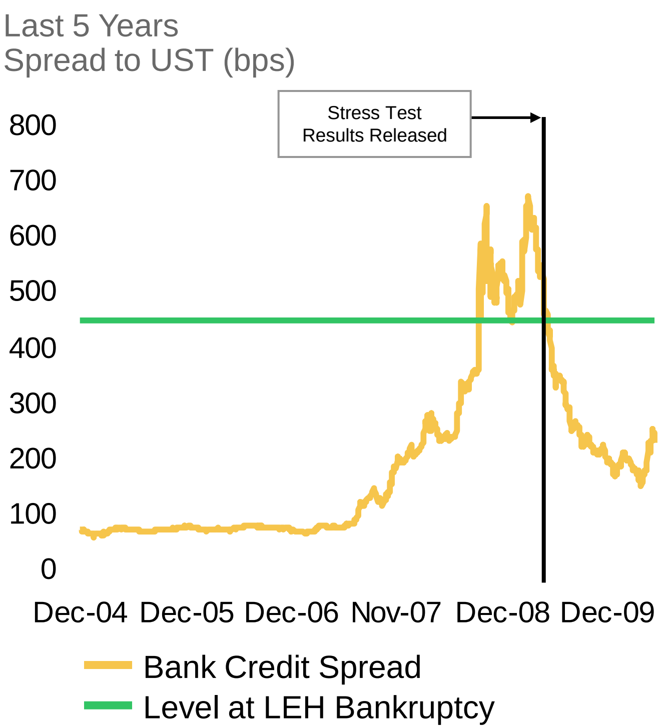
The Domestic Economy Still Shows Significant Capacity for Improvement

Dow Jones and IG Indices



Source: Bloomberg

Bank Cash Spreads



Source: Morgan Stanley

The Wide Angle Lens: Progress is Relative (cont'd)

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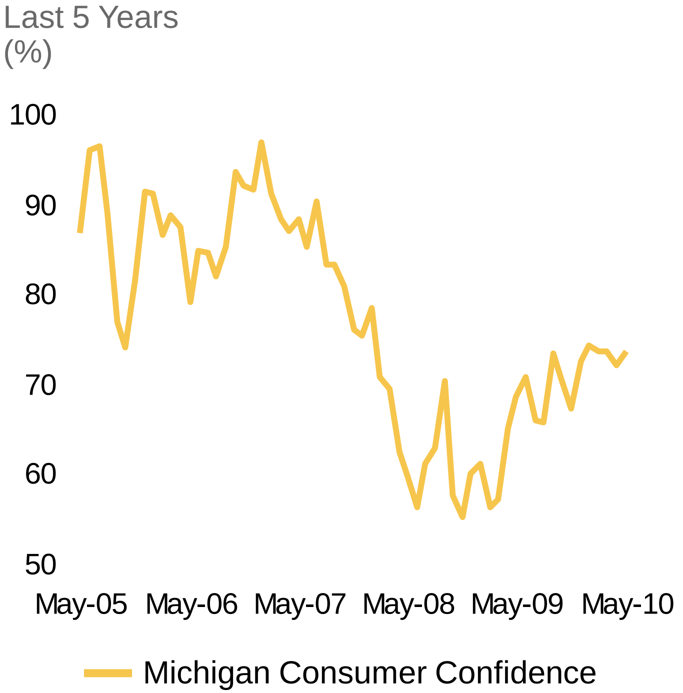
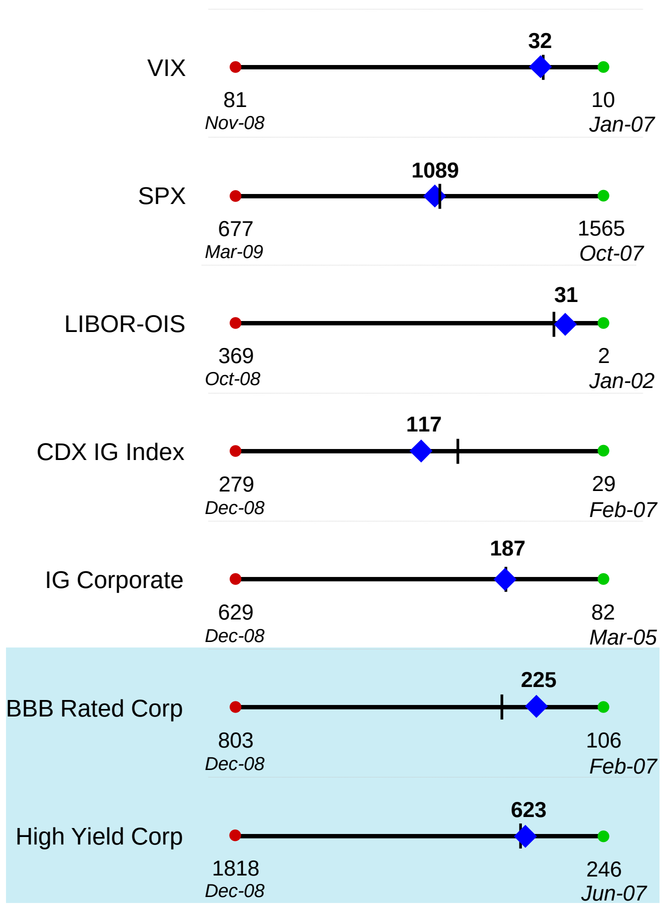


Source: Bloomberg, University of Michigan Survey Research

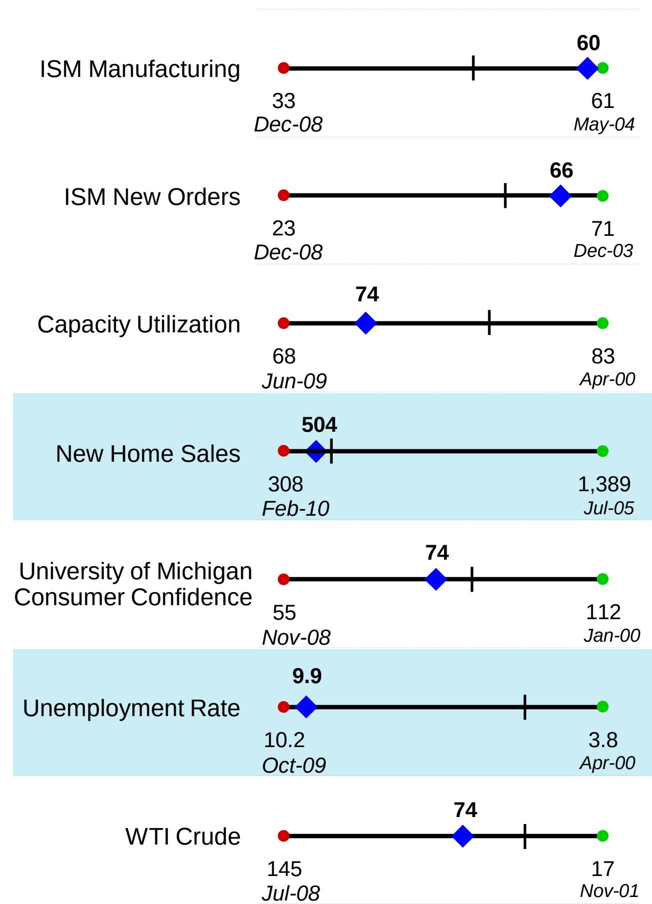
Risk Versus Economic Indicators: Past 10 Years

Comparing Worst, Best, Average, and Current

Risk Indicators: Better Than Historical Averages



Economic Indicators: Slowly Improving



● Worst since January 2000[(1)] ● Best since January 2000[(1)]

