



American  
Association of  
Port Authorities

Commissioners  
Seminar

Introduction to  
Seaport Financing

May 18, 2011



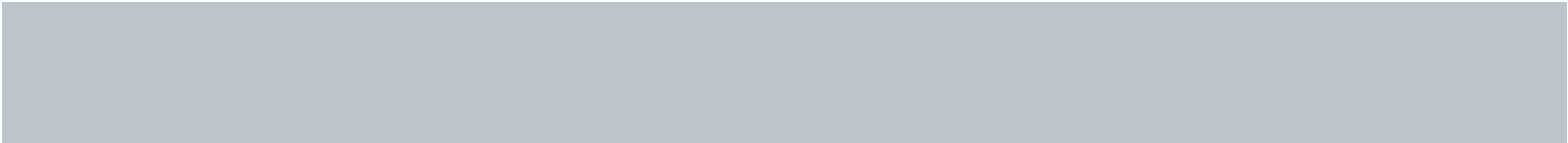
**Juan Pittman, Managing Director**  
**Jessica Soltz Rudd, Senior Director**

 **FRASCA & ASSOCIATES, L.L.C.**

# Agenda

- I. **Municipal Bond Overview**
  - II. **The Financing Process**
  - III. **Various Team Members' Roles**
  - IV. **Underwriting and Securities Process**
  - V. **Best Practices**
- Appendix**





**SECTION I**

**Municipal Bond Overview**

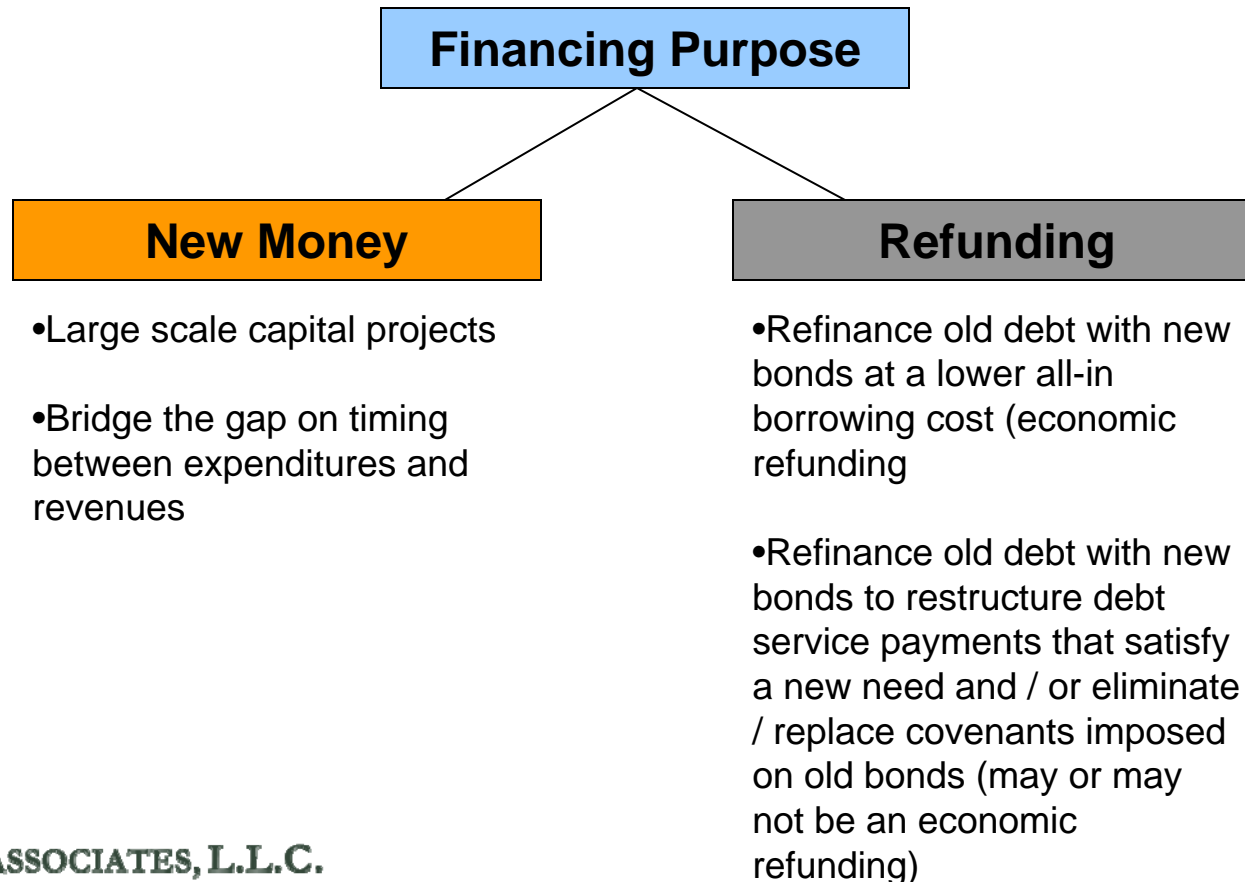


## The Need to Borrow & Viable Funding Options

- **The competitive, capital intensive nature of seaports frequently results in financial demands beyond available annual cash flow that are sometimes best met through leveraging.**
  
- **Various capital funding options, include:**
  - **Federal & State grants**
  - **Direct loans**
  - **Third party financings**
  - **PPPs**
  - **Commercial Paper – short-term (1-2 years), variable-rate debt instruments that usually have some type of external support (Letter of Credit)**
  - **Bond – a long-term debt instrument obligating the borrower to repay over a fixed period of time. Bonds maturities are typically anywhere from 1 to 30 years.**

# Purposes of Public Borrowing

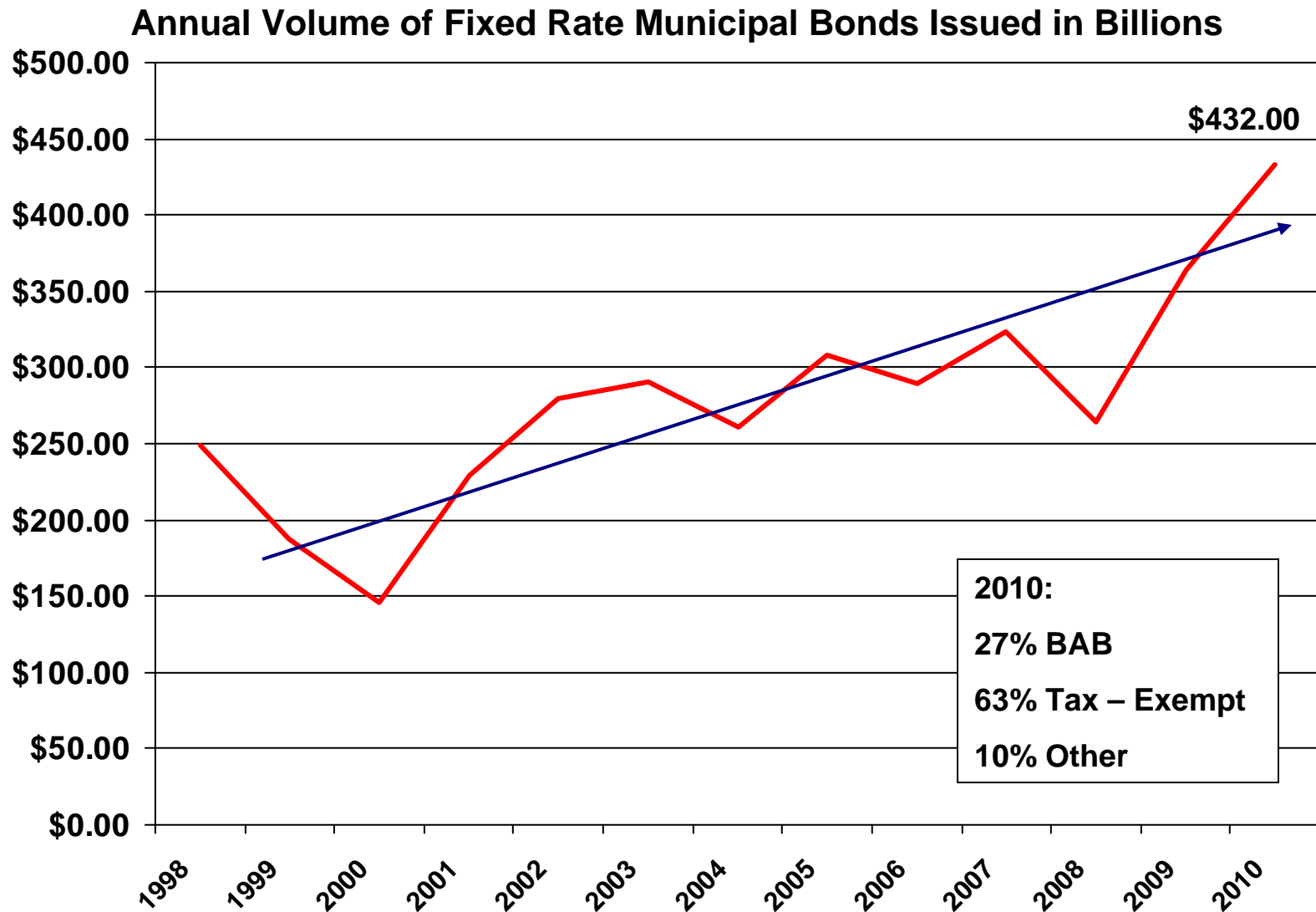
- **Meet essential capital and infrastructure needs**
- **Maintain health and safety standards**
- **Preserve quality of life and community interests**
- **Pay for long-term assets over useful life – cost/benefit allocation**
- **Cash flow borrowings**



