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U.S. Privatization Trends and the Ports Sector

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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

Moody's Investors Service
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
<table>
<thead>
<tr>
<th>Privatization Type</th>
<th>Source of Repayment</th>
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<tbody>
<tr>
<td>Government Procurement</td>
<td>Contractual/Milestone payments</td>
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<tr>
<td>Build Transfer Lease</td>
<td>Lease payments</td>
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<tr>
<td>Non-tolled Concession</td>
<td>Availability payments</td>
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<td>Concession with Shadow Payments</td>
<td>Shadow tolls/Congestion management payments</td>
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<tr>
<td>Tolled Concession, I</td>
<td>Project revenues</td>
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<tr>
<td>Tolled Concession, II</td>
<td>Project revenues /Availability payments</td>
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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
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- 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
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