



AAPA Finance Seminar Seaport Project Financing

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Project Finance & Development

What is Project Finance?

- Non Recourse – Debt holders can not look to the general obligation or full faith & credit of the project sponsor.
- Capital financing is secured by project operating revenues.
- Construction risk is incorporated into the financing credit.
- Operations & Maintenance risk is incorporated into the financing credit.
- Financial plans typically incorporate a full life cycle cash flow analysis.
- Credit ratings are typically lower due to construction risk, long term revenue uncertainty, and long term O&M cost uncertainty.
- More complex & innovative contracting
- More complex & innovative debt structures
- Need for (Opportunities for) better procurement

Project Finance Is NOT New in the US

- Forms of concessions such as long term lease & use agreements which support infrastructure financing have been used for seaports and airports for decades.
- Private Activity Bonds (PABs) are a form of tax-exempt municipal bond that have been used for many years with many billions dollars worth issued.
- Based upon data obtained from FHWA, there are over \$71 billion in toll backed bonds outstanding by US state and quasi-state entities, not counting municipally or privately owned facilities.
- According to Public Works Financing, since 1991 in the US there have been 115 highway & rail P3 projects of which 88 have been non-concession DB & DBOM projects.
- According to a CBO (Congressional Budget Office) report in 2012, during the past 20 years, the value of the contracts for privately financed roads totals \$16 billion.

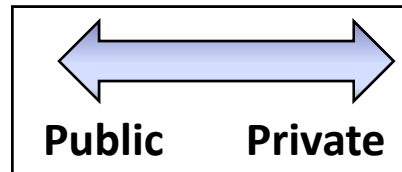
Project Finance and Public-Private Partnerships

- P3s typically utilize various components of Project Finance, but be careful not to equate Project Finance with a P3 Concession.
- USDOT's definition of a public-private partnership is quite broad.
 - P3s are contractual agreements formed between a public agency and a private sector entity that allow for greater private sector participation in the delivery and financing of transportation projects.
 - There are many different P3 structures, and the degree to which the private sector assumes responsibility - including financial risk - differs from one application to another.
 - Additionally, different types of P3s lend themselves to the development of new facilities and others to the operation or expansion of existing assets.
- Key is to understand the elements of project delivery alternatives and how Project Finance & P3 techniques can be utilized in various combinations.

Project Finance Development Issues

Development Issues

- Management
- Design
- Revenue Sources
- Finance / Security
- Construction
- Operation



- Benefits
- Risks
- Control
- Costs
- Accountability
- Best Value

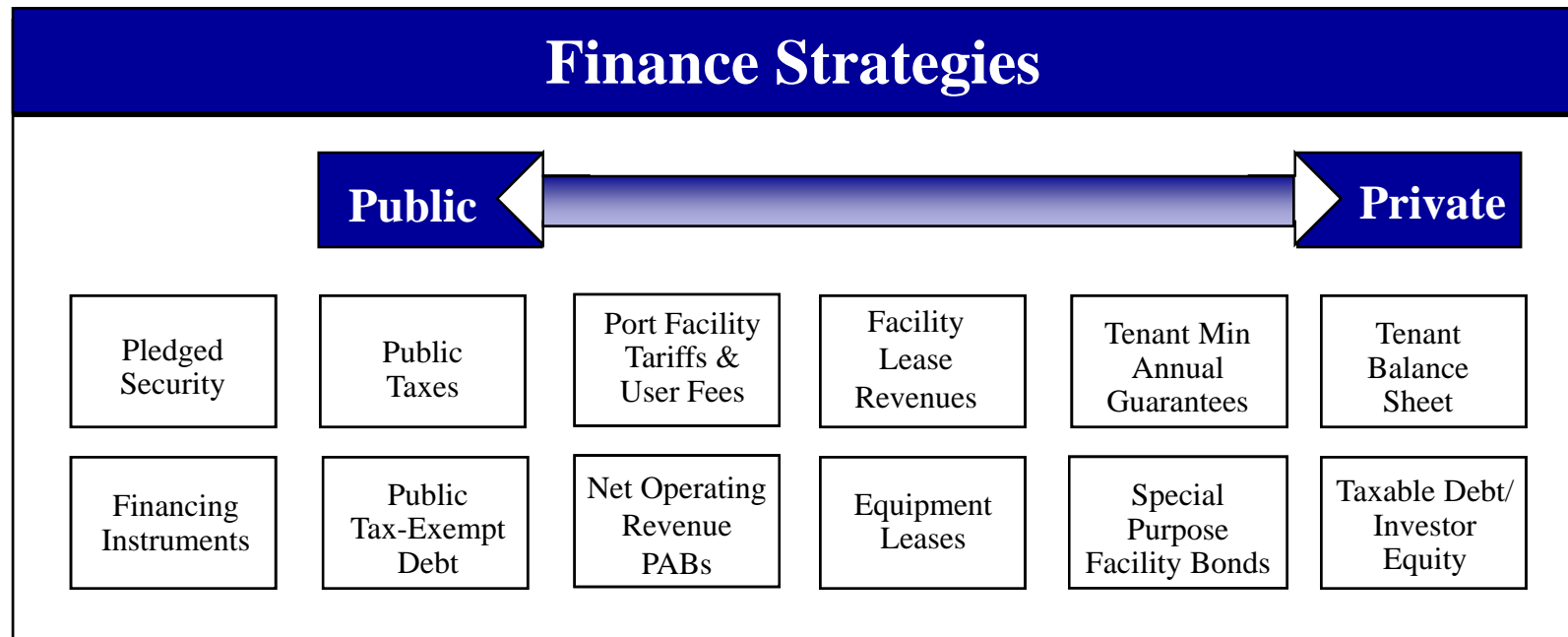
- While often presented as a package (e.g. a concession), the various elements of an infrastructure project can in many cases be segregated and used in various combinations.
- Careful analysis of attributes and risk by the public sponsor can produce the optimal results on a case-by-case basis.