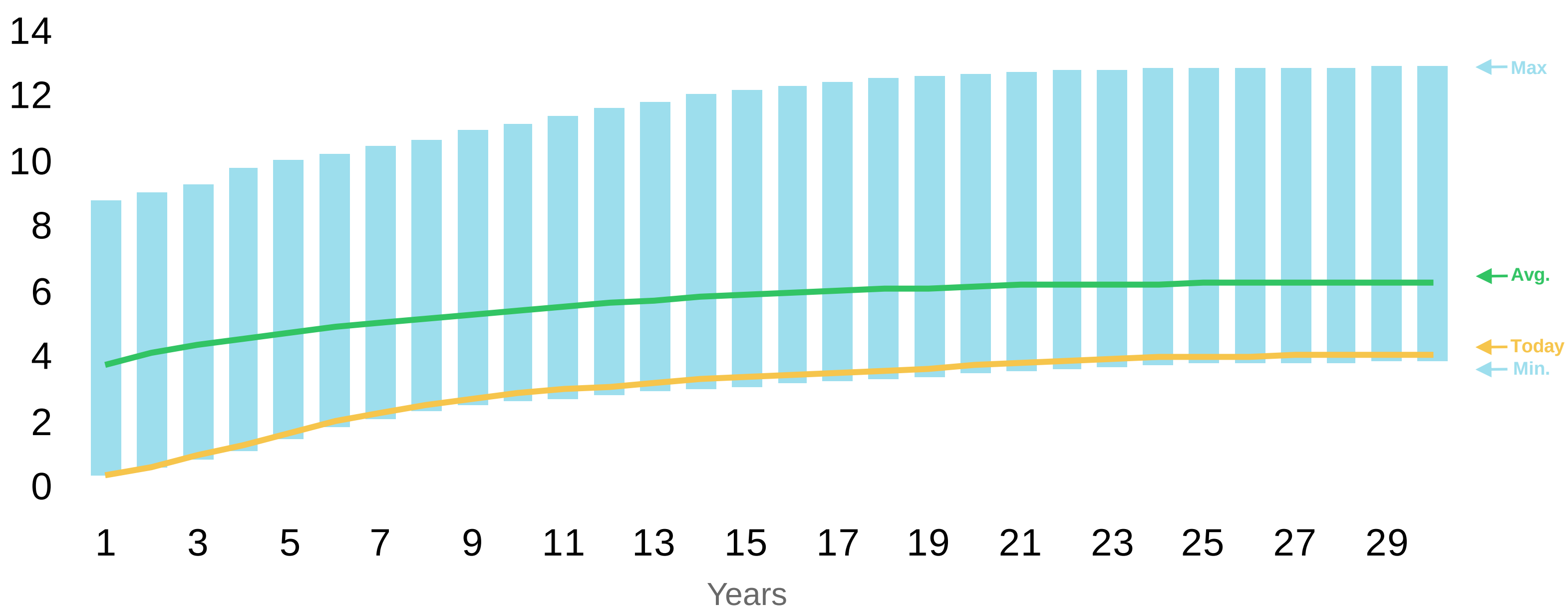
| Average ◆ Current

Tax-Exempt Rates Are Near All-Time Lows

Historical MMD

Current MMD in Historical Context

Since Inception (1982 to Present)
Yield (%)



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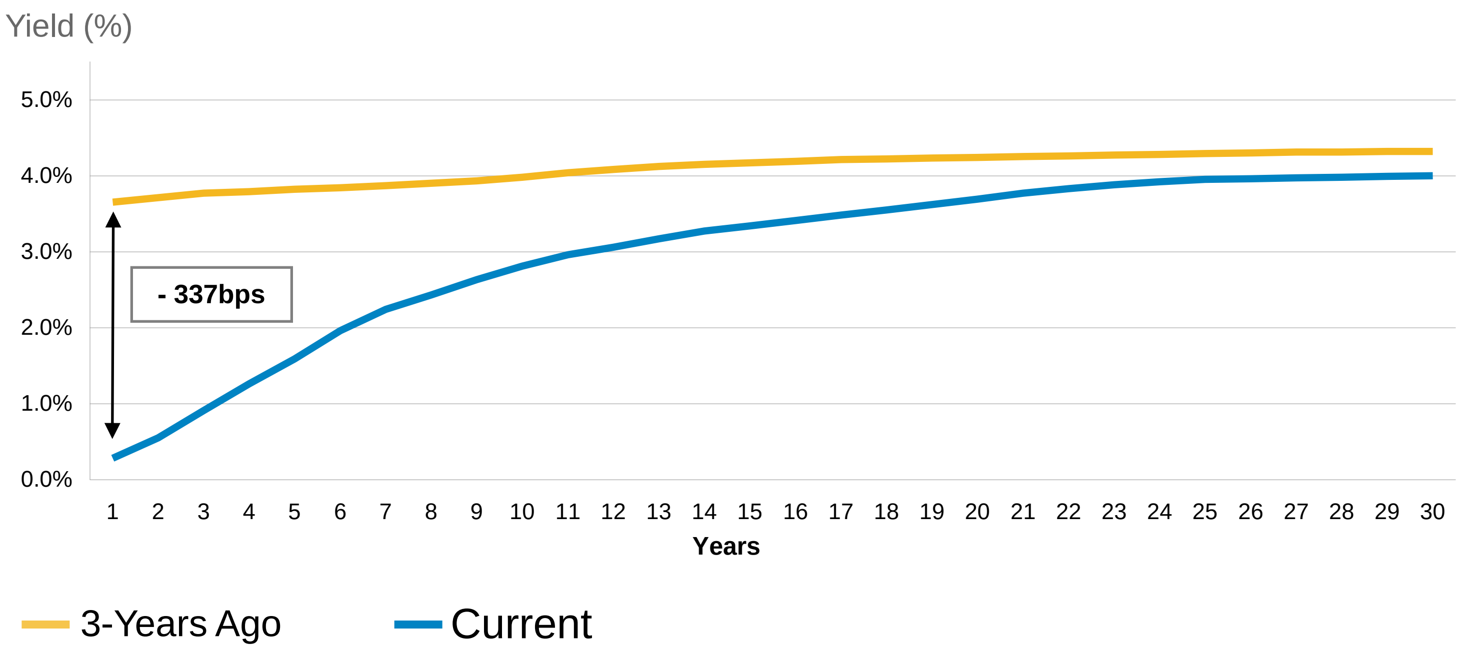
Municipal Market Reaction to the Credit Crunch

Municipal Yield Curve Has Steepened

Shift in Municipal Market Data Yield Curve (MMD)

