The Changing Market: Would a P3 Benefit My Port?

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Overview

- Port finance: A changing structure
- P3 or not?
- Structure of P3
- Partner selection
- Ongoing relationship
- End game
- Some links for further reading
Port Finance: A Changing Structure

- Global development of public private partnerships
- The background of public private partnerships in the U.S. and Canada: SCA’s and highways
- Surface transportation, crumbling infrastructure, U.S. defunding and C-23
Port Finance: A Changing Structure II

- Non-strategic (financial) partner involvement in ports
- Far East to East Coast all-water services
- Upsizing the Panama Canal in 2015
- Inland cargo movement – congestion and capacity balance
- GASB – Exposure draft in March 2009
### Exhibit 5-12. Revenues to finance U.S. port improvements, 2001–2005 ($ thousands)

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port Revenues</td>
<td>802,331</td>
<td>547,040</td>
<td>751,044</td>
<td>299,867</td>
<td>1,422,016</td>
</tr>
<tr>
<td>General Obligation Bonds</td>
<td>96,478</td>
<td>334,372</td>
<td>206,051</td>
<td>345,837</td>
<td>348,696</td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>449,088</td>
<td>188,120</td>
<td>223,557</td>
<td>183,794</td>
<td>107,979</td>
</tr>
<tr>
<td>Loans</td>
<td>12,401</td>
<td>60,281</td>
<td>45,429</td>
<td>8,467</td>
<td>7,306</td>
</tr>
<tr>
<td>Grants</td>
<td>94,453</td>
<td>110,047</td>
<td>100,005</td>
<td>72,909</td>
<td>94,191</td>
</tr>
<tr>
<td>Other</td>
<td>119,005</td>
<td>187,076</td>
<td>191,299</td>
<td>56,304</td>
<td>69,874</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,573,756</strong></td>
<td><strong>1,426,936</strong></td>
<td><strong>1,517,385</strong></td>
<td><strong>966,978</strong></td>
<td><strong>2,050,063</strong></td>
</tr>
</tbody>
</table>

This exhibit shows the sources of port-related revenues between 2001 and 2005.

P3 or Not?

- What are the real costs
  - Undervaluing and confidential minimum
  - Documenting costs
- What is the port development plan and how does P3 fit
- Use of funds
  - Project specific?
  - Upfront funds
- Stakeholders issues – cargo, jobs, community and environment
- Opportunity costs
Structure of P3s

• What is being monetized
• What is the effect on competition
  – Pour encourager les autres
  – Monopolies and restraints
• Transparency versus confidentiality
• Public confidence
• Stakeholder issues
Structure of P3: Legal Framework

Exhibit 5-19. States having PPP enabling legislation

The exhibit shows the 23 States that currently have authority to enter in public-private partnerships.

Structure of P3 - Process

• The public interest
  – Public accountability of the electorate and the public officials
  – Conflict of public sector goals, revenue maximization and effectiveness
  – Unsolicited proposals and cherry-picking
  – Standards of construction and operation of projects
Partner Selection

• Strategic, financial and mixed partnerships
• Sole source and competitive bids
• Legal issues
  – FMC concerns
  – State and local
• Political considerations
Partner Selection - II

- Internal Due Diligence
  - Valuation
  - Useful life
  - Controls
  - Environmental issues
  - Throughput balance
  - Employee/labor constraints
  - Conflicts of interest – real and perceived
Partner Selection – III

• Partner Due Diligence
  – Financial partner objectives and motivations
  – Transparency issues – disclosure of all equity holders
  – Stakeholder reaction
    • Community
    • Labor
    • Other port users
    • Other government entities
Ongoing Relationship

- Pricing – arguments about rate of return
- Performance
  - measurements
  - remedies
- Operational control
- Recourse
- Modifications, contingencies and changed circumstances
- Emergencies
End Game

• Rebalancing
• Default or renegotiation
  – Bankruptcy
  – Sale
  – Termination for convenience
• Termination date(s)
• Close out terms and conditions
  – Eminent domain
  – Clean up costs
Links for Further Reading

• The GAO report – more rigorous upfront analysis:

• National Coalition – at ncppp.org

• Overall Infrastructure – at