Port Business Models

Financing Approach	Public Agency Tax-Backed	Public Agency Operating Revenues	Public Private Partnership	Private Concession
Operating Model	Public Operator	Public Operator/ Landlord	Long Term Landlord	Passive Landlord
Primary Mgmt Control	Public	Public	Public-Private	Private
Typical Contracts & Lease Agreement	N/A for Grants & Tax Revenues	Multiple Tenants; Variable Contracts Discretionary Terms	Single Tenant; Long Term Must Cover Debt	Single Tenant; Longest Term to Cover Debt & Equity Return
Typical Facilities Financed	Public Use; Infrastructure such as Roads and Dredging	Private Activity; Docks, Wharves, Cranes, Warehouses, Buildings, etc.	Private Activity; Docks, Wharves, Cranes, Warehouses, Buildings, etc.	Private Activity; Docks, Wharves, Cranes, Warehouses, Buildings, etc.
Sources of Revenues and Security for Debt	Grants, Gov't Transfers, Taxes	Tariffs, Throughput Fees, Security Fees, Facility Lease Revenue, etc.	Corporate Rental Minimum Guarantee & Throughput Fees	Tariffs/Lease Revenue, etc. Received by Private Concessionaire
Type of Debt	Agency Revenue Bonds	Agency Revenue Bonds	Agency Special Purpose Conduit Bonds	Corporate Debt & Private Equity
Tax Status/ Term	Gov't Purpose & AMT Tax-Exempt 10-30 years	Gov't Purpose & AMT Tax-Exempt 10-30 years	AMT Tax-Exempt 20-40 years	Taxable Debt 50-99 years
Primary Private Partners	Shipping Company, Railroads, Private Haulers/Trucks	Shipping Company, Railroads, Private Haulers/Trucks, Terminal Operator	Terminal Operator/ Corporate Guarantor (likely operator parent and/or shipping co)	Private Equity Concessionaire

Seaport Finance Alternatives

- Many US seaports issue non-recourse net operating revenue supported debt, typically on a “system” approach as opposed to a single project.
- Compared to P3 concession debt structures, public seaports have typically used very conservative debt practices.
- Many US seaports utilize a variety of tenant lease & use agreements by which private partners might construct, finance and/or operate facilities – the related revenues support various types of debt.