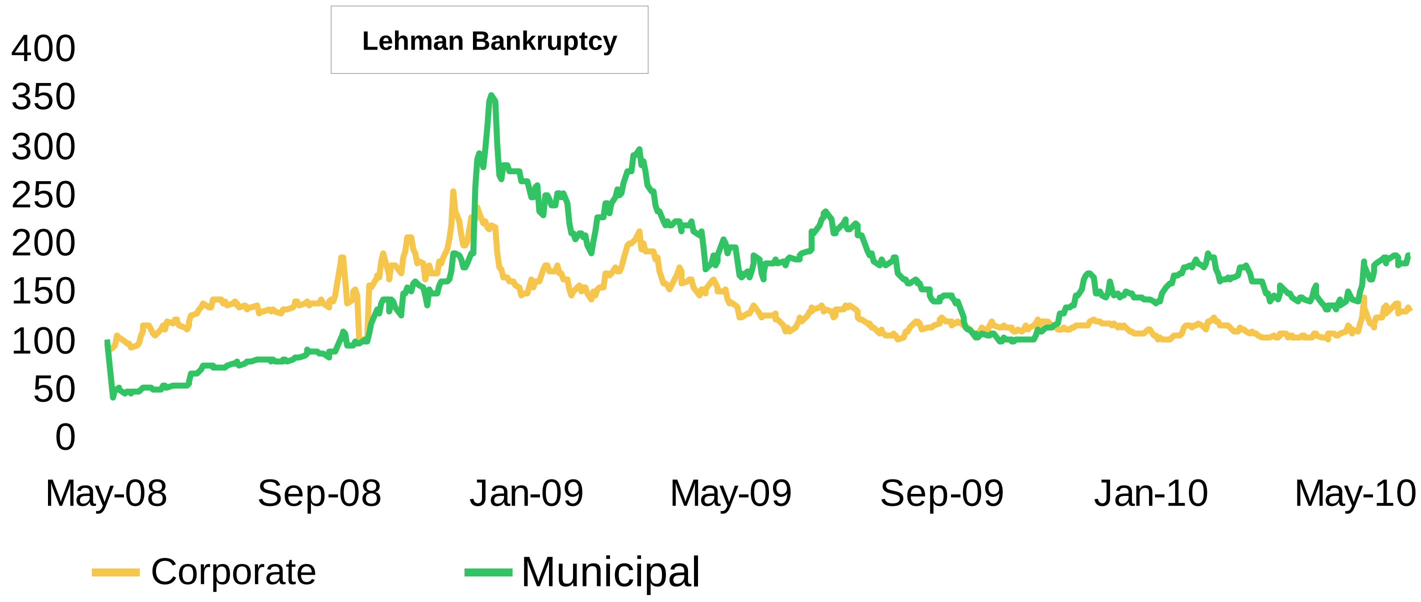


Measuring Market Risk

Credit Spreads Normalizing

Municipal and Corporate CDS

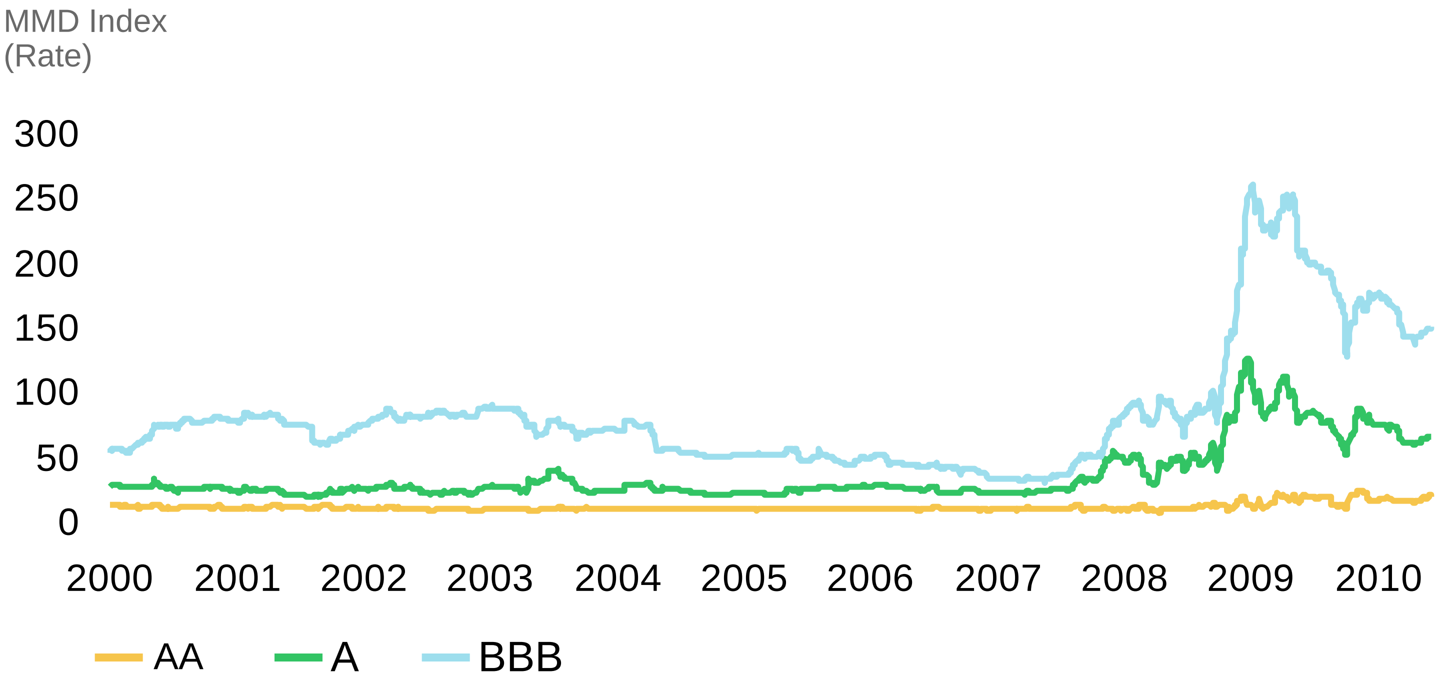
10-Year Credit Default Swap Index
(bps)



Credit Spreads

Bifurcated, But More Normal

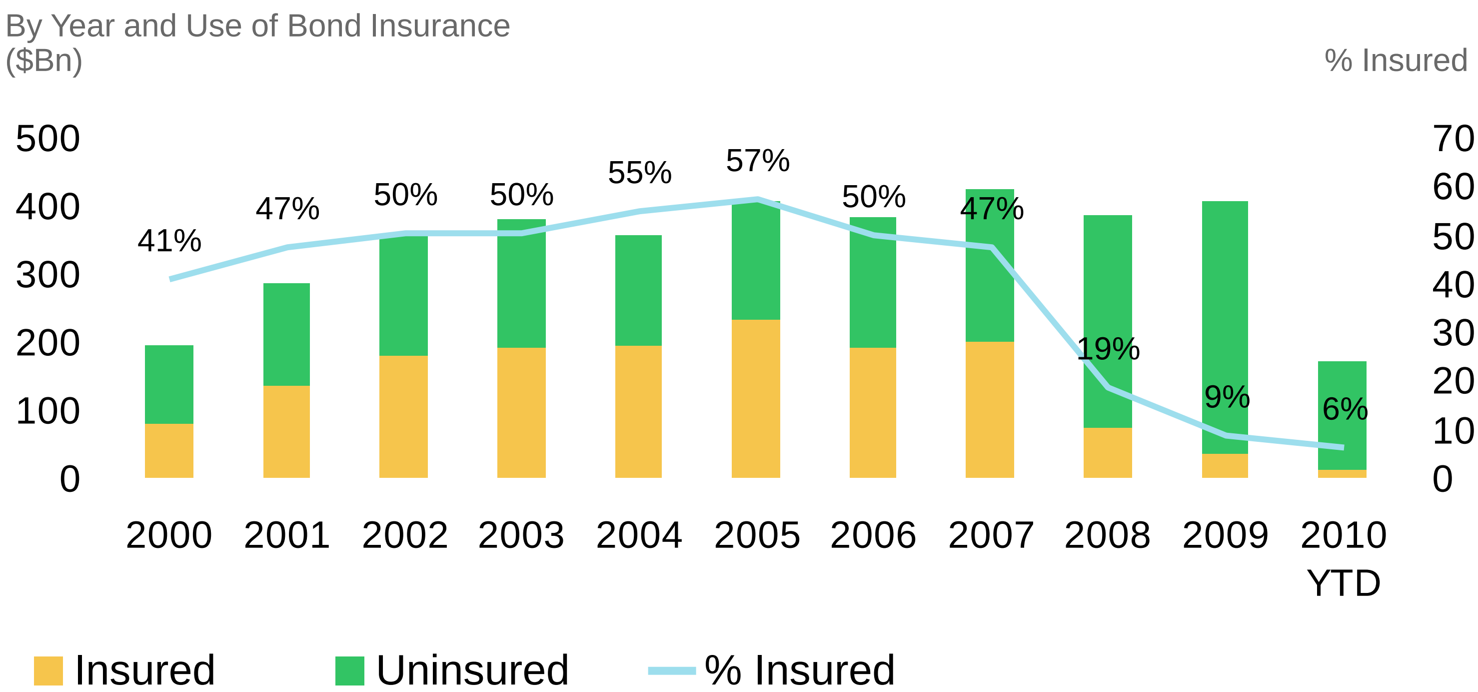
Municipal Credit Spreads (to AAA)



