

THE POTENTIAL ECONOMIC IMPACT OF A CONCESSION AGREEMENT



November 8, 2011

*Steven Cernak
Port Director
Port of Galveston*

**IF You've Seen One Port,
You've Seen One Port**

THE PORT OF GALVESTON HAS HAD PRIOR SUCCESS WITH PUBLIC PRIVATE PARTNERSHIPS

- The 2004 Cruise Terminal Expansion Project
- The Current Expansion Of The Del Monte Refrigerated Facility

Post-Ike Challenges and Opportunities Warranted A Fresh Look At Funding Methods

CAPITAL INVESTMENT IS NEEDED IN PORT FACILITIES

- With the Panama Canal expansion, the slowly but steadily improving economy and the rebound in container traffic in particular, now is the optimal time to determine investor interest in redeveloping the Port of Galveston.
- Galveston has several sites that need redevelopment that could handle varying cargo types. Such development would require fairly sizable investments to be made to existing terminal facilities.
- Galveston does not have access to the required capital for such a major redevelopment project, nor does it have the capacity for a financial risk of this magnitude.
- A new private sector investor would be interested in considering such investment and partnering in Galveston's maritime terminals.
- The new class of Infrastructure Investors has formed over the last 5 years as pension funds in particular have sought long-lived assets to “match” liabilities.
- The Ports of Baltimore and Oakland were both successful in similar transactions despite the economic climate.
- The proposed lease structure will be similar to leases the Port currently engages in with full protection of the Port’s interests. The lease duration may be lengthened to allow investors sufficient time to recover their significant capital investments.

HOW MIGHT THE CITY BENEFIT FROM THIS INVESTMENT?

- Significant increases in high-paying jobs could result
 - Container crane operators make in excess of \$100,000 annually
 - Other waterfront jobs average about \$65,000 annually
 - For every 1 job created on the docks, economists believe up to 7 distribution and manufacturing jobs can be supported in the region
- The Port may or may not generate excess proceeds above the defeasance cost of the Port's current debt
 - The Port currently has about \$60 million of long-term debt, with up to \$50 million potentially being necessary to defease as a result of the transaction
 - If more than \$50 million in up-front proceeds can be generated, the excess will likely go either to defeasing other debt or building improved cruise and parking facilities
 - It has already been demonstrated Cruise passengers bring significant retail spending and ancillary benefits to the City
- The City currently has a contingent obligation on approximately \$5 million of outstanding Combination Tax and Revenue Certificates of Obligation; defeasance of this debt will improve the City's balance sheet and thus potentially relieve some pressure on property tax collection

Purpose of 2008 Study

- **Measure the baseline economic impacts of the Port of Galveston:**
 - **Public**
 - **Harbor-Wide Port of Galveston terminals and private terminals**
- **Measure the Economic Impacts of Cruise Operations at the Port of Galveston**

Impacts Created

- **Jobs**
 - **Direct**
 - **Induced**
 - **Indirect**
- **Wages and salaries**
 - **Direct**
 - **Re-spending**
 - **Indirect**
- **Business revenue**
- **Taxes**

Economic Impact of the Galveston Harbor in 2008

- **8,864 direct, induced and indirect jobs:**
 - **3,074 direct jobs**
 - **2,257 induced jobs**
 - **3,533 indirect jobs**
- **\$498.9 million in wages, salaries and consumption impacts:**
 - **\$120.6 million direct**
 - **\$239.3 million induced and consumption impact**
 - **\$139.0 million indirect**
- **\$640.8 million of business revenue**
- **\$260.4 million of local purchases**
- **\$46.3 million of direct, induced and indirect state/local taxes**

**POTENTIAL ECONOMIC IMPACTS
CREATED BY NEW
DEVELOPMENTS UNDER A
CONCESSION AGREEMENT IN
GALVESTON**

Potential Developments

NEAR TERM

- The development of a large terminal on the west end of the southern side of the Channel of approximately 100 acres;
- The development of a more efficient Ro-Ro and general cargo facility on the east end of the southern side of the Channel of approximately 20 acres; and

LONG TERM

- The development of multiple large container terminal sites on Pelican Island

These Potential Projects Could Double the Port's Economic Contribution to the City of Galveston and Galveston County

