

**AAPA Port Property Management and Pricing Seminar - October 24, 2006**

**U.S. Privatization Trends  
and the Ports Sector**

**Joshua Schaff**  
**Infrastructure Finance**



**Moody's Investors Service**

# AGENDA

1. Moody's Port Sector Ratings
2. Privatization Choices in the U.S.
3. Credit Benefits and Risks
4. Private Capital in U.S. Seaports



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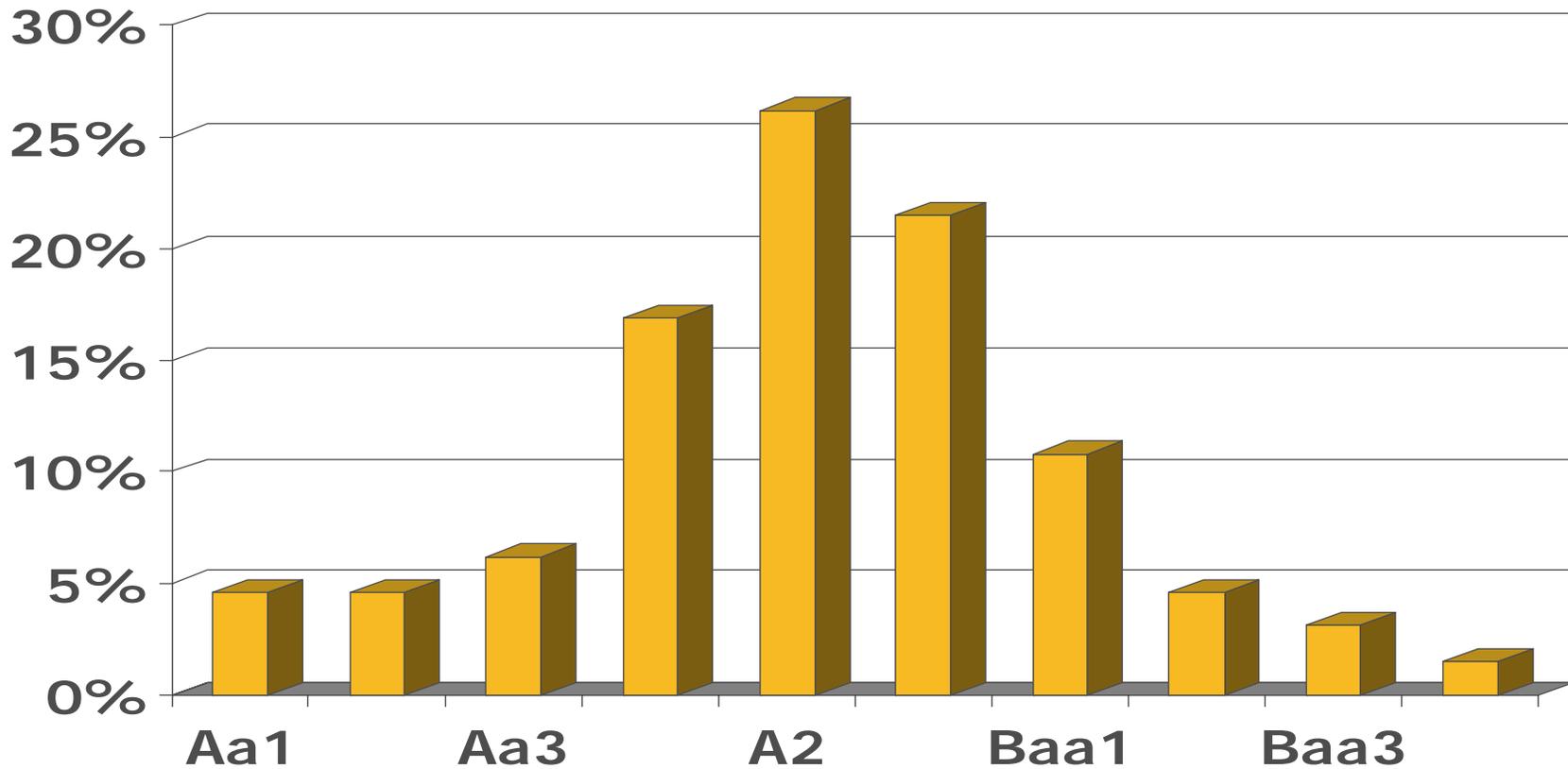