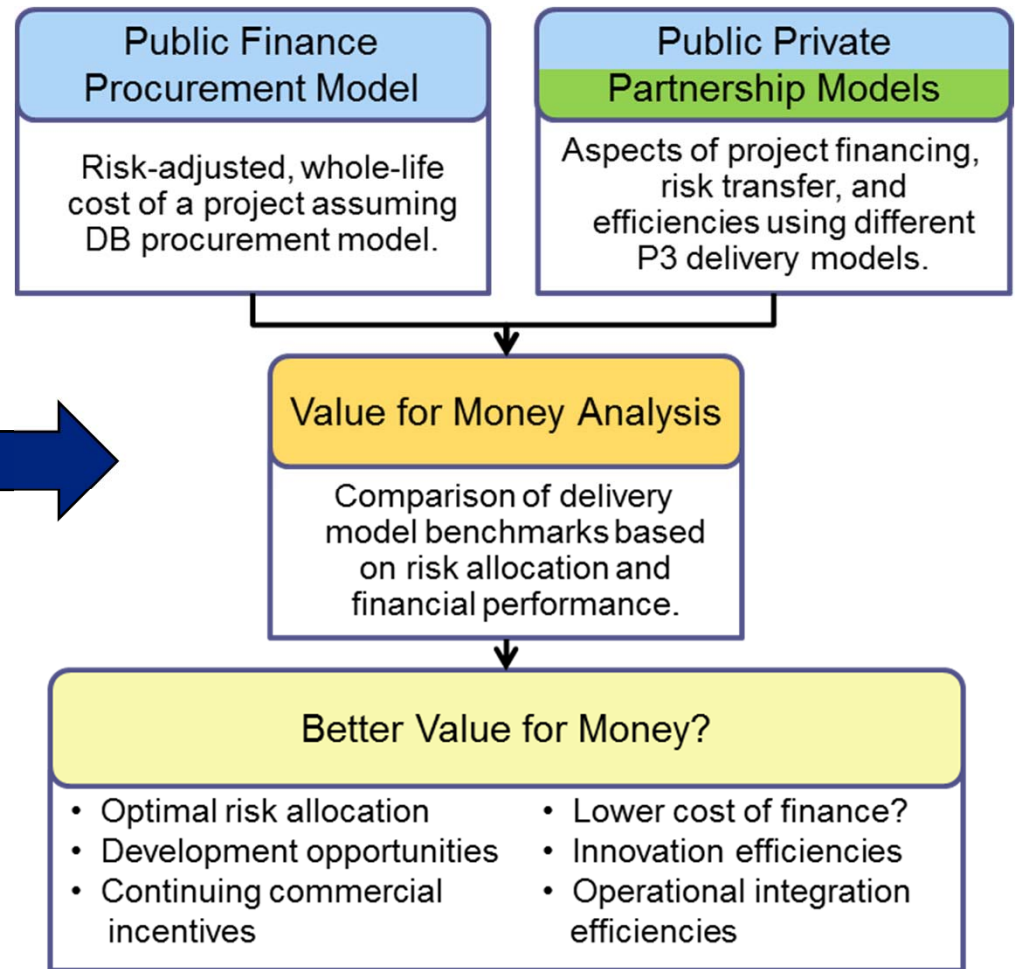
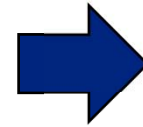
Framework for Evaluating Seaport Finance

Capital Investment Considerations

- These issues need to be fully vetted for any financing alternative to be successful, whether “public” or “P3”
 - Physical facilities & current uses, land for development, and any master plan or similar documents
 - Existing tenant lease and use agreements
 - Historical cargo volumes and revenues by type
 - Trade lanes data
 - Market cargo & revenue forecasts
 - Seaport financial market environment
 - Seaport operating models
 - Seaport business / financial models
 - Outstanding bonded indebtedness amounts and terms
 - Pro forma cash flow analysis
 - Financing capacity to address capital needs and new business
 - Creditworthiness assessment
 - Investor and capital markets outreach

Feasibility Evaluation / Key Drivers

1. Prepare Revenue Forecast
2. Identify O&M and R&R costs for the project
3. Develop business terms
4. Determine enterprise value of terminal operations
5. Evaluate impact of alternative financing strategies
6. Evaluate impact of project risks

