



# **Identifying Private Sector Business Partners: Evolution of Terminal 6 Lease**

July 12, 2011

# Topics Covered

- ⊗ T-6 Initiative Background
- ⊗ Getting Educated
- ⊗ Process
- ⊗ Final Result

# T-6 Background

- ❖ Project evolved from 2004 experience:
  - Loss of two major container carriers in 4<sup>th</sup> quarter
  - Represented 60% of container volume
  - Financial “shock” to Port
- ❖ No strategic response to proprietary terminal development in Puget Sound
- ❖ Selling land to fund franchise not viewed as sustainable business model
- ❖ Executive Director mandate to initiate strategic review of the business
- ❖ By 2006 concluded that terminal structure could be part of the solution

# Getting Educated

- ⊗ Affiliate with a carrier?
  - High risk given volatility of industry
  - Only one opportunity to select the right carrier
  - Potentially lose “common user” capability
  - Can existing facility accommodate both Port Operator and Private Operator?
  - Individual carrier goals may not fit with Port Mission
- ⊗ Affiliate with Terminal Operator or Stevedore?
  - Those aligned with carrier
  - Those not aligned
  - U.S. based/Foreign
  - Ripples from DP World still fresh
  - Concerns about CFIUS process
  - Multiple WC operations could compete with T-6

# Getting More Educated

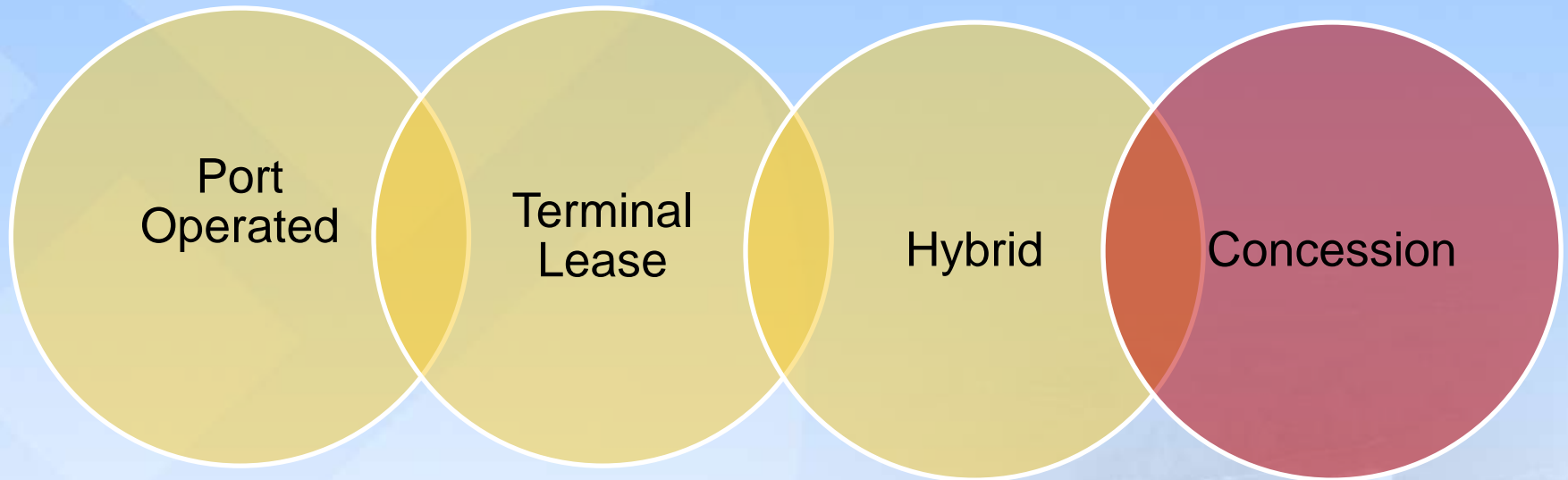
- ⊗ Review earlier Port initiatives
- ⊗ Input from other Ports
- ⊗ Familiarity with other marine terminal leases and structures
- ⊗ Input from Airport investment bank advisor
- ⊗ Consultant input
- ⊗ Current and former port staff
- ⊗ Understanding terminal concession models