## MOODY'S OUTLOOK FOR THE SEAPORT SECTOR IS STABLE

- ❖ Moody's rates \$23.5 billion debt issued by 54 port facilities in the U.S.
- ❖ Sector outlook is stable through 2007
  - Rating Outlook published September 2006
  - Key Credit Risks
    - Managing growth/keeping pace with demand
    - Potential for rail and trucking backups
    - Security costs continue to increase



## SEAPORT RATINGS - 68% A2 OR BELOW



## PORT RATING DISTRIBUTION

- ❖ Higher-rated ports, especially in the Aa1 range, typically have some type of state support
- ❖ Ratings for the larger container ports are generally in range from Aa2 to A2
- ❖ Smaller niche ports range from A3 to Baa3



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# WHAT IS PRIVATIZATION?

## Working Definition:

The use of structures designed to shift certain financing, construction, and/or operating risks of public infrastructure projects to the private sector



## WHY NOW AND WHY HERE?

- ❖ Large unmet need for transportation and infrastructure funding the U.S.
- ❖ Global “patient equity” with expertise looking for new investments as other markets slow down
- ❖ First executed toll road deals in Chicago, Indiana, and Virginia are generating interest
- ❖ Perception of financial, political, and operational benefits is triggering necessary legislative and regulatory changes



# PRIVATIZATION OPTIONS

<u>Privatization Type</u>	<u>Source of Repayment</u>
Government Procurement	Contractual/Milestone payments
Build Transfer Lease	Lease payments
Non-tolled Concession	Availability payments
Concession with Shadow Payments	Shadow tolls/Congestion management payments
Tolled Concession, I	Project revenues
Tolled Concession, II	Project revenues /Availability payments



## TWO IMPORTANT CAVEATS

- ❖ Many options are more akin to outsourcing than to privatization, as the government can retain significant control over both project and counterparty
  - A privatization financing as a result does not have to be riskier or lower rated than a traditional revenue bond
- ❖ A privatization is not always the best choice
  - Sectors subject to rapid technological change or projects that are too complex
  - Public sector “monuments” not well-suited for profit maximization



## TOLL ROAD PRIVATIZATION IN THE U.S.

- ❖ Toll road sector getting the most attention
- ❖ Concessions deals include an upfront payment for the right to operate and collect tolls
  - Chicago Skyway – \$1.8 b
  - Indiana Toll Road – \$3.8 b
  - Pocahontas Parkway (VA) – \$611 m



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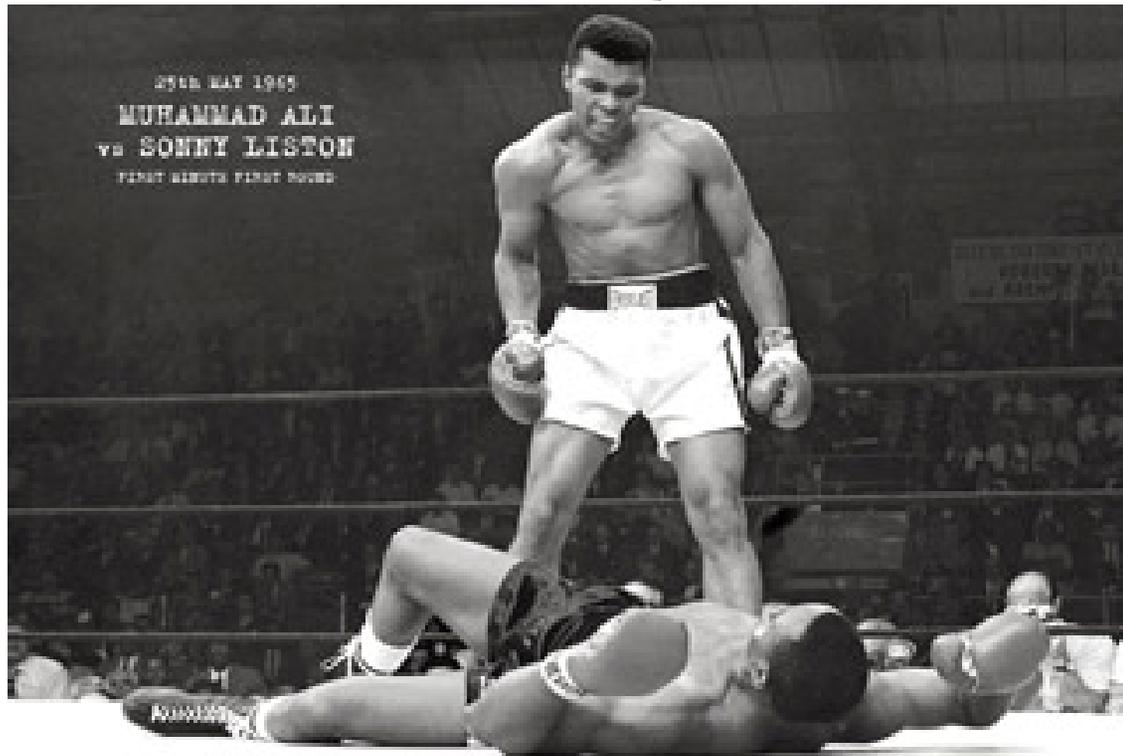
## BENEFITS TO THE PUBLIC SECTOR