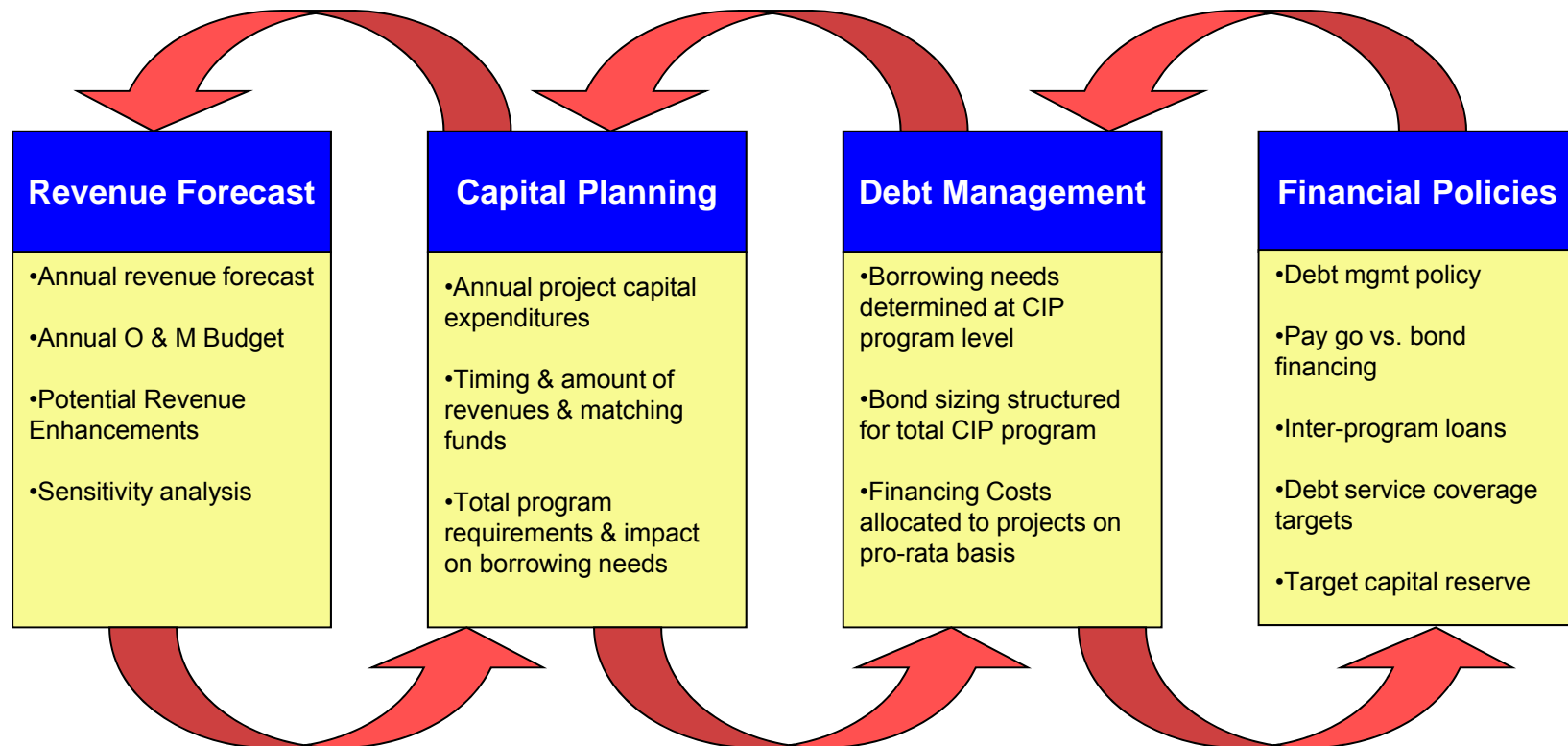


Evaluating Project Finance & Delivery Alternatives

- Identify key project inputs and quantified risk assumptions for projects across various public and P3 delivery alternatives
- Develop a detailed project finance & cash flow model (better than using a net present value analysis)
 - Multiple types of debt can be incorporated
 - More than one security lien can be modelled
 - Nuances such as debt service coverage ratios, debt to equity ratios, and reserve/liquidity balances must be maintained
 - Risk adjustments can be “stressed” against the base case to determine the severity and/or acceptability of impacts
 - Capability to analyze different objectives such as more upfront capital versus increased long term revenue sharing
- Goal is a sustainable plan of finance that minimizes “public” funding

Project Finance Plan Components

- The financial plan should incorporate careful consideration of all the issues and alternatives related to infrastructure development.
- Alternative modeling process allows capital, revenue, and operating inputs to impact financing requirements within stated program policy constraints.



