PORT OF PORTLAND

Negotiating Strategies-Win/Win Results in Terminal Leases and Carrier Agreements

October, 2011

Topics Covered

- Lease Structure Options and Trade Offs
- Public Financing Considerations
- Tension Points
- Real World Examples

Optimal Lease Structures: Public Port Perspective

- Stable revenue and predictable volume growth
- Annual escalators tied to CPI or other appropriate index
- Periodic “market-resets” for land valuation
- Longer term generally preferred to shorter term (but some exceptions)
- Capital improvements to the account of the Lessee
- Allowance for environmental base-line and periodic updates
- Storm water and other environmental base practices deployed
- Dispute Resolution roadmap incorporated into lease

Revenue Generation-Lease Examples

CATEGORY	UNIT	WHO?
DOCKAGE	PER 24 HOUR PERIOD	VESSEL
WHARGAGE	PER TON/PER UNIT	LESSEE
LAND RENT	PER ACRE/ANNUAL	LESSEE
FACILITY FEE (S & F)	GENERALLY PER UNIT	LESSEE
BOND ADMIN.	ANNUAL FEE	LESSEE
SECURITY	ANNUAL CHARGE	LESSEE/PORT
FACILITYMAINTENANCE	MAN-HOUR	LESSEE
BERTH STRUCTURE	LONG TERM PLAN	PORT
DREDGING	PER OCCURANCE	PORT/LESSEE

Tip: Leases need to be clear between maintenance obligations and capital obligations among parties

Concessions vs. Long Term Leases

Long Term Leases

- Term usually set at 5-25 years
- Renewal options/Hand back
- Ground Lease/Facility Lease
- Public entity as landlord
- Does not involve sale of public assets
- Generally can be approved by Port Commissions

Concession Structure

- Long term-50-75 years
- Hand back provisions
- Sale of public assets
- CFIUS review if non-U.S. entity
- May need state legislative approval
- Strict operating standards and maintenance covenants
- Usually large up-front payment

PORT OF PORTLAND

Lease Policy Drivers for Public Ports

Issue	Policy Objective(s)	Comment
Term	--Maximize value --Highest and best use (?)	--Ability for lessee to amortize capital investment (L, C) --Tax considerations/depreciation for lessee (C)
Payment Structure	--Land, volume, vessel --upfront, annual --MAGs	--Prefer mix of revenue sources --incorporating land rent is a hedge against volume volatility
Capital	--Shift to Lessee --Obtain market based return if Port financed	--Core competencies of Port --Permitting risk --Payback length if Port financed
Financing	--Credit Rating preservation --Coverage --Maintaining reserves	--Refer to bond financing slide
Permitted Uses	--No surprises --Common User/Exclusive use	--Ensure public good and mission are maintained

Overview of Financing Options

There are six general options for financing port/marine facilities

	General Obligation Bonds	Limited Tax General Obligation Bonds	General Fund Revenue Bonds	Special Facility Revenue Bonds	Project or Line of Business Bonds	Negotiated Loan
Primary Security:	Unlimited property tax revenues approved by voters	Limited property tax revenues already collected by Port	All revenues from system assets or particular system revenues	Specific legal commitment from credit-worthy tenants	Revenues from specific project or business line	May require pledge of specific "high quality" sources, such as tax or lease revenues; could explore bank LOC
Financing Considerations:	**Voter approval required**; lowest interest rate and most leverage	Low interest rate and high leverage; subject to outstanding full faith and credit obligations of Port	Requires rate covenant in the 1.25-1.5x range, and demonstrated coverage of approx 2x	Requires credit-worthy customer willing to do public disclosure	"Port within a Port" is set up as stand-alone credit; debt coverage requirements are much higher	Could be a merchant bank or commercial bank; local banks often most aggressive
Examples:	Port of Houston (Harris County)	Port of Vancouver	Port of Bellingham	Canpotex Facility; Port of Oakland	Port of Seattle T-18	Airport Series 16 with Merrill Lynch
Leverage Capacity per $5 mm Available Net Revenue:	$75 million	$75 million	$37.5 – 50 million	Varies based on credit quality of tenant	$35 – 50 million, but varies based on credit quality of project	Varies
When Should You Use:	• Large regional projects that could get voter backing • Projects with little revenue generation • Projects with long lead times to revs	• Projects with little revenue generation • Projects with long lead times to revs	• Projects which are self-sustaining after debt costs	• When quality tenants are willing • Better when projects have re-use value	• For most robust projects / lines of business	• When particular bank has unique understanding of credit • When time is critical
Other Considerations:	• Relies on region for credit strength	• Subject to outstanding full faith and credit obligations of Port • Relies on region for credit strength • Easy to implement (structure, credit, market)	• Relies on region and Port specifics for credit • Requires significant positive operating margins and competitive market characteristics • Needs feasibility study to back-up assumptions	• Requires tenants with strong credits and willingness to make long term commitments • Public disclosure can be an issue for private companies	• Most complex to implement • May require security beyond revenue pledge (leasehold mortgages, collateral; extra reserves) • Control of facilities shifted to private parties	• Work directly with an investment or commercial bank • May require security beyond revenue pledge (leasehold mortgages, collateral; senior claim on GO)