# What Makes Municipal Bonds Unique?

- Interest on qualified municipal securities is exempt from federal income taxation
  - **Sixteenth Amendment to the U.S. Constitution created national income tax**
  - **Since 1913, most municipal bonds have enjoyed exemption from taxation under doctrine of “reciprocal tax immunity”**
  - **Tax-exemption periodically comes under threat, particularly in times of federal budget deficits:**
    - **1968** – first attempt to curb private use of tax-exempt bonds by defining “public purpose” and limiting private use to 25% with exemptions for Seaports and other quasi-public enterprises
    - **1986** – sweeping restrictions implemented including arbitrage rebate, Alternative Minimum Tax (AMT), reduction of private use to 10%, state by state volume caps for qualified private activity bonds, restriction to one advance refunding
    - **Periodic** “flat tax” proposals and specific targeted types of issuance (stadiums, convention centers)
    - **2010** – Proposed legislation to discontinue tax-exempts and permanently institute taxable Build America Bond system
- Interest on federally tax-exempt bonds issued by governmental entities in a specific state are also (generally) exempt from that state’s income tax
- Most seaport bonds are generally subject to AMT treatment
  - More costly than traditional bonds (non-AMT)
  - Public Hearing requirement, limits on refundings and other restrictions

# Growth in Municipal Debt Issuance Has Been Dramatic



# Historical Cost of Funds

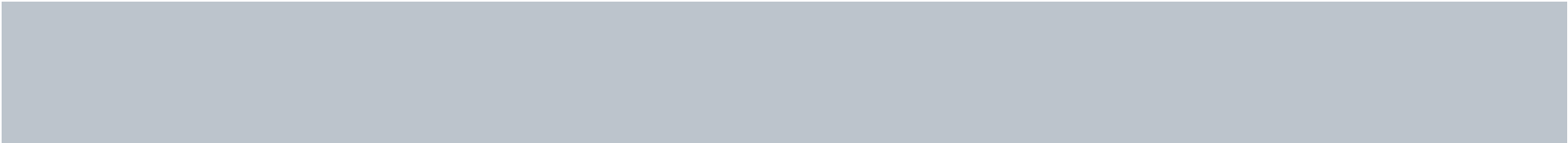
Bond Buyer 25-Year Revenue Bond Index:  
1979 - Present





## **Primary Financing Vehicle: The General Seaport Revenue Bond**

- **Bondholder security is comprised of revenues generated by various activities at the seaport**
- **Strength of pledge is the diversity of seaport revenues, including:**
  - **Rentals**
  - **Lease revenues**
  - **Royalties**
  - **TEU or truck relate fees**
  - **Fuel fees**
  - **Miscellaneous**
- **Typical Rate Covenant is 125% for Senior lien bonds and 110% for Subordinate lien bonds**
- **Additional Bonds Test typically considers historical or prospective performance**