Bond Insurance

Limited Availability and Declining Role

Total Municipal Issuance Volume

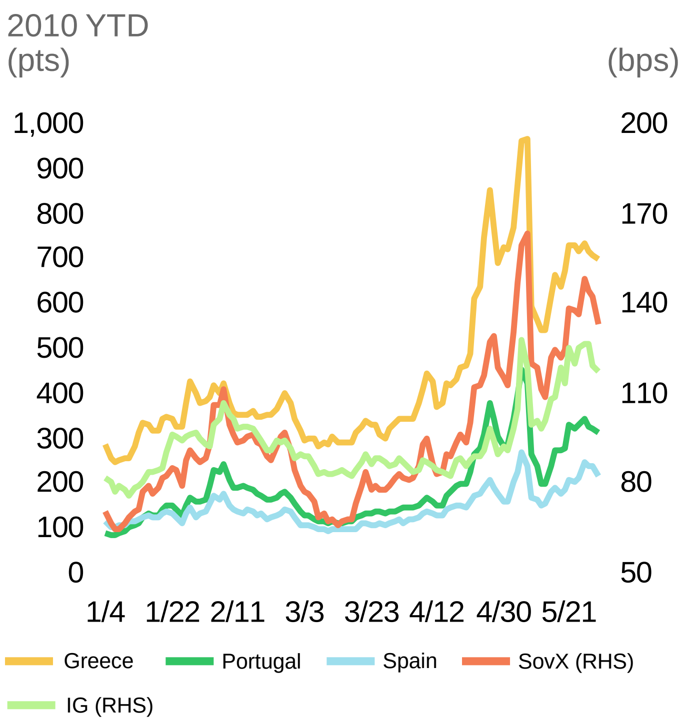


Source: Securities Data Corporation

Sovereign Debt Woes, U.S. Market Volatility

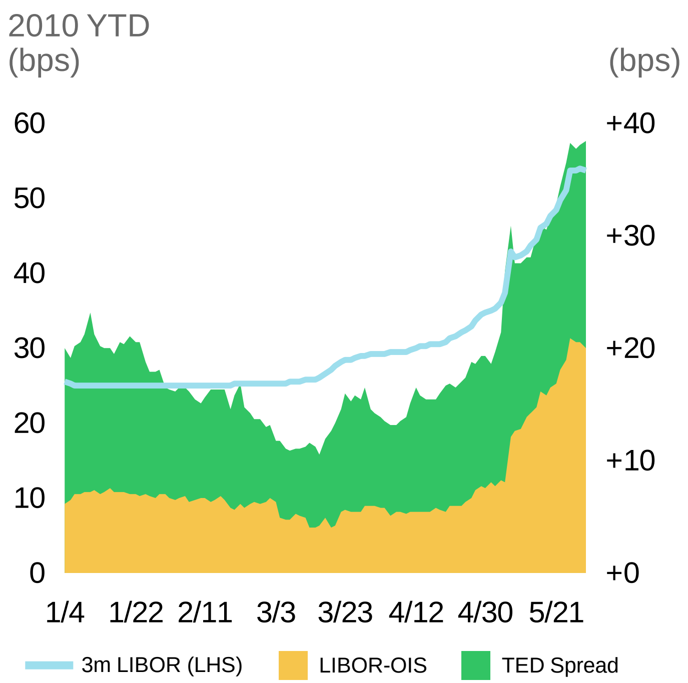
The Crisis in Europe is Affecting Equity and Credit Markets Globally

Dow Jones and IG Indices



Source: Bloomberg

Short-Term Funding Markets



Source: Bloomberg

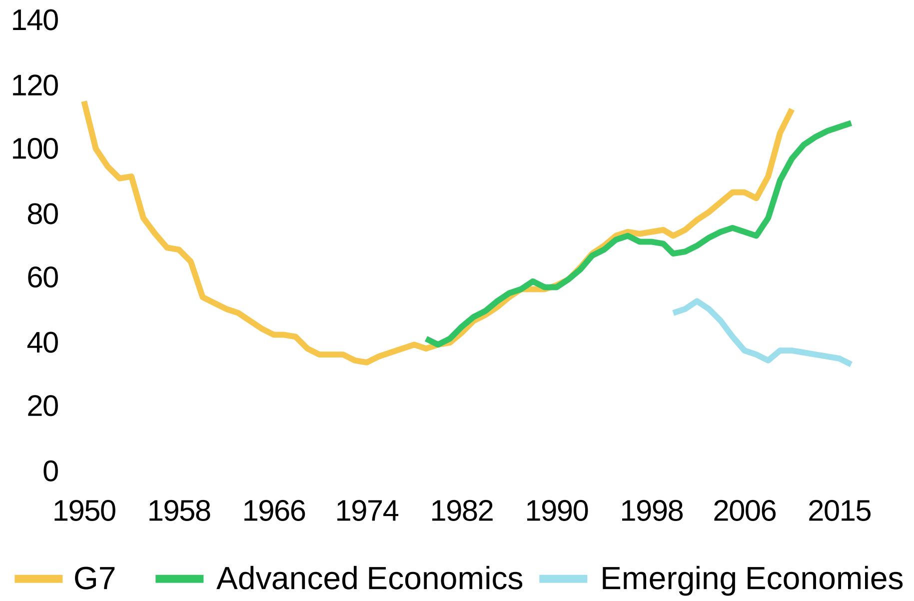
Sovereign Debt Risk is Not New

Sovereign risk has been building in advanced economies for years, owing to steadily increasing indebtedness. The BIS recently expressed concern that most of the deficits are structural rather than cyclical in nature

- *Above a 90% debt/GDP ratio, "...median growth rates fall by one percent and average growth falls considerably more."*
  – Carmen M. Reinhart and Kenneth S. Rogoff, "Growth in a Time of Debt," NBER, January 2010

Never In Peacetime: G7 Government Deficits Balloon

Government Debt as a % of GDP



Source: IMF (http://www.imf.org/external/pubs/ft/weo/2010/01/index.htm), Morgan Stanley Research, "Damocles Notices a Sword," by Gerard Minack, April 28, 2010

Sovereign Debt Risk is Not New (cont'd)

Fiscal Situation and Forecasts for 2010-11

% of GDP [1]	Fiscal Balance			Structural Balance [2]			General Government Debt [3]		
	2007	2010E	2011E	2007	2010E	2011E	2007	2010E	2011E
Austria	(0.7)	(5.5)	(5.8)	(1.4)	(3.3)	(3.6)	62	78	82
France	(2.7)	(8.6)	(8.0)	(3.5)	(6.8)	(6.3)	70	92	99
Germany	0.2	(5.3)	(4.6)	(0.8)	(4.0)	(3.7)	65	82	85
Greece	(4.0)	(9.8)	(10.0)	(4.5)	(6.9)	(6.8)	104	123	130
Ireland	0.2	(12.2)	(11.6)	(1.3)	(9.0)	(9.0)	28	81	93
Italy	(1.5)	(5.4)	(5.1)	(2.2)	(2.6)	(2.8)	112	127	130
Japan	(2.5)	(8.2)	(9.4)	(3.4)	(7.4)	(9.0)	167	197	204
Netherlands	0.2	(5.9)	(5.3)	(0.6)	(3.6)	(3.1)	52	77	82
Portugal	(2.7)	(7.6)	(7.8)	(2.8)	(6.1)	(6.8)	71	91	97
Spain	1.9	(8.5)	(7.7)	1.6	(5.2)	(4.5)	42	68	74
UK	(2.7)	(13.3)	(12.5)	(3.4)	(10.5)	(9.9)	47	83	94
USA	(2.8)	(10.7)	(9.4)	(3.1)	(9.2)	(8.2)	62	92	100
Asia [4]	0.1	(3.5)	(3.6)	…			37	40	41
Central Europe [5]	3.7	(4.4)	(3.9)	…			23	28	29
Latin America [6]	(1.5)	(2.4)	(2.0)	…			41	37	35

(1) Regional averages calculated as weighted averages based on 2005 GDP and PPP exchange rates.
(2) Cyclically adjusted balance.
(3) For Argentina, the Philippines and Thailand, central government debt.
(4) China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, the Philippines, Singapore and Thailand.
(5) The Czech Republic, Hungary and Poland.
(6) Argentina, Brazil, Chile and Mexico.

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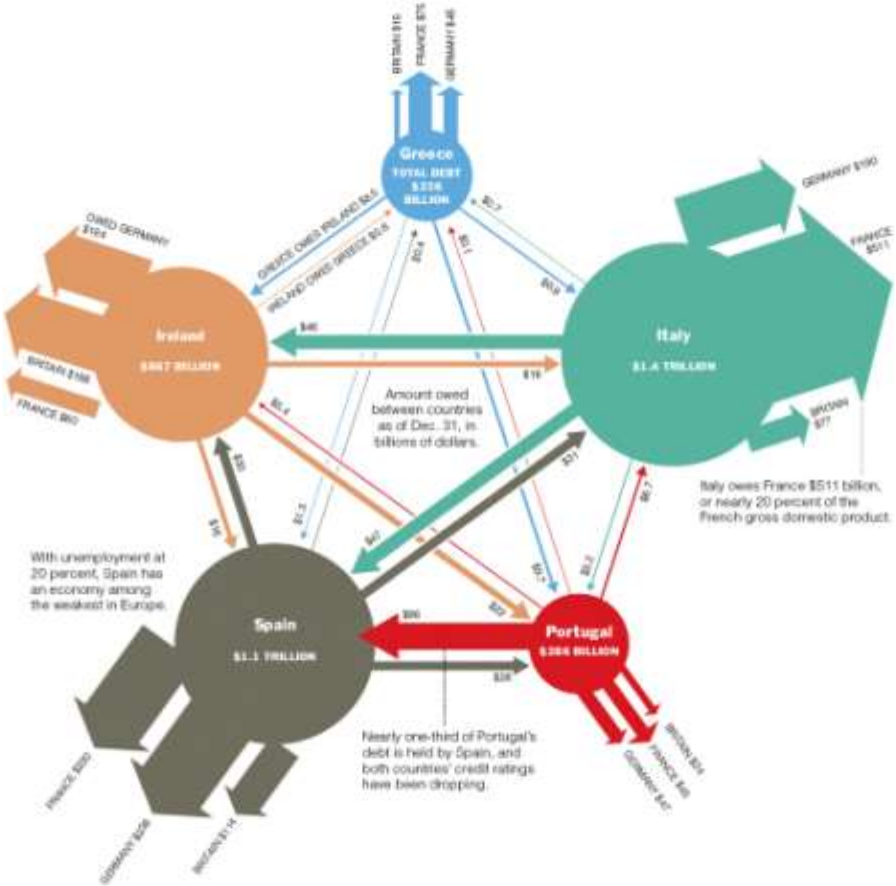
Sovereign Contagion Risk Could Impact US Munis

Europe's bank and sovereign exposures are highly inter-connected, which explains why sovereign risk quickly appeared in the banking system. These banks have large US$ funding needs, which firmly links them to the US

- Focus on US deficit could impact buyer's risk profile
- US municipal issuers' variable rate programs could be impacted by sovereign contagion
- A number of remarketing agents have begun to give tender notices to banks backing variable rate programs
- The most immediate pressure will be on banks within the PIIGS countries



Source: Graphic by New York Times, "Europe's Web of Debt," May 1, 2010.