- **16,457 direct, induced and indirect jobs**
 - 7,361 direct jobs
 - 5,465 induced jobs
 - 3,631 indirect jobs
- **\$1.0 billion of personal income and local consumption expenditures**
 - \$291.7 million of direct personal income
 - \$578.8 million of re-spending and local consumption
 - \$144.6 million of indirect personal income
- **\$1.3 billion of direct business revenue**
- **\$360.9 million of local purchases**
- **\$95.4 million of state and local taxes**

HISTORICALLY THE PORT SECTOR HAS ALWAYS BEEN THE MOST PRIVATE OF THE PUBLIC ENTERPRISES

North American Landlord Ports

- Prince Rupert
- Vancouver
- Seattle
- Portland
- Oakland
- Hueneme
- Los Angeles
- Long Beach
- San Diego
- Galveston
- Mobile
- Tampa
- Miami
- Everglades
- Jacksonville
- Baltimore
- New York
- Halifax
- Montreal
- Tacoma

North American Operating Ports

- Houston
- Charleston
- Savannah
- Virginia (partial)



The value of the location is in the business enterprise

- Who owns the business?
- Who owns the revenues?
- Operating ports are valued much higher than landlord ports

CREDIT VS. REVENUE

GOING CONCERN CREDIT VS. PROJECT FINANCE

- **If a Port has historic revenue, it has credit**
- **Port can borrow at very low rates - tax exempt in the U.S.**
- **The downturn has affected credit everywhere**
- **Project financing is all about reducing uncertainties**
 - **Firm contracts**
 - **Carrier commitments**

PRIVATE SECTOR PARTICIPATION

Why the Interest in Having the Private Sector Participate in the Project or Terminal ?

- Authority may not want to take the risk with their existing revenues
- Authority may not have the existing revenue, nor the credit
- The revenues may be too uncertain, and therefore the risk may be too great to get additional credit

Private Sector Resources

- The private sector has credit
- In order for you to get the private sector to use their credit and equity on your project, they must believe that there will be revenue and that the revenue case is so compelling that there will be sufficient revenues to cover their debt service (which may or may not be higher than yours) and produce a decent return on their equity

There is Demand in the Private Sector for Exposure in the Port Sector

- Infrastructure funds (pension money)
- Operators (platforms that want to develop and ultimately package for funds)
- Carriers – However they are adverse to long-term contract commitments

CORE COMPETENCIES

Core Competencies of North American Port Authorities

- Long-range planning
- Stakeholder outreach
- Consensus building
- Property assembly
 - Eminent domain
 - Utility relocations
- Grant administration

Core Competencies of Private Sector Owners/Operators

- Operating terminals
- Marketing gateways
- Dealing with unions
- Managing risk
- Building multiple port platforms and using scale and other synergies to grow business

WHAT DOES THIS PRIVATE SECTOR INTEREST MEAN TO PORT AUTHORITIES ?

WE NEED TO CONSIDER THE FOLLOWING:

- **Revaluation of the Port space**
- **Future public subsidies**
- **Change in standard procurement and/or operating practices?**

WHAT CAN I DO TO ATTRACT PRIVATE SECTOR CAPITAL AND PARTICIPATION IN MY PROJECTS

- **Look at my businesses, lease portfolios, and expansion space**
- **Think about turning over portions of my business to the private sector**
- **What would we do with the \$ if we got some?**
 - **Develop new businesses**
 - **Take additional business risk for the region (jobs, economic development)**
- **Packaging new projects with existing businesses**

NEED A MORE DETAILED IMPACT STUDY

- **Develop a Port-specific impact model:**
 - **sensitivity analysis**
 - **terminal/tenant impact analysis**
 - **new carriers/cargo**
 - **diverted business**
 - **comparison of alternative uses for port land**
 - **justification of terminal and infrastructure investment**
 - **assessment of policy issues**
 - **future cargo throughput**

***FROM THE PORT'S PERSPECTIVE WE NEED TO
UNDERSTAND THE ECONOMIC VALUE OF THE PORT
TO THE INVESTOR/OPERATOR TO EFFECTIVELY
ESTABLISH A TRUE PARTNERSHIP***

THANK YOU



QUESTIONS ?