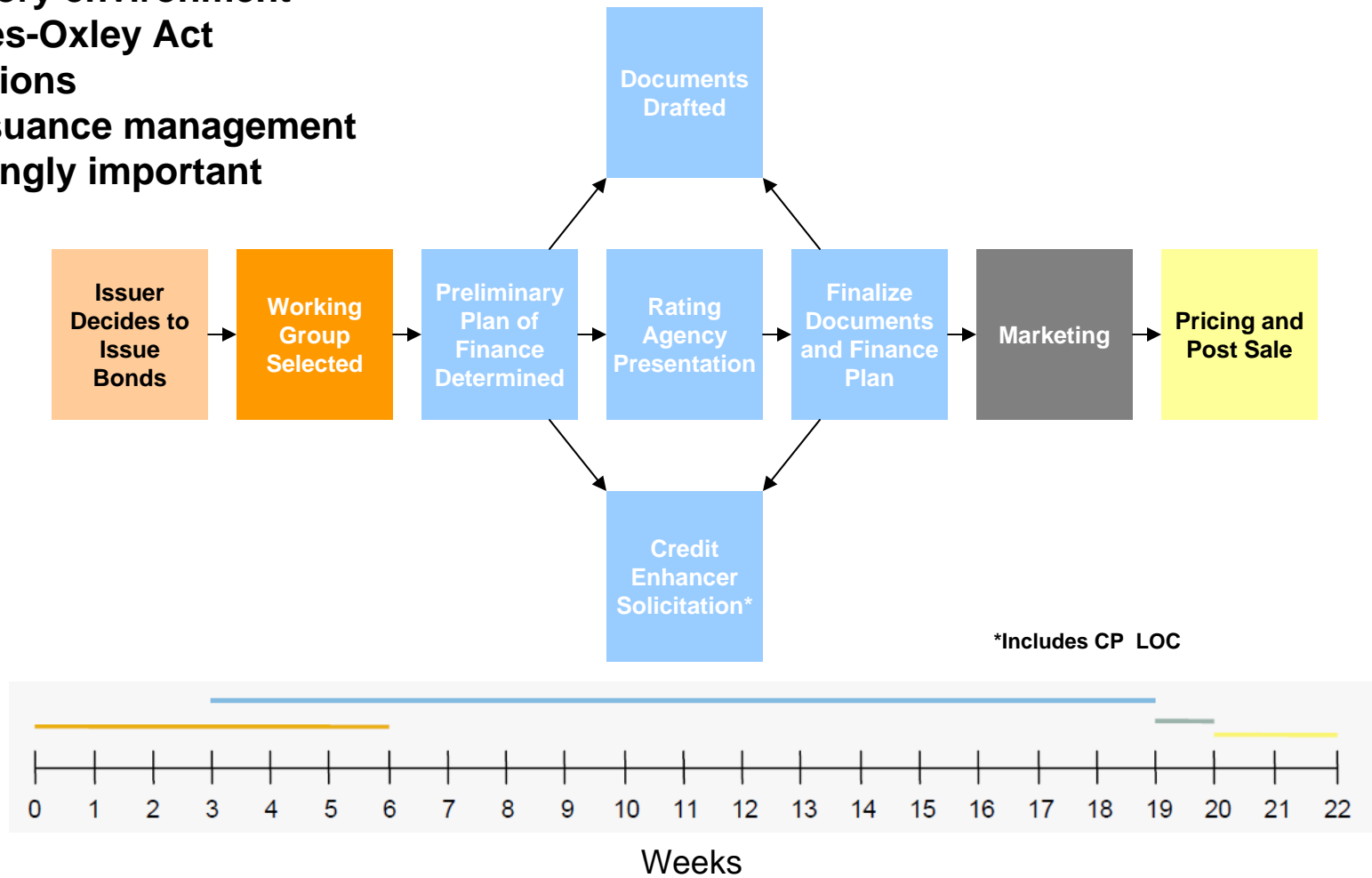


**SECTION II**  
**The Financing Process**



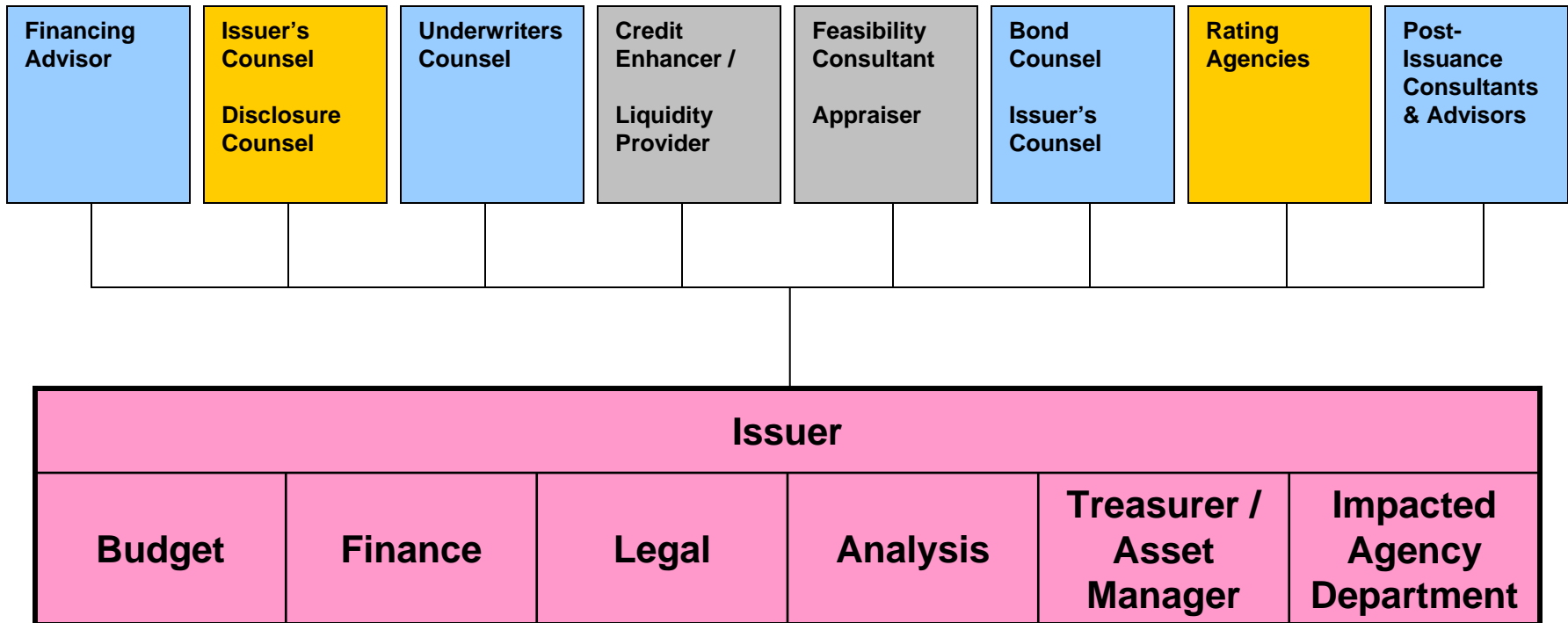
# Overview of the Financing Process

- Debt Issuance can be complex and lengthy
- Regulatory environment
- Sarbanes-Oxley Act implications
- Post-issuance management increasingly important

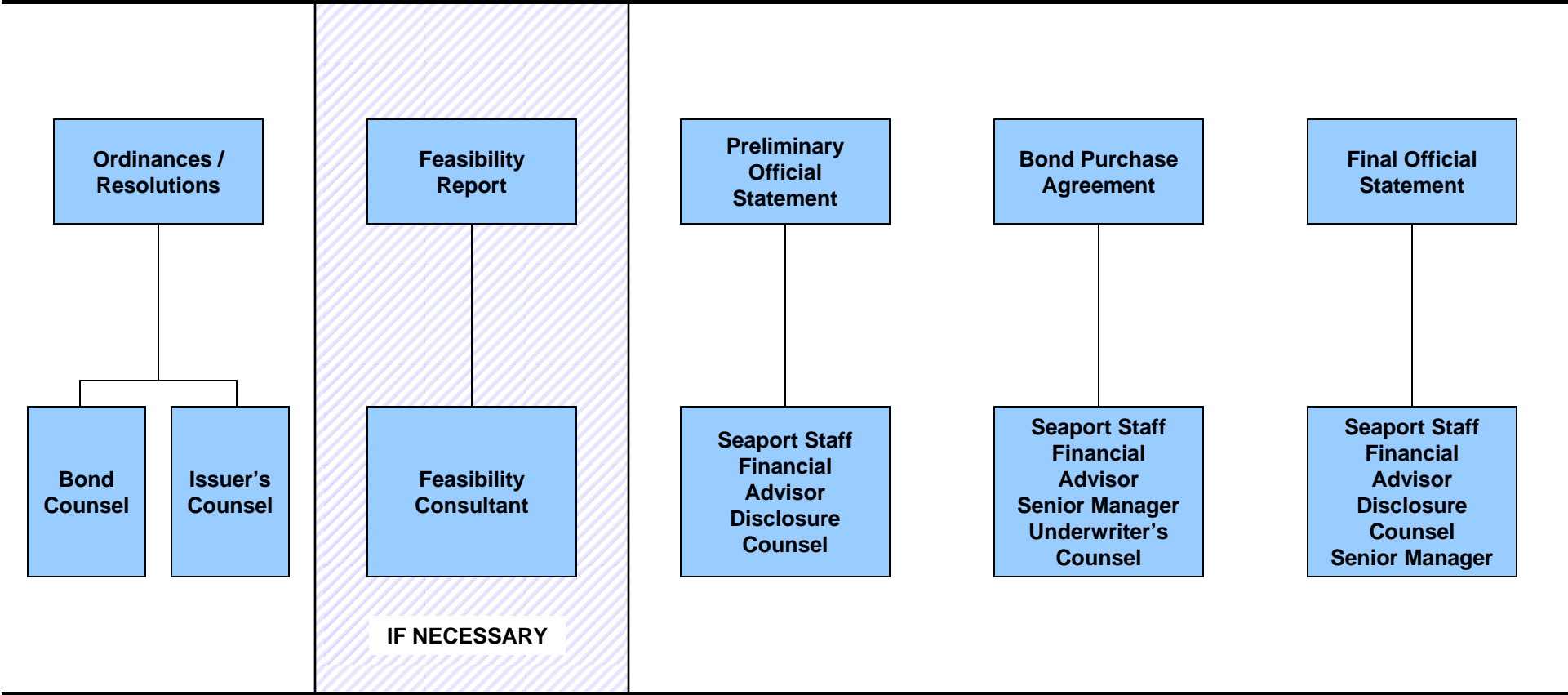


# Potential Financing Team Members

## Potential Financing Team Members



# Principal Legal Documents and Responsible Parties



**SECTION III**  
**Various Team Members' Roles**



# The Financial Advisor's Role

## “Navigate the Intricacies of the Financial Marketplace”

### ➤ Debt planning phase:

- Support assembling the financing team
- Advise management regarding debt structures, develop documents, assess financial metrics
- Assist in devising rating agency and market strategy
- Support underwriters in market/pricing and then evaluate process

### ➤ Ongoing assistance:

- Advise management in developing and implementing financial targets, capital planning, modeling, lease negotiations, etc.