Elements of Credit

Fundamental Creditworthiness Still Matters!

- **Socio-Economic Need**

- Safety
- Environment
- Economic Development

- **Economically Justified**

- Efficient Transportation
- Generates Revenue
- Connecting Key Business/Trade Regions

- **Revenue Study**

- Economic Forecast
- Demand Forecast
- Independent and Credible
- Bond Offering Disclosure

- **Construction & Operating Issues**

- Construction and O&M Cost Risks
- Lump Sum/Fixed Price Contracts
- Financial Strength/Performance of Construction Team

- **Risk Management Plan**

- Environmental Mitigation
- Construction Completion
- Surety Bonds & Insurance

- **Public Support & Public Interest**

- State and Local Political Support
- Federal Agencies
- Public Equity/Funding for EIS, Design and Engineering

Seaport Debt Alternatives

Project Revenue Bond Considerations

- **Security Sources**

- Net Operating Revenues
- State and Local Taxes
- Value Capture

- **Bond Lien Structure**

- Senior & Subordinate Debt
- Diversification of Product
- Short-Term/Long-Term Mix

- **Security Requirements**

- Capitalized Interest
- Coverage Ratios
- Reserve Funds

- **Issuance Timing**

- Interim Construction Financing
- Use Public Equity First
- Bond Best Credit First

- **Credit Enhancement**

- Federal Programs - TIFIA
- Special Tax Supplemental Pledge
- Bond Insurance/Letter of Credit

- **Private Sector Enhancements**

- Deferred Compensation
- Vendor Concessions/Parking
- Private Equity

Seaport Project Finance Bond Alternatives

- Aside from tax-backed bonds, there are four main security structures that a public seaport can use to issue debt in a long term lease / P3 scenario:
 - Port Net Operating Revenue Bonds
 - Port Asset Backed Debt
 - Port Special Purpose Facility Bonds, backed by lessee/concessionaire revenue and parent guarantee
 - Port Special Purpose Facility Bonds, backed by the net operating revenue of a single terminal concession, i.e. apart from the Port's "System"
- The chosen debt security structure is port and project specific, taking into consideration the unique operating and business characteristics of any given lease / P3.

Private Activity Bond Features

- Private Activity Bonds (PABs) are securities issued by or on behalf of a local government to provide debt financing for projects used most often for a private purpose
- Because of the public purpose, Federal tax law provides that most port capital infrastructure are exempt facilities under the code
- Typically results in reduced financing costs versus conventional private bank financing since interest on the bonds is not subject to federal income taxes (unless more than 10% of the bond proceeds are designated for private use)
- Typically payable from payments made by the private user of the property financed, although the bond security structure can vary widely
- Can be structured and implemented for both traditional financings as well as P3 financings

Port Net Operating Revenue Bonds

Security for Debt: Port system net operating revenue, with a Minimum Annual Guaranty and/or revenue sharing from the long-term lease counted as part of the Port's operating revenue