# Getting Even More Educated

- ⊗ Strategic review period coincides with terminal/stevedore “equity events”
  - DP World
  - Ontario Teachers
  - Maher
  - Goldman Sachs and SSA
  - Highstar and MTC
  - Oakland, Baltimore, Philadelphia, Virginia
- ⊗ Terminals as investment asset class
- ⊗ Unlimited growth potential: 2 x GDP relationship
  - Unlocking “the hidden value”
  - Privatization of public assets: toll roads/airports/ports etc
  - Environmental permit regime seen as a barrier to greenfield capacity growth

# Range of Operating Models



- ❖ Term
- ❖ Capital and Business Risk Transfer
- ❖ Legacy Labor Agreements
- ❖ Port Authority Structure
  - Can Commission Approve?
- ❖ Who Markets and Who Prices (Tariff Authority)
- ❖ CFIUS Calculus

# Establishing Key Project Goals & Objectives

- ❖ Identifying Right Partner To Meet Port Cargo Mission
- ❖ Global Player with Global Resources
- ❖ Shift of Capital and Market Risk
- ❖ Stabilize Port's General Fund
- ❖ Long Term Volume Growth
- ❖ End Dependence on Land Sales to Fund Franchise



# Getting Started

- ⊗ Executive/Commission: Approval to Proceed
- ⊗ Governor and Congressional Delegation Check-In
- ⊗ Organization Preparation
  - Project Manager
  - Core Team
  - Financial, Legal, Operational Support
- ⊗ Selection of Investment Advisor and Attorney
- ⊗ Populating Data Room
- ⊗ Keeping Organization Informed vs. Preserving Confidentiality

# T-6 Initiative: Concession Process

- ✦ Chartered project – March 2007
- ✦ Port Commission approves staff decision to pursue private operating model for T-6 – December 2007
- ✦ Port hires Morgan Stanley as “sale side advisor” and initiates solicitation process with global RFQ – January 2008
- ✦ Multiple qualified respondents – March 31, 2008
- ✦ Parties submit preliminary bids and participate in Port management meetings- July/August 2008
- ✦ Submission of second preliminary bid – October 2008
- ✦ Port suspends process in late November due to global shipping downturn
  - Lehman Brothers collapse October 2008

# ICTSI: Marine Terminal Lease

- ❖ ICTSI introduced to Port during concession process
- ❖ Approaches Port in 2009 regarding more traditional maritime lease
- ❖ Developing basic framework for lease structure
- ❖ Facility and Environmental baselines
- ❖ Development and negotiation of lease
- ❖ Lease Signing-May 2010
- ❖ Financial Close-August 2010
- ❖ 180 Day Transition and Go-Live-February 2011

# Lease Premises-192 acres





# Lease Structure

- ⊗ 25 year term
- ⊗ \$8 million upfront and \$4.5 million inflation adjusted annual rent
- ⊗ Reimbursement for Port services provided (security and some maintenance)
- ⊗ Upside with volume growth
- ⊗ ICTSI parent guarantee
- ⊗ Establishment of ICTSI Oregon Operating Company
- ⊗ ICTSI responsible for all maintenance, capital (not defined as capital expansion) and equipment replacement
- ⊗ Port responsible for berth maintenance

# Scorecard

- ⊗ Traditional Maritime Lease/Hybrid vs. Long Term Concession
- ⊗ Identified Growing Global Player with a Desire to be in the U.S.
- ⊗ Not a Covered Transaction Under CFIUS
- ⊗ Sufficient Shift in Capital Risk
- ⊗ Stabilization of Port Revenue/General Fund
- ⊗ No Longer Dependent on Land Sales to Fund Franchise
- ⊗ ICTSI viewed as Good Fit for Port of Portland