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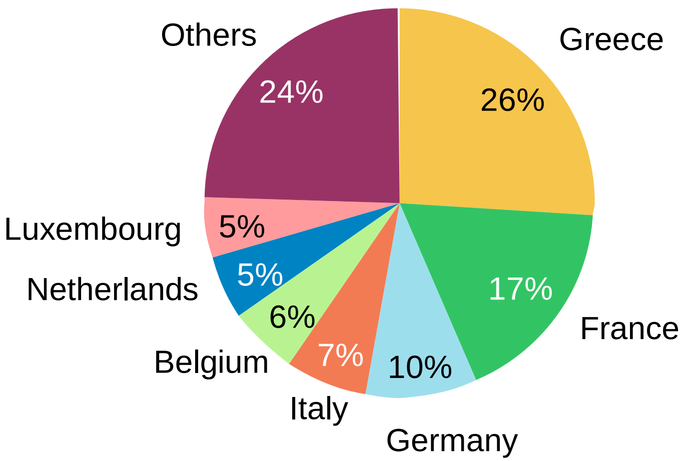
Who Holds Greece Debt?

Breakdown by Investors

Greek Debt Holders by Region

As of Q3 2009

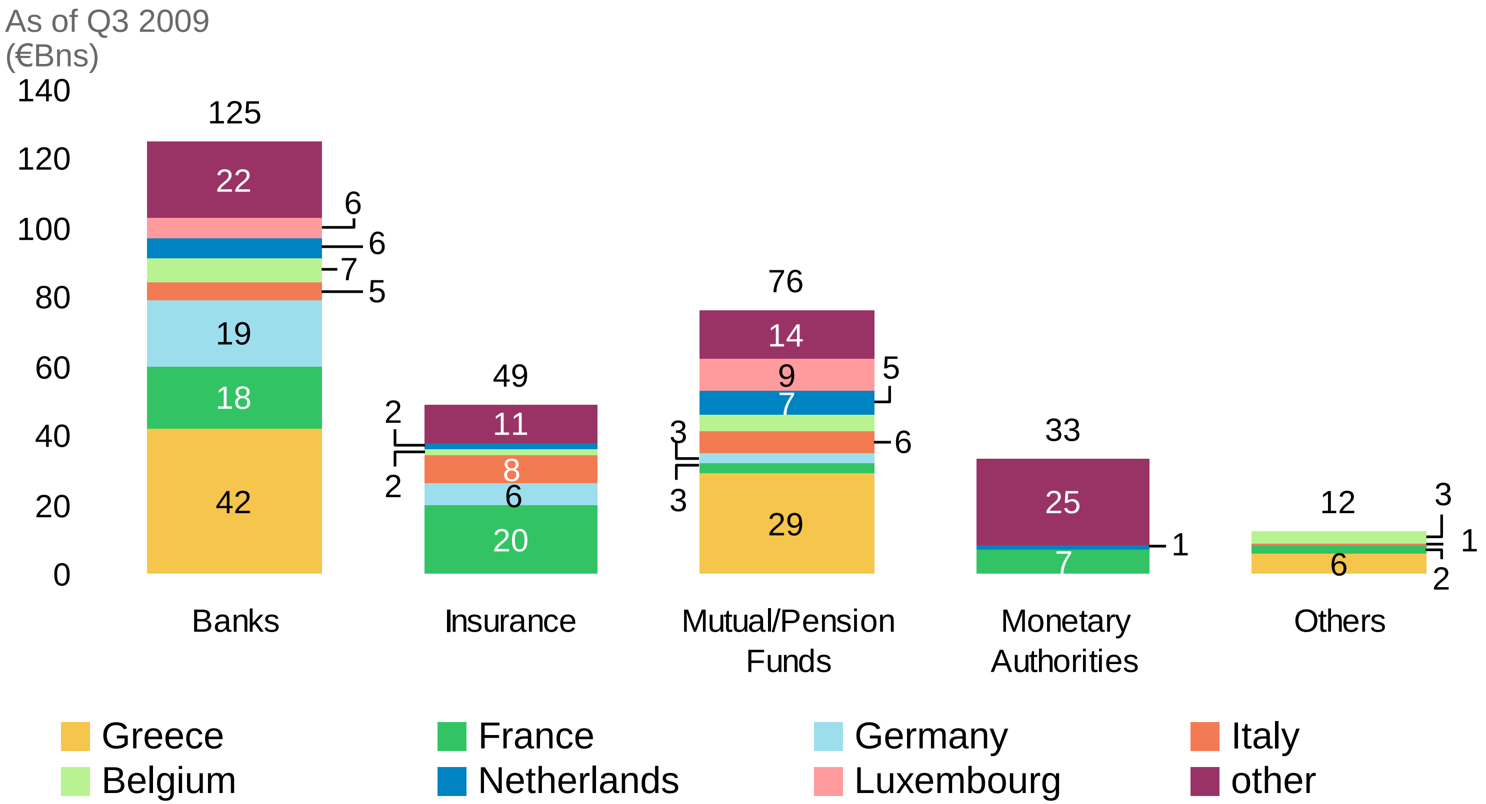


Summary As of Q3 2009 Type	Percent
Banks	**42%**
Insurance	**17%**
Mutual/Pension Fund	**26%**
Monetary Authority	**11%**
Others	**4%**

Who Holds Greece Debt? (cont'd)