## Developing & Achieving Financial Targets Is Critical to Obtaining A Strong Rating and Investor Interest

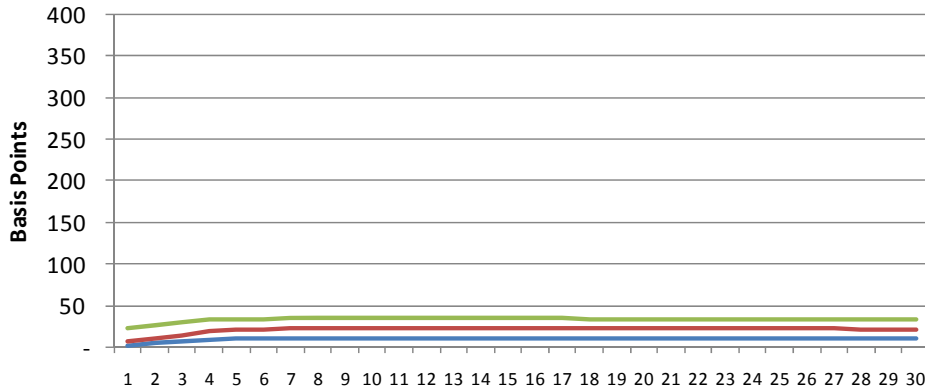
<b><u>First steps:</u></b>	<b><u>During financing process:</u></b>	<b><u>Annually:</u></b>
<ul style="list-style-type: none"><li>➤ Evaluate: operational performance, balance sheet, operating statement, and debt profile</li><li>➤ Understand long-term operational and capital needs</li><li>➤ Develop operational &amp; financial targets</li><li>➤ Assess performance quarterly and reevaluate annually</li></ul>	<ul style="list-style-type: none"><li>➤ Opt for financing structure that minimizes risk and maximizes return</li><li>➤ Evaluate targets in relation to feasibility of projects</li><li>➤ Know industry comps &amp; what distinguishes your seaport and why</li><li>➤ Clearly communicate with industry players</li></ul>	<ul style="list-style-type: none"><li>➤ Release required compliance</li><li>➤ Communicate with stakeholders</li><li>➤ Update website, including investor relations section</li></ul>



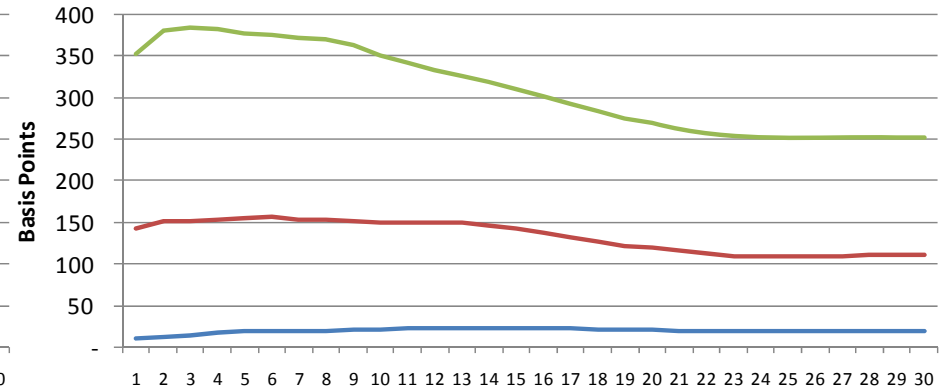
# The Importance of A Strong Rating: Credit Spreads

## Spreads to AAA MMD (Years 1-30)

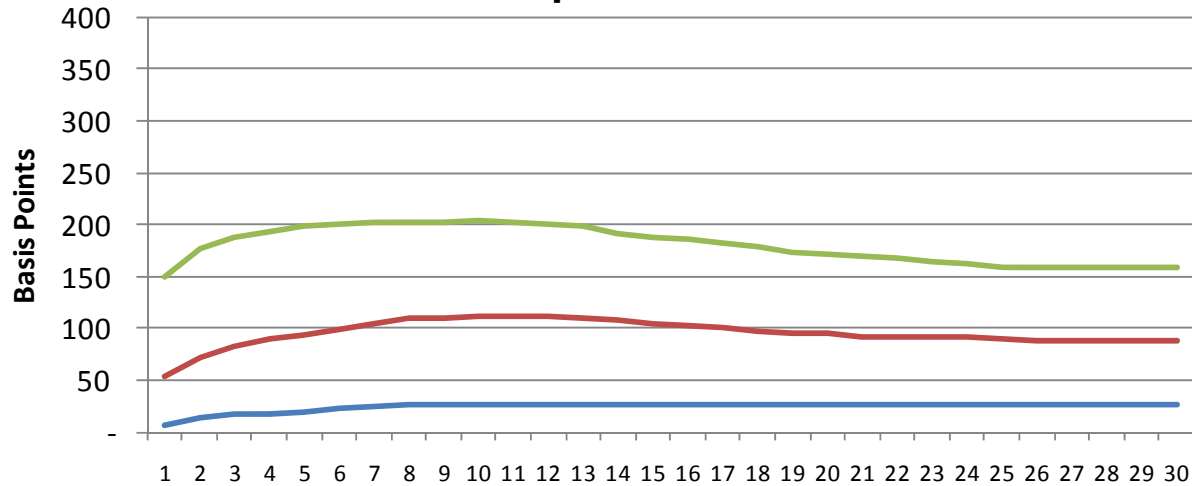
April 2007



April 2009



April 2011



— AA — A — BBB

# Most Bond Insurers Are No Longer Viable

**THEN**

September 2007

Insurer	Ratings (M/S/F)	Writing New Seaport Business?
Ambac	Aaa/AAA/AAA	YES
Assured Guaranty	Aaa/AAA/AAA	YES
CIFG	Aaa/AAA/AAA	YES
FGIC	Aaa/AAA/AAA	YES
FSA	Aaa/AAA/AAA	YES
MBIA	Aaa/AAA/AAA	YES
XL Capital	Aaa/AAA/AAA	YES
Radian	Aaa/AAA/AAA	YES
ACA	Aaa/AAA/AAA	YES