- ❖ Substantial up-front cash payments may bolster a local government's or authority's credit rating
- ❖ Transfer of rate-setting to a private entity can reduce political pressures
- ❖ Risk of project delays and cost overruns can be transferred from taxpayers to private sector
- ❖ Potential efficiencies given profit focus of operator



# REMEMBER THAT IN THE END ...

Politics



Privatization



## CREDIT RISKS TO THE PUBLIC SECTOR

- ❖ Profit maximization may lead to rates/fees/tolls that cause a political backlash
  - Exposure to substantial default or termination payments if political support evaporates and agreements need to be modified or terminated
- ❖ Potential for undervaluing the asset to be “monetized”
- ❖ Choice of a privatization option that is unfit for the types of risks being transferred



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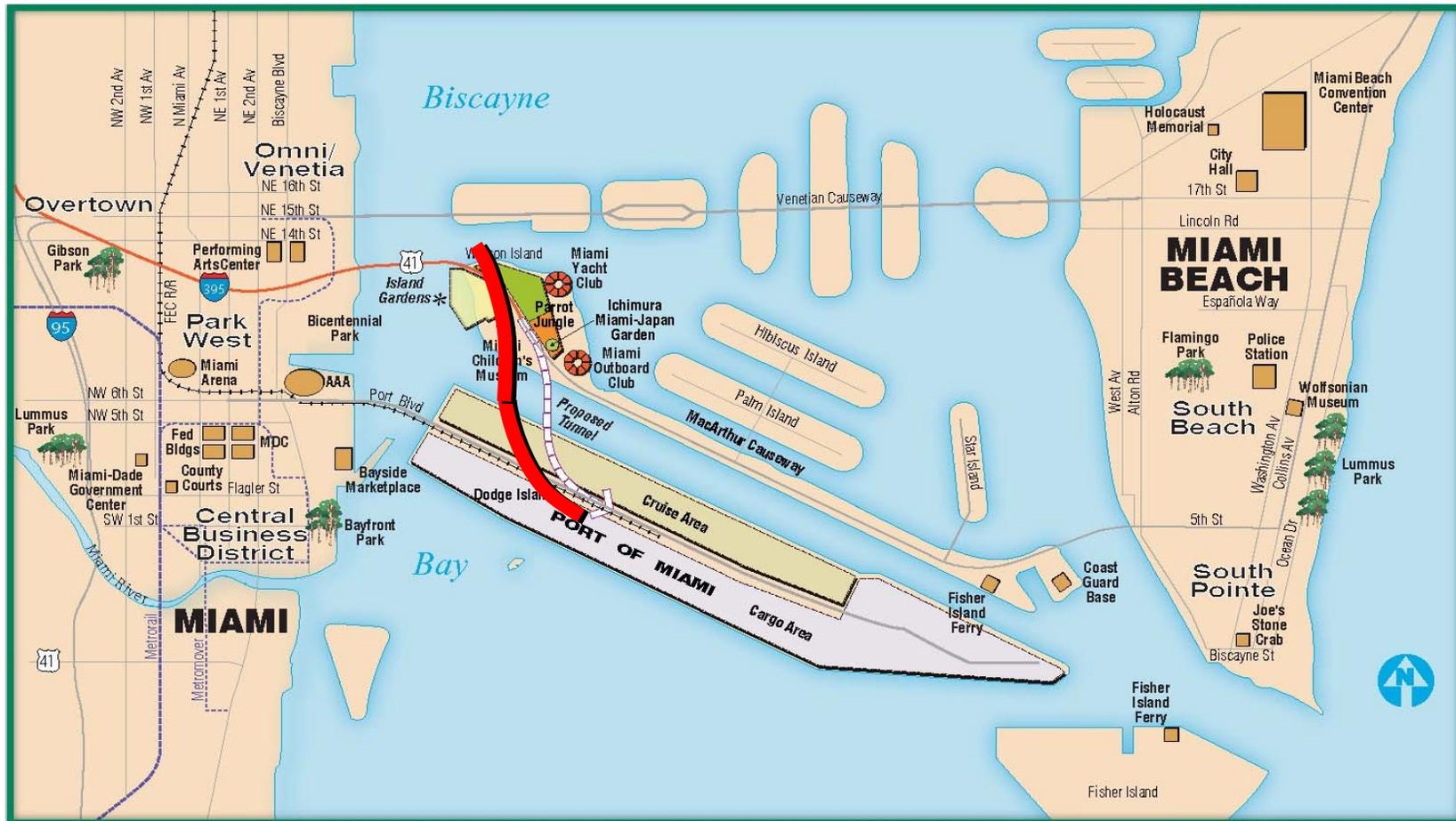