Breakdown by Investors

Greek Government Debt Holders

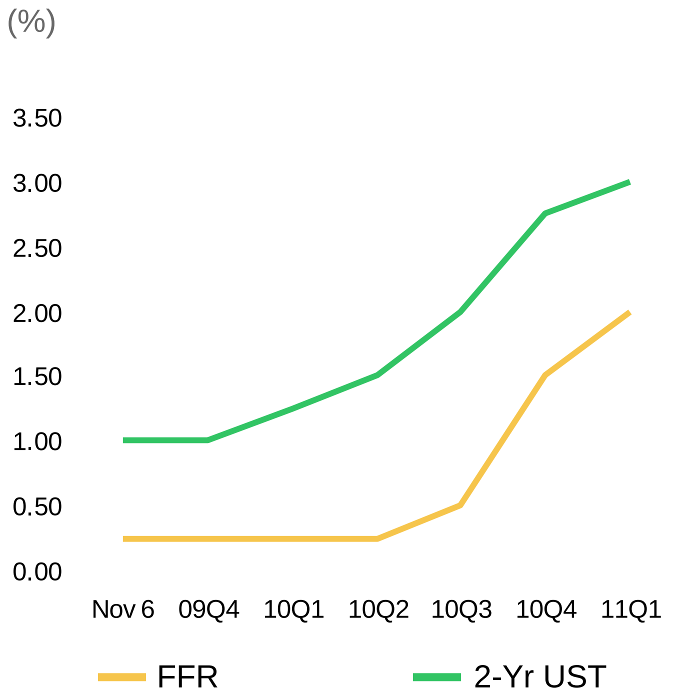


Source: Financial Times

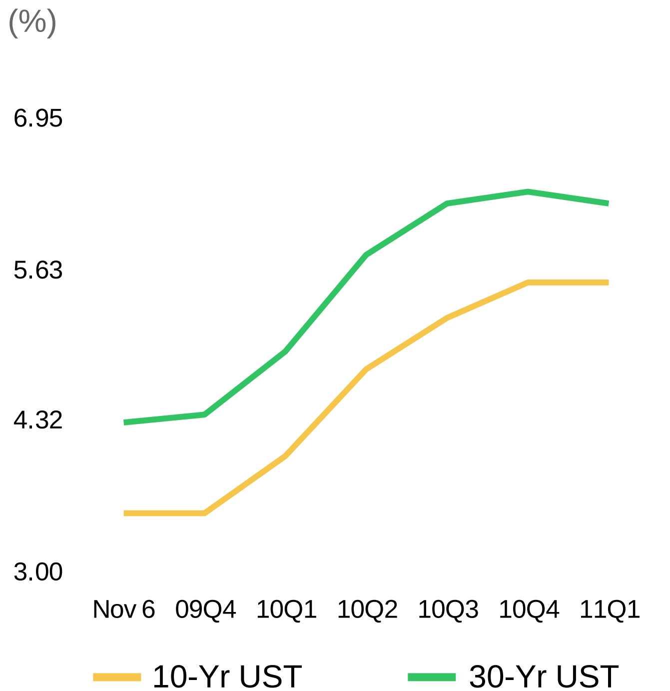
Morgan Stanley Rate Outlook

Rates Expected to Rise

Short Term Rates



Long Term Rates



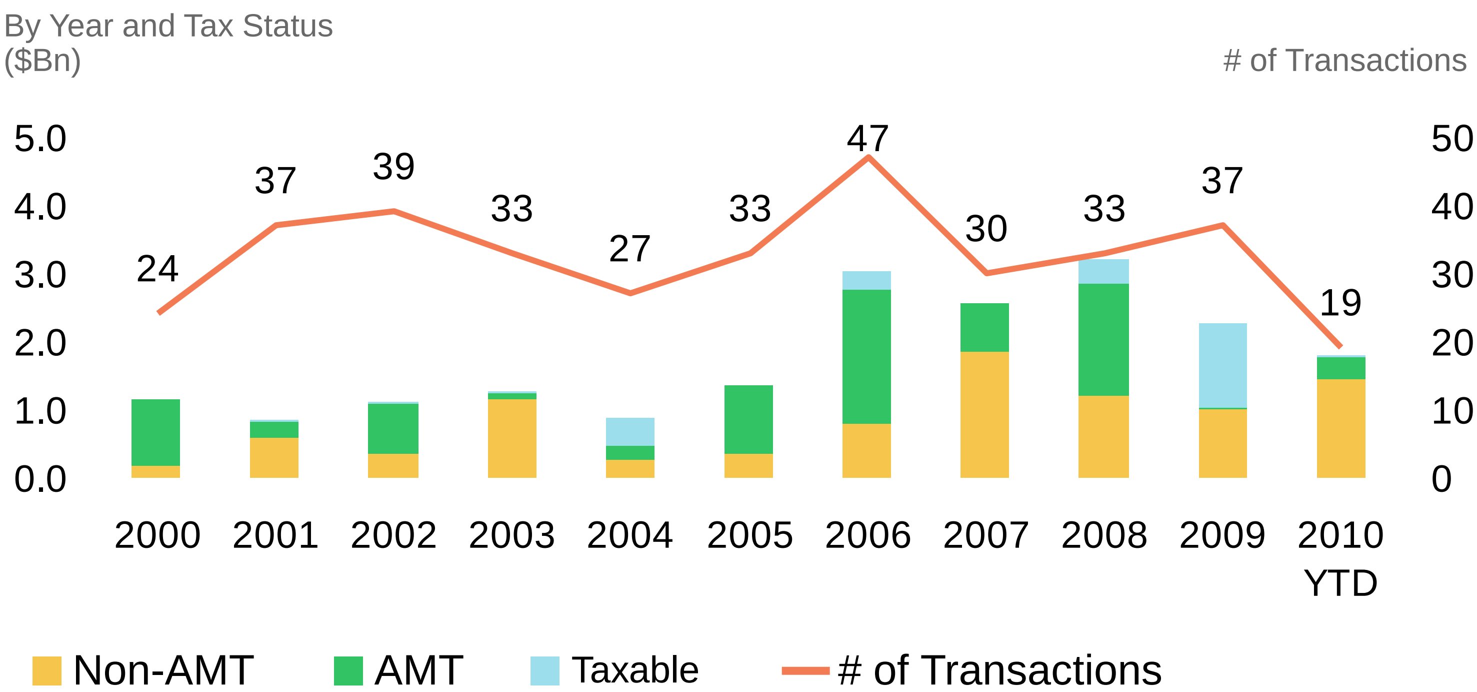
Source: Morgan Stanley Research, Bloomberg

Seaport Finance Market

Seaport Finance Market

Volume and Tax Status Trends

Seaport Issuance Volume



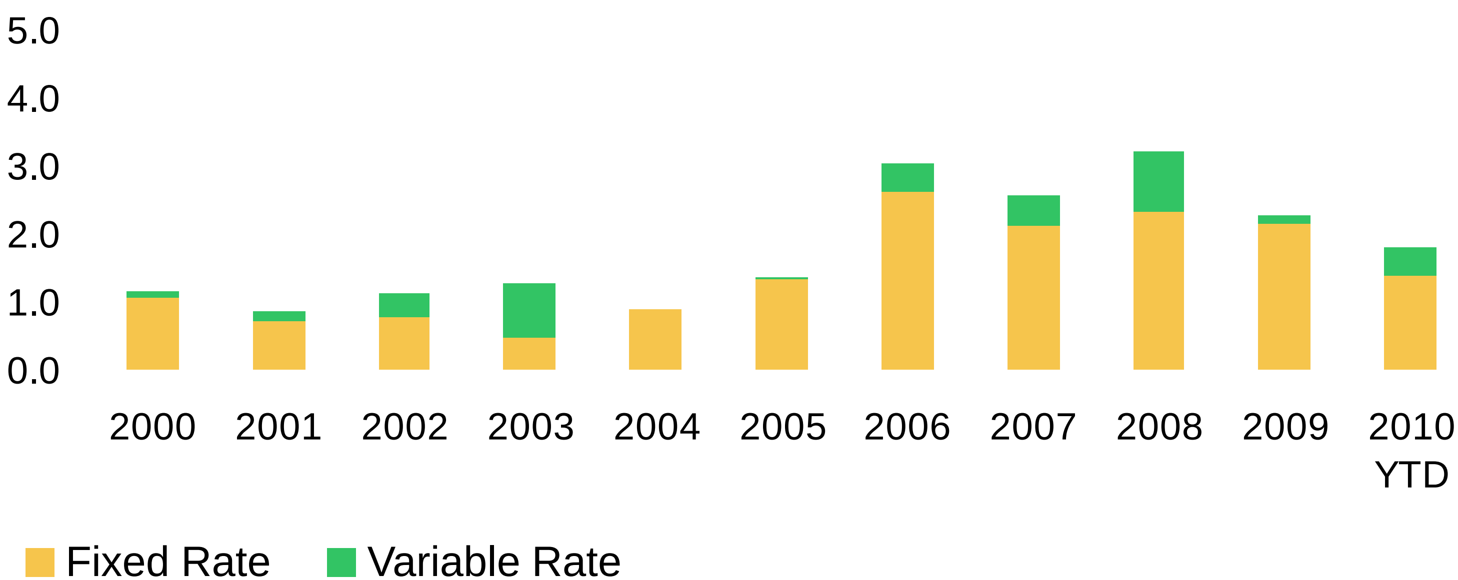
Source: Securities Data Corporation

Seaport Finance Market

Volume and Tax Status Trends

Seaport Issuance Volume

By Year and Tax Status
($Bn)



Source: Securities Data Corporation

Summary of 2010 Seaport Financings

Notable Fixed-Rate 2010 Seaport Financings

			Ratings			Yield			MMD Spread (bps)		
Issue Date	Issuer	Par ($MM)	Moodys	S&P	Fitch	10Y	20Y	30Y	10Y	20Y	30Y
1/14/2010	Port of Houston Authority	91.2	NR	AAA	AA+	3.51%	4.14%	4.46%	+47	+38	+37
1/21/2010	San Francisco Port Comm.	36.7	A1	A-	A	-	-	5.13%	-	-	+108
2/2/2010	Alaska Ind. Dev. & Exp. Auth.	87.1	A1	AA-	NR	3.94%	-	-	+98	-	-
2/25/2010	North Carolina State Ports	43.9	A3	NR	BBB+	4.32%	5.02%	5.20%	+136	+120	+100
3/31/2010	Port of Long Beach	200.8	Aa2	AA	AA	3.56%	-	-	+47	-	-
3/31/2010	Port Authority of NY & NJ	116.8	Aa2	AA-	AA-	3.30%	-	-	+21	-	-
4/21/2010	Virginia Port Authority	68.6	Aa3	A+	NR	3.75%	4.54%	4.75%	+77	+72	+64
4/29/2010	Port of Long Beach	158.1	Aa2	AA	AA	3.41%	-	-	+47	-	-