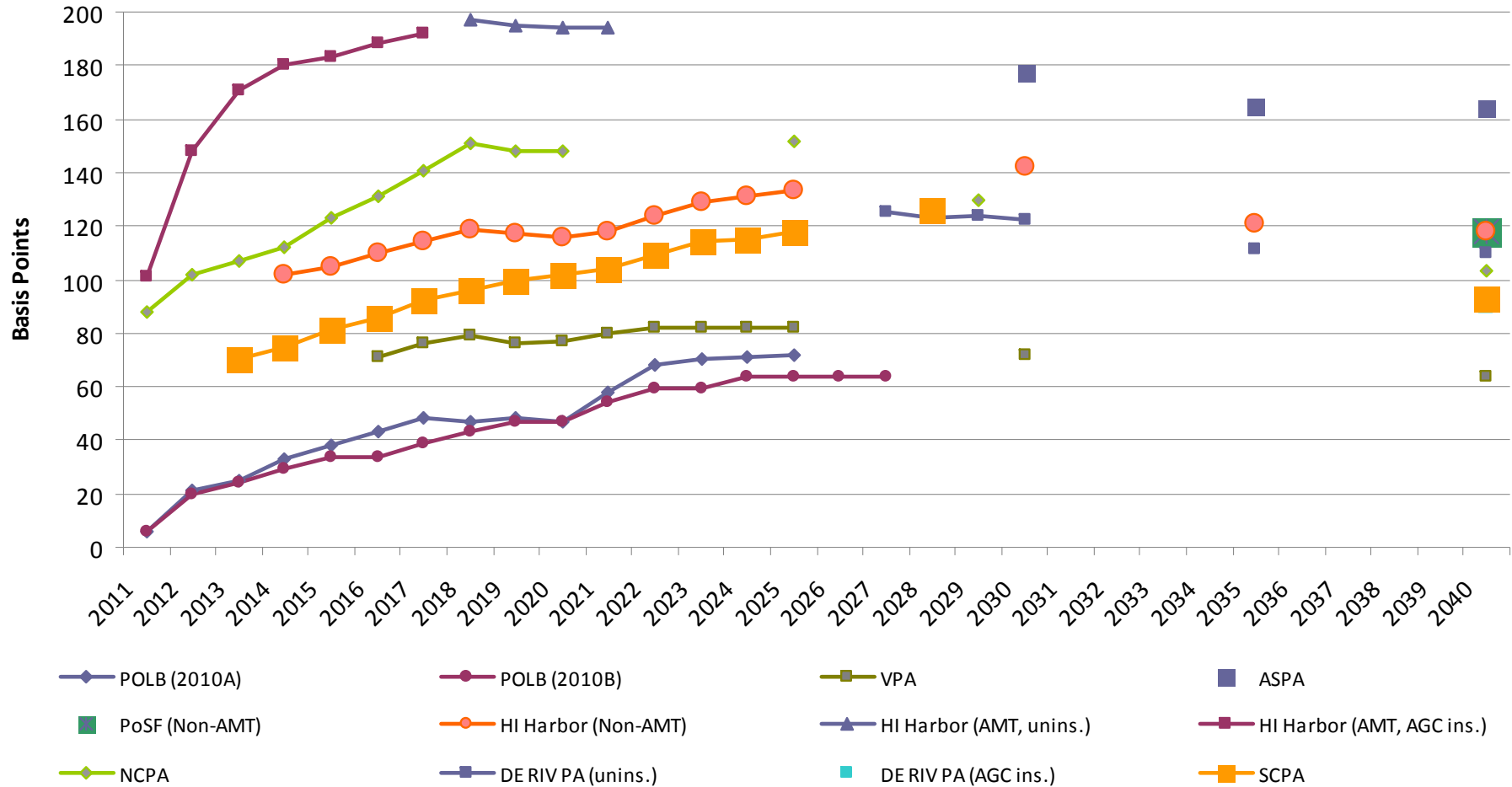
**NOW**

May 2011

Insurer	Ratings (M/S/F)	Writing New Seaport Business?
Ambac	Caa2/R/NR	NO
CIFG	NR/NR/NR	NO
FGIC	NR/NR/NR	NO
Assured Guaranty Municipal (FSA)	Aa3/AA+/NR	YES
XL Capital (Syncora)	Ca/R/NR	NO
Radian	Ba1/BB-/NR	NO
ACA	NR/NR/NR	NO
NPFG	Baa1/BBB/NR	NO
BHAC	Aa1/AA+/NR	NO

# Recent Financings (CY2010)

## Spread to MMD for Select Tax-Exempt Transactions

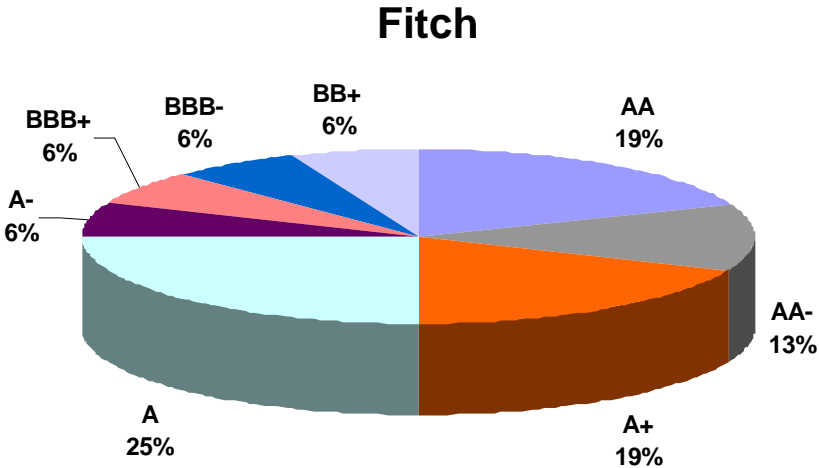
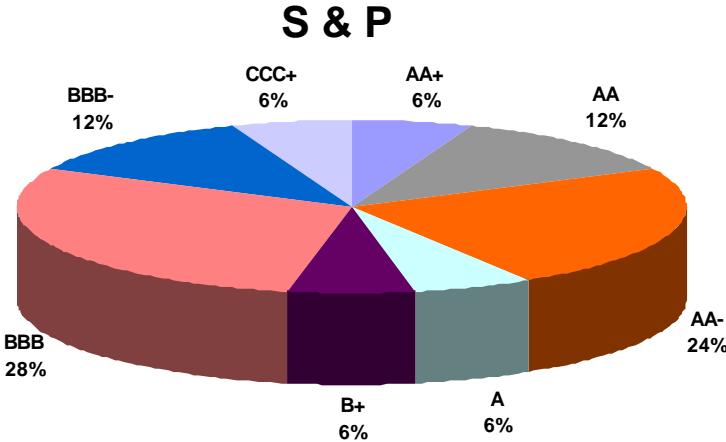
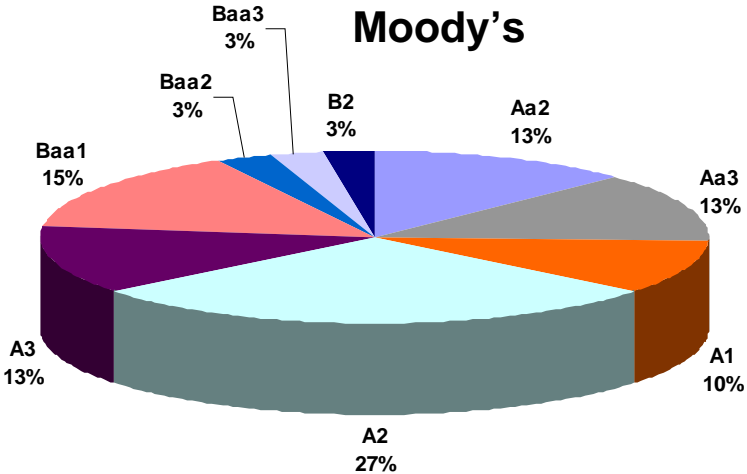


# Recent Financings

## Select 2010 Port Transactions

Sale Date	Issuer	Par Amount (\$m)	Underlying Ratings (M/S/F)	Tax Status	Insurance	Final Maturity	Final Maturity	
							Yield	Spread to MMD (bps)*
1/22/10	Port Commission of San Francisco	14.220	A1/A-/A	Non-AMT	--	3/1/40	5.25	+118
1/22/10	Port Commission of San Francisco	22.430	A1/A-/A	Taxable	--	3/1/30	7.408	+380
2/25/10	Nort Carolina Ports Authority	43.935	A3/NR/BBB+	Non-AMT	--	2/1/40	5.20	+103
3/31/10	City of Long Beach - PoLB	200.835	Aa2/AA/AA	Non-AMT	--	5/15/25	4.22	+72
4/21/10	Virginia Port Authority	68.630	Aa3/A+/NR	Non-AMT	--	7/1/40	4.75	+64
4/29/10	City of Long Beach - PoLB	158.085	Aa2/AA/AA	Non-AMT	--	5/15/27	4.20	+64
7/8/10	Delaware River Port Authority	308.375	A3/A-/NR	Non-AMT	AGM (partial)	1/1/40	4.89 (ins.)/ 5.09 (unins.)	+90 / +120
10/21/10	City of Long Beach – Carnival Cruise Terminal Project	30.000	NR/BBB+/NR	Taxable	--	11/1/30	7.282	+475
11/17/10	South Carolina State Ports Auth.	170.000	A1/A+/NR	Non-AMT	--	7/1/40	5.55	+93
11/17/10	State of Hawaii - Harbor System	164.275	A2/A+/A+	Non-AMT	--	7/1/40	5.80	+118
11/17/10	State of Hawaii - Harbor System	37.115	A2/A+/A+	AMT	AGM (partial)	7/1/21	5.14 (unins.)	+194
12/9/10	Florida Ports Financing Committee	106.045	NR/BBB+/BBB+	Non-AMT	--	10/1/40	6.25	+164