TENSION POINTS BETWEEN PORT AND LESSEE

ITEM	APPROACH
Capital	Clarity around "triggers"; Can't be silent on this and hope for best
Labor	Disclosures on legacy agreements: Security/Maintenance/Trades
Maintenance	Operating standards; Facility Condition baselines
Volume/Revenue	MAG's; Hybrid lease structures: land, volume, dockage
Crisis Events	Provisions for lease payment suspensions and remedies
Improvements	Public Contracting Rules/PLA'S;
Discriminatory Acts	Commission Policy; State, Local and Federal Change in Law
Environment/ Safety	Baselines; Increasing focus on storm-water management
Assignment	Conditions under which lease can be transferred

PORT OF PORTLAND

T-6 Background

- Project evolved from 2004 experience:
  - Loss of two major container carriers in 4^{th} quarter
  - Represented 60% of container volume
  - Financial “shock” to Port
- No strategic response to proprietary terminal development in Puget Sound
- Selling land to fund mandate 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

- 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

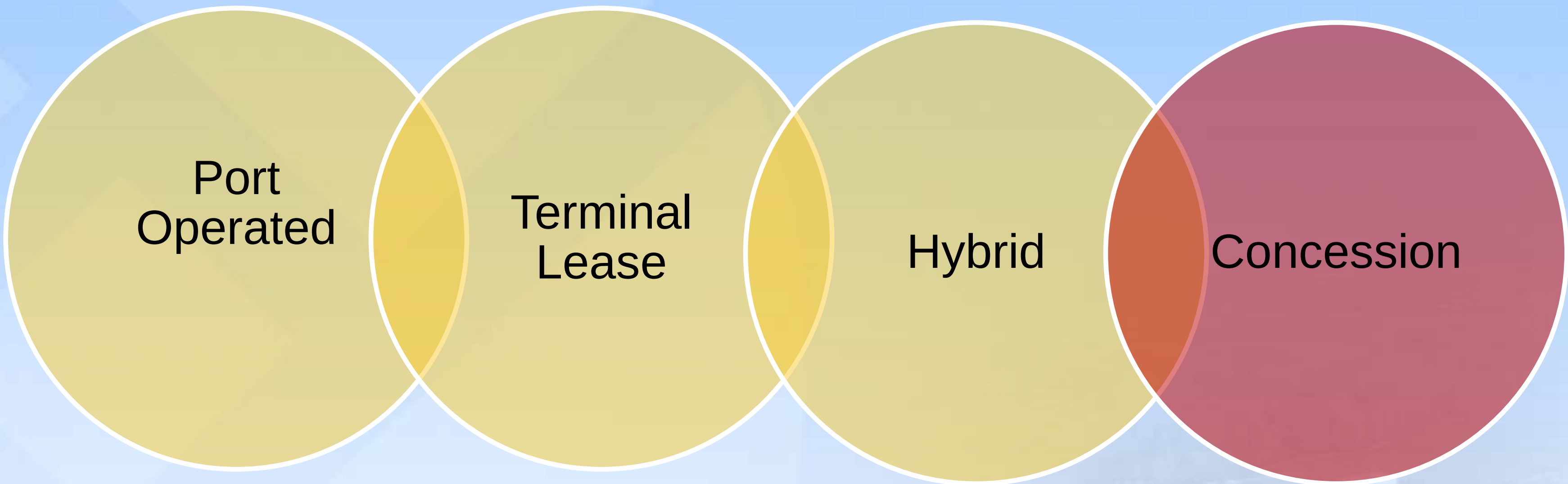
Getting Educated

- 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 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 Business Line

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

PORT OF PORTLAND

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