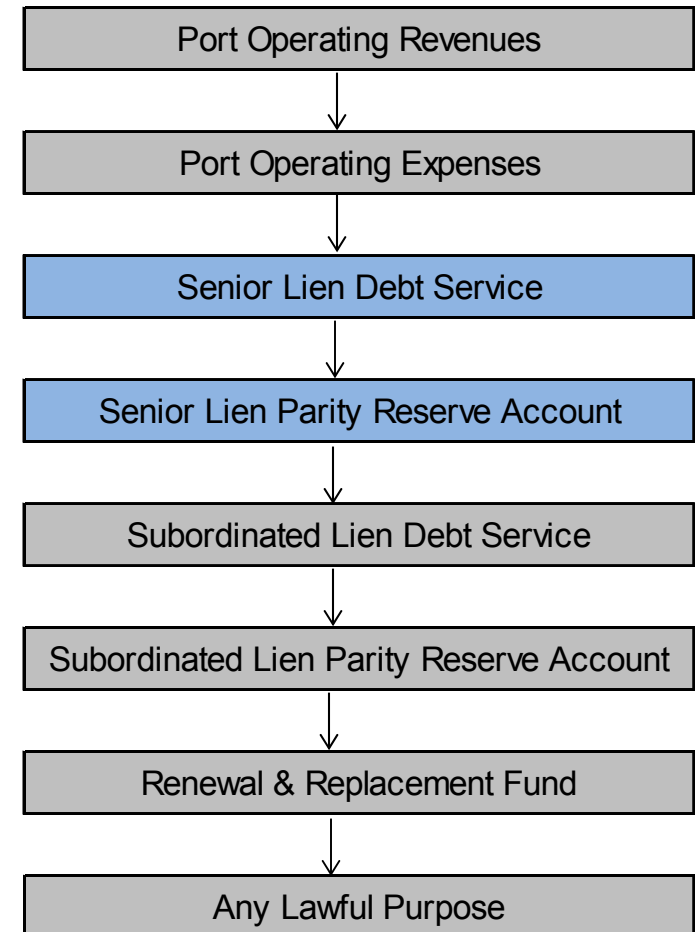
Bond Indenture: Secures revenues for benefit of debt holders. Flow of funds specifies the priority of payments for secured revenues; typically includes provisions for operating expenses, debt service and reserves, renewal & replacement funds, and any lawful purpose. Issuer covenants specified, including:

- *Rate Covenant:* 1.20x-1.50x senior lien debt service coverage, 1.10x-1.25x aggregate debt service coverage
- *Additional Bonds Test:* 1.25x-1.50x senior lien debt service coverage, 1.10x-1.25x aggregate debt service coverage on a historical and/or projected basis

Credit Rating: Depends on various factors analyzed by the rating agencies including, but not limited to: size, cargo diversification, trade lanes, demand and revenue, ongoing capital improvement requirements, debt structure and debt service levels

- U.S. seaport credit ratings are typically in the range from AA to high BBB

Type of Debt: Includes publicly issued bonds, private placements, and government loan programs; with fixed and variable interest rates



Port Asset Backed Debt

Security for Debt: Port system net operating revenue, with a Minimum Annual Guaranty and/or revenue sharing from the long-term lease counted as part of the Port's operating revenue

Bond Indenture: Asset backed debt typically categorized as subordinate debt in the flow of funds. Subordination of debt accomplished via additional hard asset security such as a crane lease or property mortgage

- *Rate Covenant and Additional Bonds Test the same as in the master indenture (see prior page)*

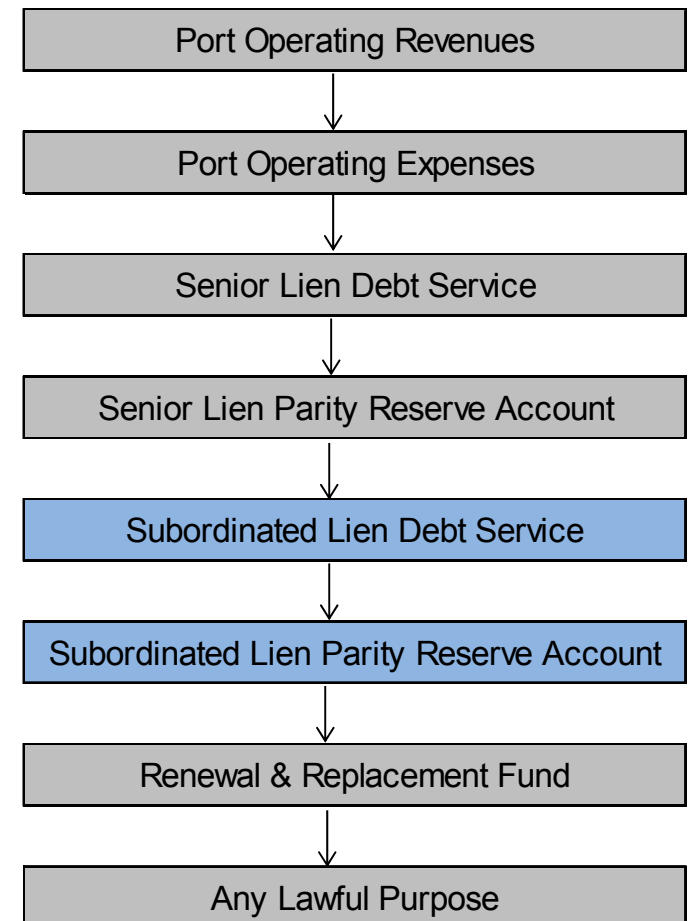
Credit Rating: Given the subordinated repayment position in the flow of funds, credit ratings assigned to such debt are generally at least one notch lower relative to the senior lien debt.