# US Seaport Ratings: Solidly Investment Grade



# The Rating Agencies' Seaport Industry Outlooks

## ➤ Fitch Ratings: Stable Outlook

- **“Fitch expects that 2011 is likely to bring a continuation of the slow but measured recovery that began in 2010.”**

- Essential nature of port infrastructure to the global economy
- Increased restraint from U.S. consumers
- Prerecession levels not expected until 2012 at the earliest
- Use of leases with MAGS for downside protection

*2011 Outlook: Global Transportation Infrastructure; January 20, 2011*

## ➤ Moody's: Negative Outlook

- **“Downside risk remains despite early signs of recovery”**

- Cargo declines stabilized in early 2010; Fiscal year results will still be negative
- U.S. Ports operating in a highly competitive environment, complicated by evolving trade dynamics
- Shipping sector outlook stable, but profitability still more than a year away
- Weakened financial metrics pressure credit profiles
- Financing risks

*U.S. Port Sector Outlook; June 2010*

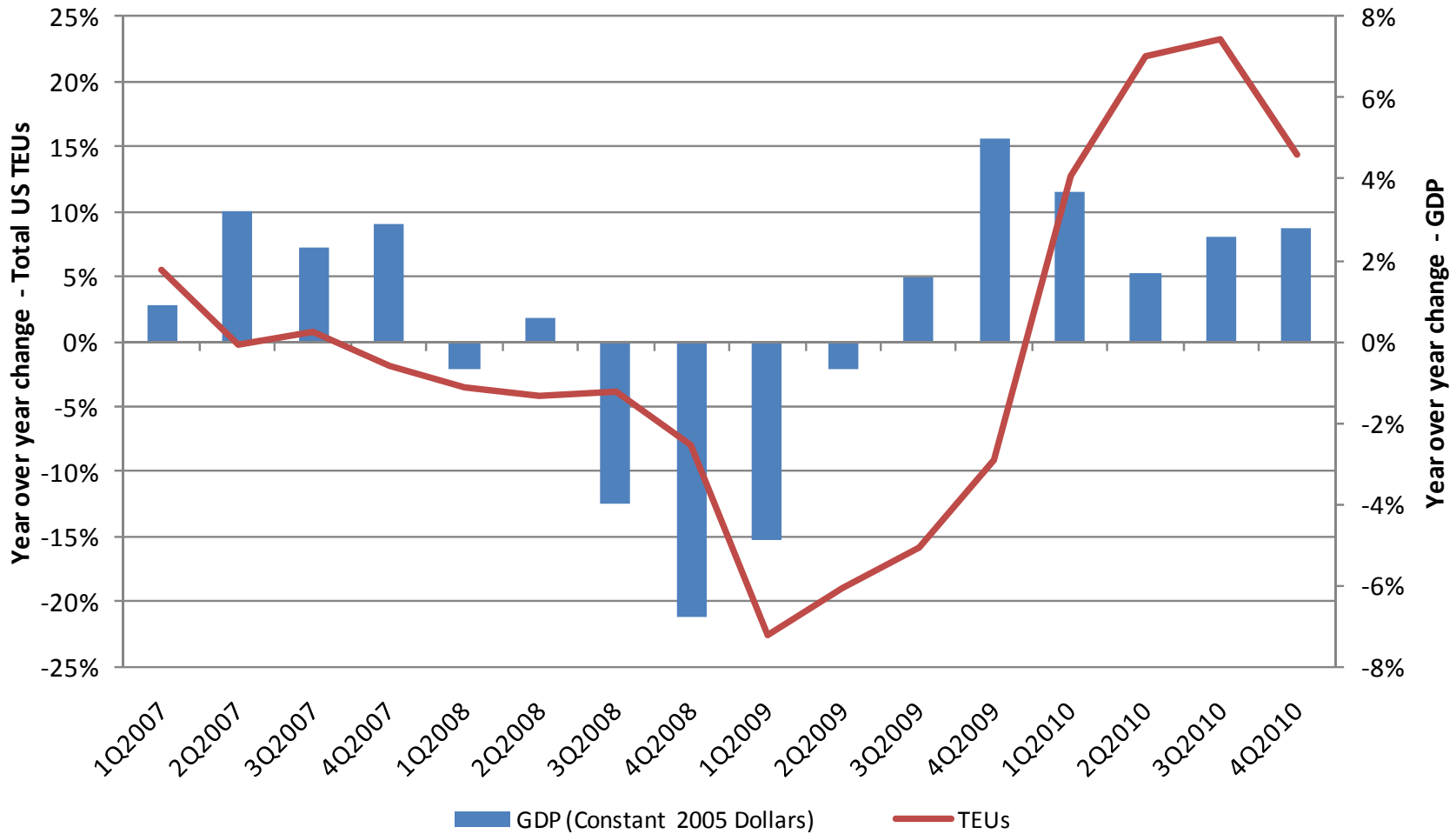
## ➤ Standard & Poor's: Individual Credit Outlooks

- **S&P has not provided a seaport industry credit outlook, rather the agency continues to provide an outlook for each individual credit**
  - To date: most seaport credits have a Stable Outlook

## Key Credit-Relevant Trends

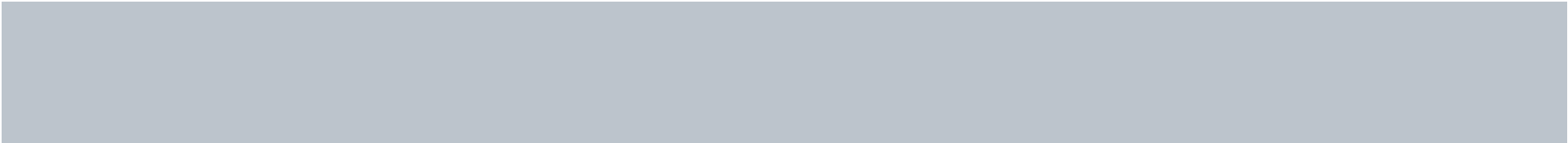
- **Price of fuel**
- **Decreased trade with Japan**
- **Increased competition/increased access**
  - **Panama Canal expansion**
- **Cost of improved intermodal connectivity**
- **Profitability of the shipping lines and port operators**
- **How to best plan for growth: The correlation between US GDP & container traffic has changed**