Source: MSSRB

Seaport Credit Issues Under More Intense Review

Four critical areas of increased focus for rating analysts and investors

Weaker market demand and declining cash flow margins

- Is volume growing or declining?
- Focus on composition of cargo, shippers and competition
- Future capital needs

Investment losses and weaker balance sheets

- Increased focus on cash to debt as well as days cash on hand

Debt structure and liquidity stress

- Emphasis on bank and swap covenants
- How liquid are assets relative to short term debt (cash to puttable debt)
- Greater emphasis on counterparties and provisions under swap agreements

Market access solid now, but has been tenuous

- Assume limited access for "A" rated or higher in stressed times and no access for lower rated entities
- Want to know contingency plans if renewal of bank liquidity disappears

The New Ways of Marketing and Distribution

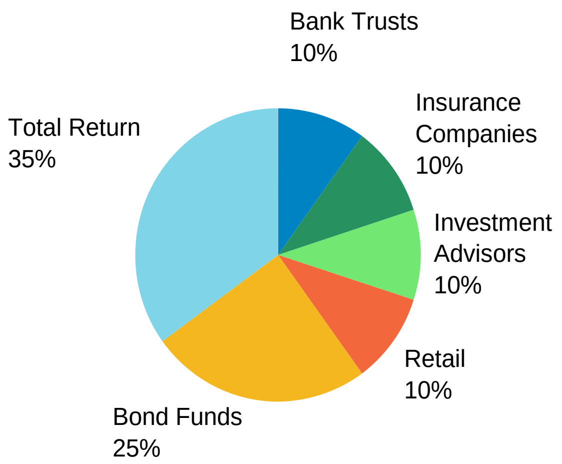
Evolving Investor Base

Changing Buyers of Fixed-Rate Municipal Bonds

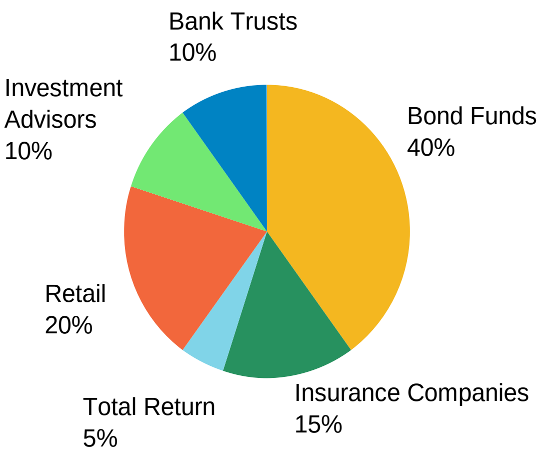
- Composition of bond investors has changed over past 2 years
- Total return investors have largely disappeared
- Retail investors resumed prominence
- More traditional institutional investors

Non-AMT Distribution

1-Year Ago



Today

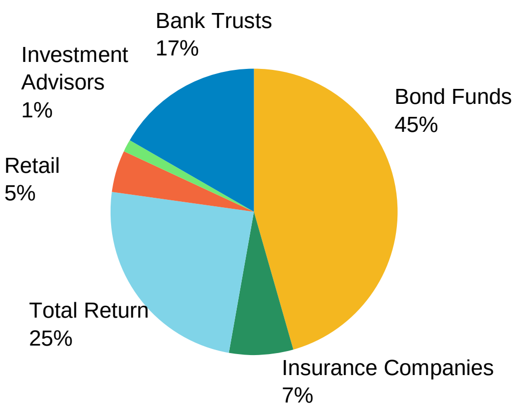


Tax-Exempt Investor Base

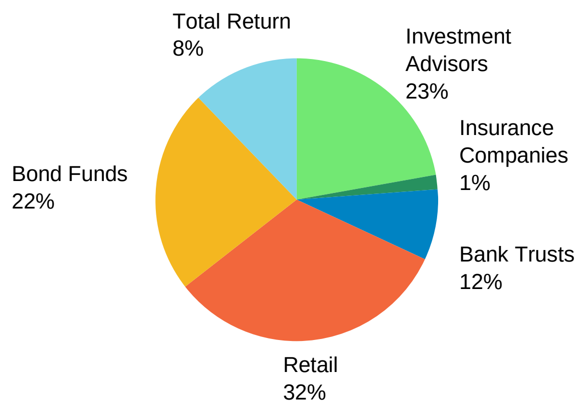
Recent Seaport Financings

Virginia Port Authority

Series 2006

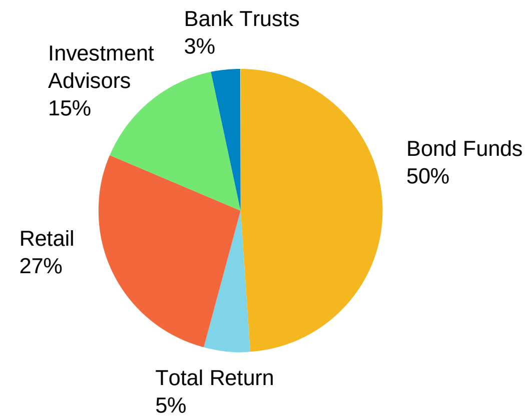


Series 2010



North Carolina State Ports

Series 2010AB

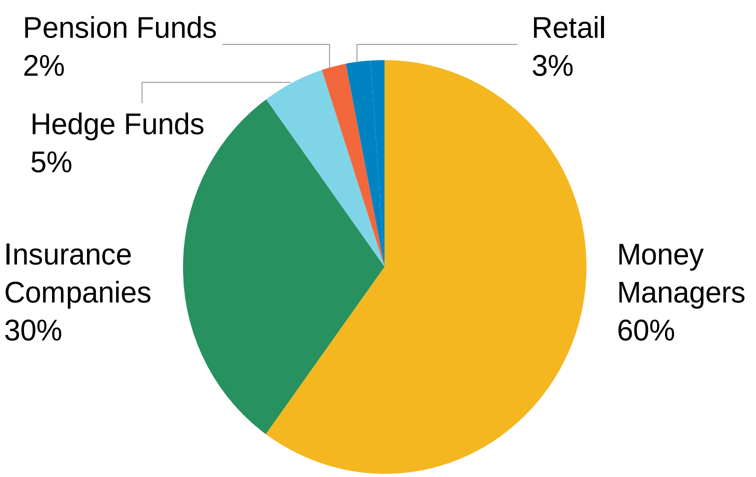


Investor Base – Taxable Bonds (and BABs)

Build America Bond Investor Base

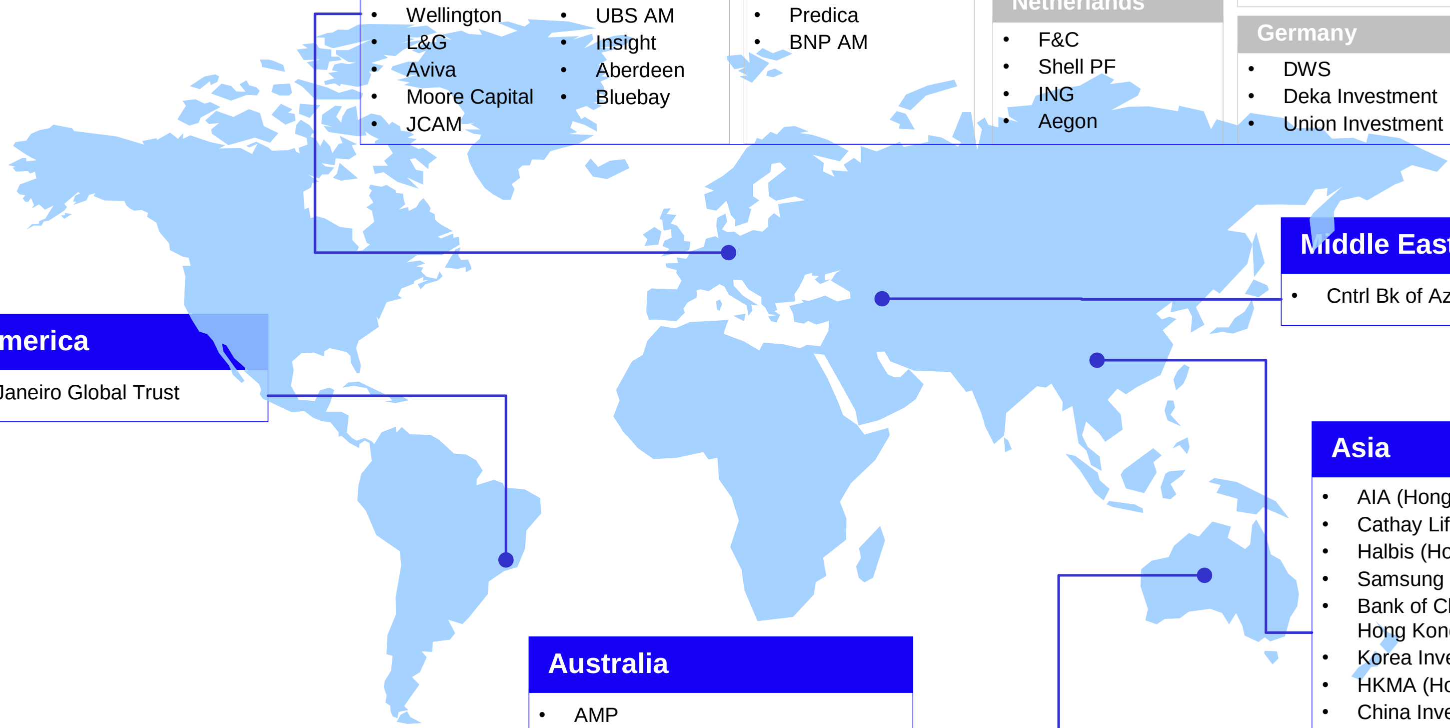
- BABs market is distinct from traditional municipal buyer base
- Appeal of BABs to international investors