## PRIVATE CAPITAL IN U.S. SEAPORTS

- ❖ **U.S. seaports already have significant private sector involvement**
  - Landlord ports with private terminal operators
  - Fixed-price/design-build construction contracts
  - Joint-ventures among shippers, stevedores, and ports
  - Three examples: Miami Port Tunnel, Mitsui Terminal at Jacksonville, and SSA's T-18 in Seattle



# PROPOSED MIAMI PORT TUNNEL



## PROPOSED MIAMI PORT TUNNEL

- ❖ Estimated \$1.2 b project, operator financed
- ❖ Proposed concession to operate and maintain the tunnel, possibly 35 year tenor
- ❖ County and FDOT split availability payments due over life of the concession



# MITSUI OSK TERMINAL AT JACKSONVILLE



## MITSUI OSK TERMINAL AT JACKSONVILLE

- ❖ **New terminal estimated at \$187 m**
  - **Financed with state loan, special purpose bonds, and City excise tax bonds.**
  - **Mitsui contractually obligated to pay for all debt**
- ❖ **Mitsui will enter into 30-year O&M lease**
- ❖ **Mitsui will pay JaxPort a volume fee plus rent**



## Seattle T-18

- ❖ **196-acre terminal for Stevedoring Services of America financed primarily with special facility bonds**
  - **\$219 m special facilities bonds**
  - **~ \$100 m port contribution**
- ❖ **Example of a conduit financing - bonds secured by lease payments from SSA**
- ❖ **Port of Seattle has the option, but not obligation, to remedy default – credit enhancement**



## ANALYSIS OF P3 TRANSACTIONS

- ❖ Moody's is developing separate methodologies for construction and operating period credit analysis
- ❖ Request for Comment regarding construction risk published August 2006
- ❖ Operating risk Request for Comment to be published this Fall



**Contact us:**

***Public Infrastructure Finance***

[joshua.schaff@moodys.com](mailto:joshua.schaff@moodys.com)

[maria.matesanz@moodys.com](mailto:maria.matesanz@moodys.com)

[partick.ford@moodys.com](mailto:partick.ford@moodys.com)

[bart.oosterveld@moodys.com](mailto:bart.oosterveld@moodys.com)

[kurt.krummenacker@moodys.com](mailto:kurt.krummenacker@moodys.com)

[john.nelson@moodys.com](mailto:john.nelson@moodys.com)

***Corporate and Structured Finance***

[robert.jankowitz@moodys.com](mailto:robert.jankowitz@moodys.com)

[andrew.kriegler@moodys.com](mailto:andrew.kriegler@moodys.com)

[cheemee.hu@moodys.com](mailto:cheemee.hu@moodys.com)



[www.moody's.com](http://www.moody's.com)