- Due to asset backing, lease transactions are often privately placed and thus unrated.

Term of Debt: Dependent on life of asset

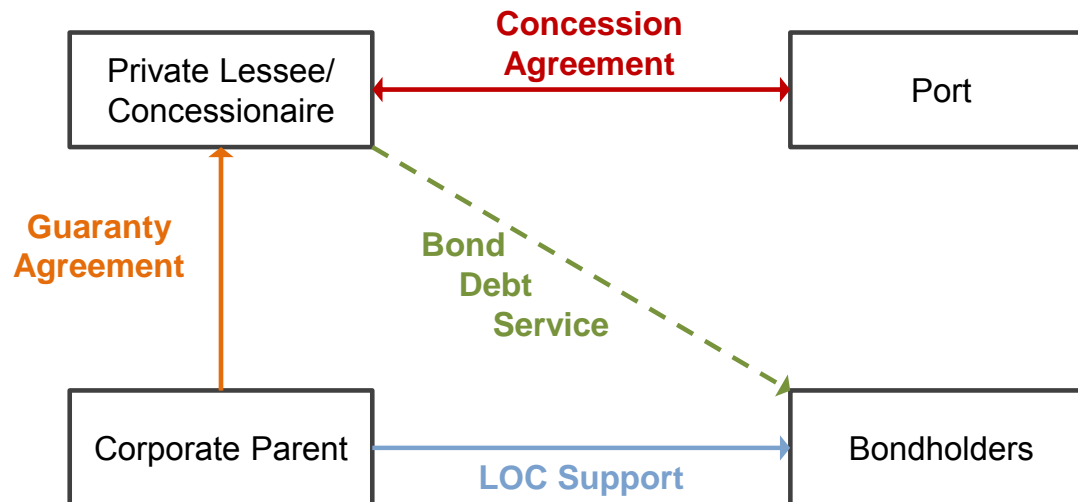
- *Crane Lease:* 15-20 years committed funding; 30 year amortization
- *Property mortgage:* up to 30 years

Type of Debt: Includes publicly issued bonds, private placements, lease financing, and government loan programs (e.g. SIB loans); with fixed and variable interest rates



Port Special Purpose Bonds – Lessee Guarantee

Security for Debt: Payments of special purpose rent received by the Port or the trustee pursuant to an agreement with lessee/concessionaire. Rent/Lease payments supported by a corporate guaranty. Additional bond security can be provided with a LOC backed by lessee/concessionaire corporate guaranty.



Bond Indenture: Secures lease/concession rent/lease payments for benefit of debt holders. Overarching feature from Port's perspective is off-balance sheet debt which is not additive to the Port's system debt

- Covenant requirements vary depending upon strength of credit/guarantee, and may include corporate style parameters for debt and equity in addition to muni market debt service coverage covenants

Credit Rating: Dependent upon the financial strength of the corporate guaranty, as well as the financial strength of the LOC provider

Type of Debt: Includes publicly issued bonds and private placements; with fixed and variable interest rates

Single Terminal Concession: Stand-alone SP Bonds

Security for Debt: Net operating revenue of a single terminal concession

Bond Indenture: Secures concession revenues for benefit of debt holders and also incorporates rent & revenue sharing payments to the Port. Overarching feature from Port's perspective is off-balance sheet debt.

- Rate covenant and ABT levels typically higher for single terminal net revenue pledge versus port system net revenue pledge (e.g. 1.40x-1.75x senior lien debt service coverage for single terminal pledge)

Credit Rating: Ratings depend on the strength of the terminal/concession cash flows and security structure as defined in the financing documents, as well as the terms of the concession agreement. If a single terminal, the size and lack of diversification will likely lead to a BBB rating at best.

Tax Status of Debt: Upfront payments not used for eligible facility capital costs could not use Private Activity Bonds and such costs would be funded from taxable debt or equity

Equity: Concession and financing documents would need to provide for distributions to shareholders to pay taxes and provide a return on investment