# GDP and Container Traffic Continue to Move in Step



Sources: Bureau of Transportation Statistics, Bureau of Economic Analysis





## SECTION IV

# Underwriting and Securities Process



# The Underwriting Process

## *Who are the Participants?*

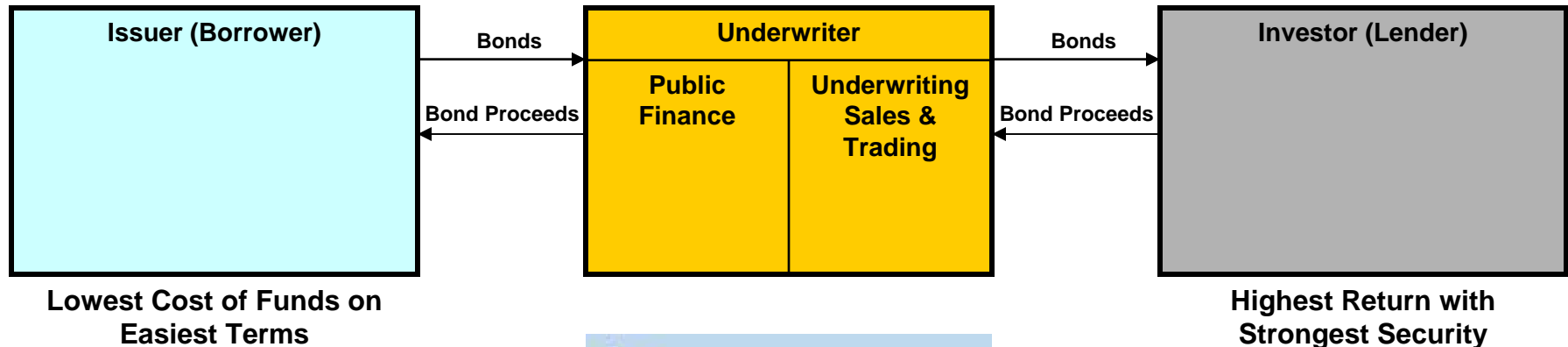
<ul style="list-style-type: none"><li>➤ <b>Underwriters</b><ul style="list-style-type: none"><li>▪ Develop marketing strategy</li><li>▪ Coordinate input from sales professionals</li><li>▪ Help finalize bond sales/structure</li><li>▪ Establish price/yield levels on the bonds</li></ul></li> <li>➤ <b>Sales Professionals: Institutional and Retail</b><ul style="list-style-type: none"><li>▪ Help coordinate marketing strategy</li><li>▪ Obtain input from investors regarding bond structure</li><li>▪ Solicit orders for the bonds</li></ul></li></ul>	<ul style="list-style-type: none"><li>➤ <b>Internal Credit/Research Staff</b><ul style="list-style-type: none"><li>▪ Write “credit report” and assist institutional sales force</li></ul></li> <li>➤ <b>Bond Investors: Institutional and Retail</b><ul style="list-style-type: none"><li>▪ Submit orders for new issues</li><li>▪ Buy and sell bonds in secondary market</li></ul></li> <li>➤ <b>Traders</b><ul style="list-style-type: none"><li>▪ Maintain secondary market trading liquidity for investors</li><li>▪ Buy and sell securities for a firm’s account</li></ul></li></ul>
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# Investment Banks Assist Issuers in Accessing the Capital Markets

- Underwriting is the intermediation of risk between issuer and investor
- Other non-financial examples of underwriting are Insurance

What is “Underwriting?”

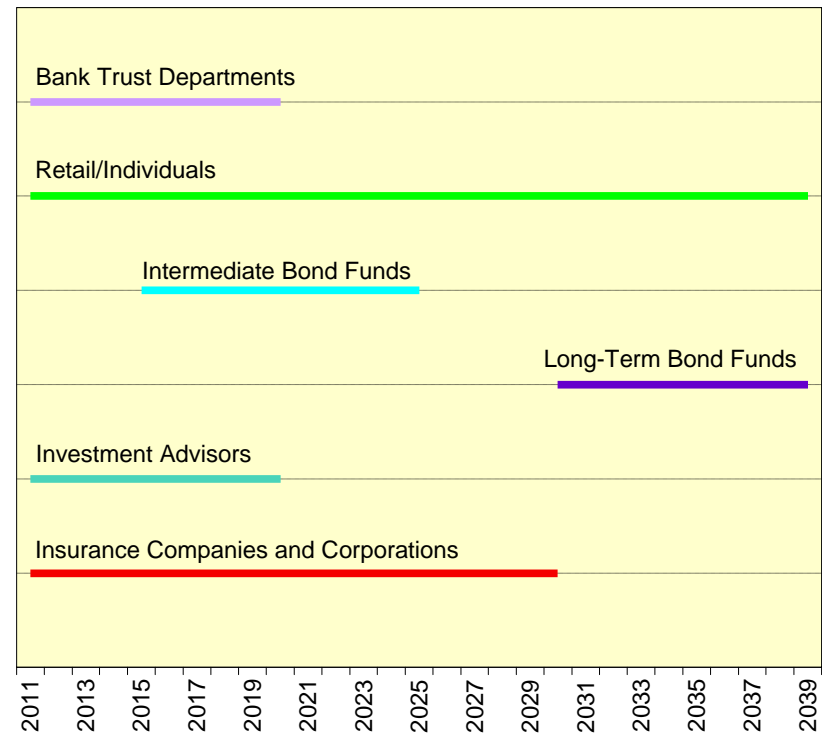
Intermediation of risk between Issuer and Investor



# Distribution of Debt Securities

- **Market Segmentation – Types of Investors (Maturity Range):**
- Bank trust departments (1-10 yrs)
  - Investment advisors (5-10 yrs)
  - Intermediate bond funds (5-15 yrs)
  - Insurance companies (P&C) and corporations (1-20 yrs)
  - Long-term bond funds (20-30 yrs)
  - Retail/Individuals (1-30 yrs)

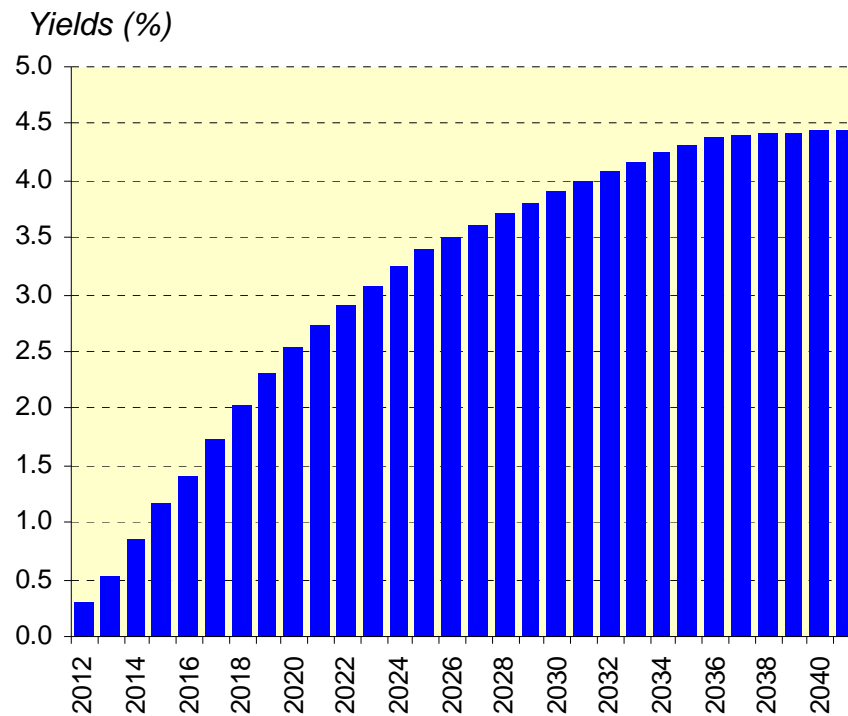
## Investor Maturity Preferences

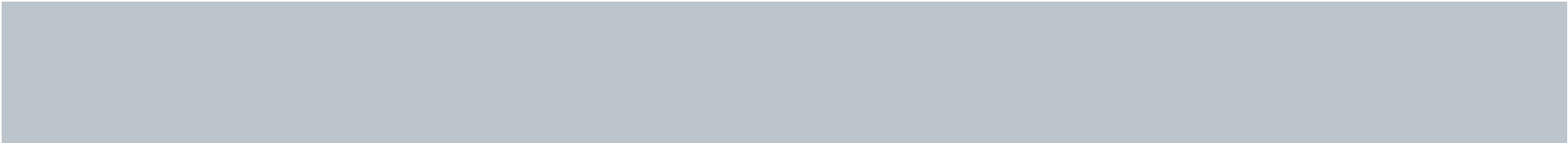


# Factors Affecting a Pricing

- **Market Psychology**
- **Economic Indicators**
- **Market Technicals**
- **Bond Structure**
- **The Yield Curve**

Current Yield Curve (as of May 5, 2011)





**SECTION V**  
**Best Practices**



## Debt Financing – Best Practices

- Stay abreast of industry issues and proactively plan
- Develop a multi-year capital plan
- Establish internal operational and financial targets
- Frequently evaluate performance & reevaluate targets
- Create a debt management plan
- Proactively manage relationship with the rating agencies and market participants
- Construct strong deal-related documents that support continuing disclosure