Taxable Build America Bond Distribution



Global Investors for Build America Bonds

International investors are becoming more active in the BAB market



Europe

UK
- Blackrock
- PIMCO
- WAMCO
- Fidelity
- Wellington
- L&G
- Aviva
- Moore Capital
- JCAM
- Rogge
- UBS
- Schroders
- Henderson
- UBS AM
- Insight
- Aberdeen
- Bluebay

France
- Amundi
- Carmignac
- CPR AM
- CFF
- Predica
- BNP AM

Iberia
- ESAF
- BES

Netherlands
- F&C
- Shell PF
- ING
- Aegon

Switzerland
- Credit Suisse PB
- Swisscanto
- Julius Baer
- UBS PB

Germany
- DWS
- Deka Investment
- Union Investment

Italy
- Generali
- Banca IMI/Intesa

Nordic Region
- KLP
- AP4
- PFA
- Norges Bank
- Cntrl Bk of Finland

Middle East
- Cntrl Bk of Azerbaijan

Latin America
- Rio de Janeiro Global Trust

Asia
- AIA (Hong Kong and Singapore)
- Cathay Life (Taiwan)
- Halbis (Hong Kong)
- Samsung Life (S. Korea)
- Bank of China Life (China and Hong Kong)
- Korea Investment Corp (S. Korea)
- HKMA (Hong Kong)
- China Investment Corp (China)
- Bank of East Asia (Hong Kong)
- Private Banks

Australia
- AMP
- QBE
- UBS Asset Mgmt

International Buyers Have Diverse Objectives

Broadening Buyer Base To Global Investors Will Improve Execution and Pricing

Asset Managers and Hedge Funds

- The largest and most important buyers of U.S. corporate and sovereign debt
- Orders from large funds can be as high as over $200 million for a benchmark issue
- Investors purchase across the curve although many funds can only buy out to a maximum maturity of ten years
- Investment process is focused on relative value within the term structure, credit strategies and tactical asset allocation
- Able to purchase across currencies, but many continental European accounts are focused on EUR-denominated issuance

Central Banks and Sovereign Wealth Funds

- Looking to diversify beyond U.S. Treasuries (sovereigns and sub-sovereigns are logical extensions on the credit spectrum)
- Able to purchase long-dated structures out to 30 years
- Investment strategies include both short-term and "buy and hold"
- Central banks have proven to be large buyers of USD exposure through unhedged USD-denominated investments
- If investing, more inclined to purchase government-backed issues, i.e. General Obligation debt
- Increasingly looking to build in-house fund management abilities

Banks

- Private Banks in Asia have historically been active purchasers of U.S corporate debt and sovereigns
- Asian banks look for high quality and, increasingly, for yield

Insurers

- Investment strategy is focused on duration management
- Able to purchase both intermediate and long-dated securities, although many Asian insurers are local currency-focused
- In-house fund management model is slowly evolving into a mixed model with significant outsourcing of portfolio management to professional fund managers

Reaching Investors

- Investors focused on credit
- Timely and ongoing outreach in a user friendly accessible format
- For larger transactions:
  - Internet and personal road shows
  - Dedicated websites
  - Print (and radio advertisements)

SFO

State of California

MWAA

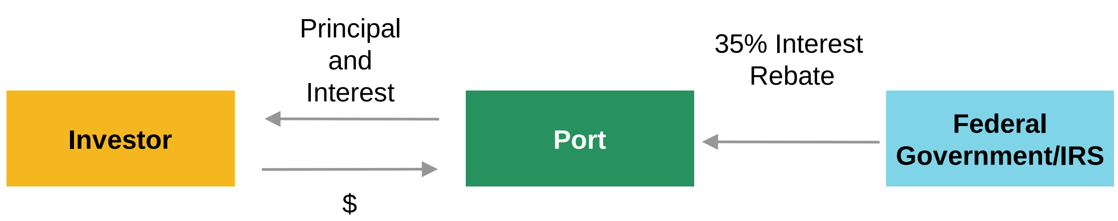
ARRA and Legislative Developments

Overview of Build America Bonds

Build America Bonds provide savings to most issuers over traditional tax-exempt financings

- Build America provides issuers of non-AMT tax-exempt debt with a 35% interest payment subsidy from the Treasury if they issue in the taxable market
  - Allows issuers to take advantage of relatively low taxable rates in the current market
- By using BABs, issuers can achieve borrowing rates (after the interest rebate from the Treasury) that are lower than they could through pure tax-exempt debt
- BABs also allow municipal issuers to access new investor bases and enhance their credit

Build America Bond Structure



Build America Taxable Bonds Program

Terms and Conditions

Applicable Period:	These provisions only apply to bonds issued before January 1, 2011, but apply for the life of the bond.
Tax Status:	Interest paid on the bonds would be included in gross income for federal income tax purposes.
Qualified Issuers:	Only issuers that meet the standards of Section 1.103 of the Internal Revenue Code can issue the bonds.
Eligible Projects:	100% of the project proceeds from the bond issue must be used for capital expenditures that meet certain specifications in Section 54A.
Payment of Credit:	The Secretary of the Treasury would direct the federal government to pay 35% of the interest payable under the bond issue on each payment date, thereby lowering the costs on the original issuance.
Arbitrage:	All arbitrage rules apply; the arbitrage yield is calculated net of the government payment to the issuer.

Due to program constraints, limited applicability for ports

ARRA Provisions – Benefits to Port

- Introduction of Build America Bond Program
  - Provides 35% debt service subsidy for eligible "governmental purpose" projects
- Provides "AMT Holiday" for new private activity bonds and refinancing of outstanding private activity bonds issued post-2003 – providing interest savings of around 75bps per year

Provisions scheduled to expire on December 31, 2010 unless extended

ARRA Provisions – Current Legislative Status

Current bills under consideration by the House and Senate would:

- BABs:
  - Extend BABs for 2 years
  - Drop subsidy to 32% and eventually 30%
  - Allow current refunding of BABs
- AMT Holiday:
  - Extend holiday through December 31, 2010 for new money and refundings of bonds issued post December 31, 2003

ARRA Provisions – Impact of BABs Subsidy Reduction

Indicative $100mm BABs/TE Port Financing (‘A’ Rated) Statistics			
	35% Subsidy (Current)	**32% Subsidy**	**30% Subsidy**
Total Par Amount	$100,000,000	$100,000,000	$100,000,000
Build America Bonds	$80,990,000	$73,625,000	$67,790,000
Tax-Exempts	$19,010,000	$26,375,000	$32,210,000
Average Annual DS	$5,867,558	$6,028,264	$6,131,850
All-In TIC	4.03%	4.19%	4.30%
PV Loss (1)	**-**	**$2,501,757**	**$4,096,889**

(1) Due to decrease in subsidy level

Conclusion

- Ports will continue to secure funding from the traditional sources
- Extension of ARRA provisions provide additional opportunities for capital formation
- Differentiating & positioning the port’s credit in a granular way
- Maintaining ongoing outreach with investors