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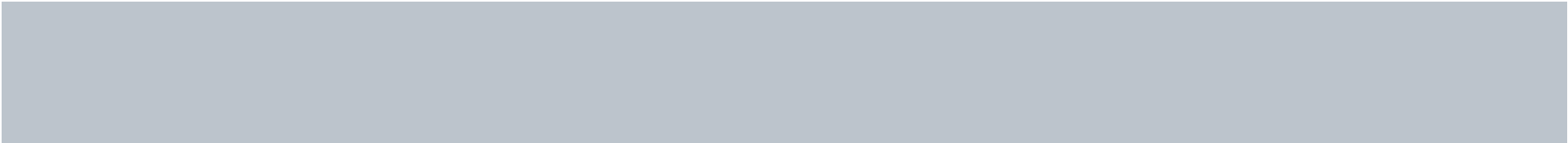
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**APPENDIX A**  
**The Working Group**



# The Working Group

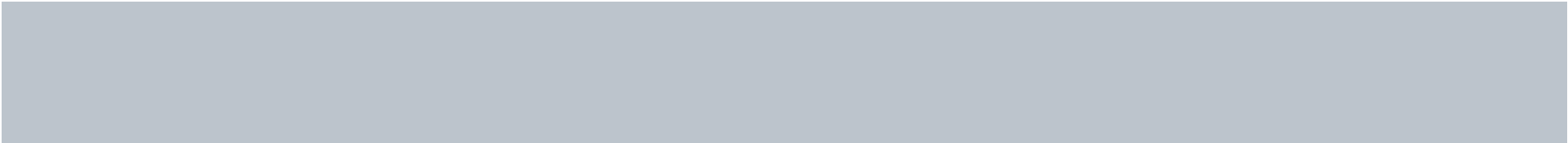
Team Member	Description	Responsible For:
Bond Counsel	<p>Represents the Bondholders and their interests. Responsible for rendering certain unqualified opinions relating to:</p> <ul style="list-style-type: none"> <li>• The organizational and legal existence of the issuer, including its power and authority to issue and sell bonds</li> <li>• Whether the ordinance has been duly adopted and is valid, binding and enforceable</li> <li>• Whether the bonds are duly authorized, executed and delivered, and are valid binding and enforceable</li> <li>• Whether the lien on revenues is valid and whether there is a first lien and security interest</li> <li>• Whether the bonds are exempt from federal and state taxation</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinance(s)</li> <li>• Authorizing Resolutions</li> <li>• Bond Counsel Opinion</li> <li>• POS/OS sections relating to: the Ordinance (including Security provisions) the Bonds, Tax Matters, Legality, Enforceability of Remedies, Summaries of the Ordinance [and Use Agreements]</li> <li>• Bond Purchase Contract</li> <li>• TEFRA Hearing</li> </ul>
In-House Counsel and/or Issuer's Counsel	<p>Represents the County and is responsible for drafting sections of the POS/OS and for its general completeness and accuracy. Also responsible for coordinating with the County on all matters relating to bond issuance.</p>	<ul style="list-style-type: none"> <li>• No Litigation Certificate</li> <li>• POS/OS sections related to: Litigation, Leases, [Summary of Use/Lease]</li> <li>• County certificates</li> </ul>

# The Working Group

Team Member	Description	Responsible For:
Financial Advisor	Specialist firm working for the Issuer to determine the financial feasibility of undertaking a capital project, evaluating and helping secure various forms of non-debt funding, structuring debt issues and preparing the Issuer to enter the bond market. Advises on terms and pricing of Bonds. Also responsible for preparing materials for rating agency and insurer presentations/solicitations and advising on the reinvestment of bond proceeds.	<ul style="list-style-type: none"> <li>• Schedule</li> <li>• Modeling, Bond structuring and Financial Analyses</li> <li>• POS/OS sections relating to: the Seaport, the County, the Project, the shipping Industry, Investment Risks</li> <li>• Advising on fees, pricing, marketing and distribution of Bonds</li> <li>• Rating agency/insurer coordination</li> <li>• Investment of proceeds</li> </ul>
Management Team (Underwriters)	Group of firms that price, market and sell the Bonds to investors, recommending the optimal timing and amortization schedule/terms. Led by a “Senior” (“Bookrunning” Manager) who has principal responsibility for pricing the Bonds.	<ul style="list-style-type: none"> <li>• Review all documents</li> <li>• Bond structuring</li> <li>• Insurance procurement</li> <li>• Pricing, sale, distribution of Bonds</li> </ul>

# The Working Group

Team Member	Description	Responsible For:
Underwriters' Counsel	Hired by the Management Team to serve as its legal counsel and to draft certain documents relating to the underwriting, sale and pricing of the Bonds. It spearheads the due diligence efforts and also opines on the completeness and accuracy of disclosure in the POS/OS.	<ul style="list-style-type: none"> <li>• 10(b)5 opinion</li> <li>• Bond Purchase Contract</li> <li>• Blue Sky Survey/Legal Investment Memo</li> <li>• Agreement Among Underwriters</li> </ul>
Feasibility Consultant	A forecasting firm specializing in the operation of Seaports whose Report, appended to the POS/OS, evaluates the demand for service at the Seaport, projects traffic, and evaluates the ability of the Seaport to generate sufficient net revenues to repay the Bonds.	<ul style="list-style-type: none"> <li>• Report of the Seaport Consultant</li> </ul>
Independent Accountant	The independent accounting firm used by the Issuer to audit its annual financial statements	<ul style="list-style-type: none"> <li>• Most recent Audited Financial Statements</li> <li>• Consent Letter</li> </ul>
Bond Trustee	Represents the Bondholders in ensuring that financial covenants are adhered to. Holds certain funds (principal, interest, reserve funds) and ensures that money is available for payment.	<ul style="list-style-type: none"> <li>• Variety of custodial receipts and certificates</li> </ul>



## APPENDIX B

### Principal Bond Documents



# Principal Bond Documents

Document	Description	Author(s)
General/ Supplemental Ordinances	<p>Legal documents outlining the legal relationship between the Trustee and the Issuer. It contains:</p> <ul style="list-style-type: none"> <li>• <b>Security Provisions</b></li> <li>• <b>Flow of Funds</b></li> <li>• <b>Rate Covenant</b></li> <li>• <b>Additional Bonds Test</b></li> <li>• <b>Parity Debt</b></li> <li>• <b>Events of Default</b></li> <li>• <b>Definitions</b></li> <li>• <b>Eligible Securities for Investment</b></li> </ul>	Bond Counsel
Feasibility Report	Appendix to the POS/OS that discusses the airport, its service area and its ability to generate net revenues sufficient to pay the bonds based on a short term traffic forecast.	Feasibility Consultant
Preliminary Official Statement	Disclosure document provided to potential investors in advance of pricing and sale. Details about coupons, yields, principal amounts, maturities and call features are all left blank.	Airport Staff Financial Advisor
Final Official Statement	Final offering document to investors with all blank information filled in.	Financial Advisor Senior Manager

## Principal Bond Documents

Document	Description	Author(s)
Bond Purchase Contract	Contract which sets the terms and conditions under which the Issuer will agree to sell and the Senior Manager on behalf of the Underwriters will agree to purchase the Bonds	Bond Counsel or Underwriters' Counsel
Agreement Among Underwriters	Document setting forth the legal and financial relationship among members of the Underwriting Team (the "Syndicate")	Underwriters' Counsel
Blue Sky/Legal Investment Memorandum	Memoranda which surveys the securities laws in each state and lists where the sale of bonds to the public, to broker dealers and to institutional accounts is permissible without registration or filing. Includes a summary of special considerations in various states	Underwriters' Counsel
IRS Form 80-38	Tax form outlining the disposition of bond proceeds	Bond Counsel
Insurance Policy Surety Policy and Tax Certificate	Self explanatory	Bond Insurer and its Counsel
Rating Letters	Written confirmation of ratings assigned to the transaction by each rating agency providing a rating	Rating Agencies