Port Financial Challenges in Tough Economic Times

American Association of Port Authorities

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Presented by
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Deputy Executive Director & CFO, VPA
2008: A New Landscape

- **January 18**: Ambac downgrade
- **March 17**: Bear Stearns insolvent
- **May 30**: JPMorgan purchases Bear Stearns
- **July 21**: FSA and Assured Guaranty on negative watch

**Timeline**

**January - March**
- **January 24**: XL Capital downgraded
- **January 30-31**: FGIC is downgraded

**April - June**
- **April 4**: MBIA downgraded
- **June 6**: UBS closes municipal department

**July - August**

**September**
- 7: Fannie Mae and Freddie Mac enter conservatorship
- 15: Bank of America announces buyout of Merrill Lynch
- 16: Government seizes control of AIG
- 22: Barclays purchases Lehman Brothers businesses
- 24: JP Morgan buys Washington Mutual’s assets

**October**
- 1: Senate approves $700B financial rescue plan
- 3: Wells Fargo offers $15.6B to acquire Wachovia
- 7: Commercial Paper funding facility established by the Fed

**November**
- 10: Treasury announces $40B purchase of AIG preferred shares
- 14: Temporary liquidity guarantee program established by the FDIC
- 24: Treasury invests $20B into Citigroup and guarantees $306B in troubled assets

**December**
- 19: $17.8B in aid granted to U.S. automakers from federal $700B bailout package
January

1
3

• Morgan Stanley and Citigroup agree to combine brokerage operations

6

• Bank of America receives additional government funds

February

17

• American Recovery and Reinvestment Act is passed
Underwriter Landscape

1. Citigroup
2. Merrill Lynch
3. UBS
4. Goldman Sachs
5. Morgan Stanley
6. JPMorgan
7. Lehman Brothers
8. Bear Stearns
9. Bank of America
10. RBC

... 12. Wachovia

... 37. Wells Fargo

Source: TM3.
Letter of Credit Activity

Top LOC Providers

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Full Year 2008</th>
<th>Full Year 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of America</td>
<td>$16.1</td>
<td></td>
</tr>
<tr>
<td>Wells Fargo Bank</td>
<td>$8.1</td>
<td></td>
</tr>
<tr>
<td>JP Morgan Chase Bank</td>
<td>$6.9</td>
<td></td>
</tr>
<tr>
<td>Dania Group</td>
<td>$4.0</td>
<td></td>
</tr>
<tr>
<td>US Bank</td>
<td>$3.8</td>
<td></td>
</tr>
<tr>
<td>Allied Irish Bank</td>
<td>$2.5</td>
<td></td>
</tr>
<tr>
<td>SunTrust Bank</td>
<td>$2.5</td>
<td></td>
</tr>
<tr>
<td>Landesbank Baden-Wuertember</td>
<td>$2.2</td>
<td></td>
</tr>
<tr>
<td>Branch Banking &amp; Trust Co</td>
<td>$2.1</td>
<td></td>
</tr>
<tr>
<td>Bank of Nova Scotia</td>
<td>$1.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: The Bond Buyer.
(a) Firms were not ranked in Top 10 in 2007.

Legend:

- Full Year 2008
- Full Year 2007
Comparison of Municipal Bond Rates

Source: TM3.
Credit Spreads Have Widened

Revenue Spread vs. MMD AAA Benchmark
(10-Year Maturity = 3.03%)

- BBB: 340 bps, 4/29/2009 (~6.43%)
- A: 134 bps, 4/29/2009 (~4.37%)
- AA: 22 bps, 4/29/2009 (~3.25%)

Source: TM3.
AMT Spreads Have Widened

AMT Revenue Spread vs. MMD AAA Benchmark
(10-Year Maturity = 3.03%)

Source: TM3.
Stimulus Legislation Allows Non-AMT Issuance

• On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (the “Recovery Act”)

• This legislation provided many new financing techniques to municipal borrowers

• An important provision for ports is a temporary suspension of the AMT as applied to tax-exempt bonds
  
  – Repeals the AMT for new money private activity bonds issued in 2009 and 2010
  
  – Allows for AMT bonds issued between January 1, 2004 and December 31, 2008 to be currently refunded with non-AMT bonds in 2009 and 2010, assuming those bonds have a call date in 2009 and 2010
Privatizations Slowed by Financial Conditions and Credit Crunch

- Financial market conditions have made arranging financing much more difficult for privatizations
  - Many fewer P3s have closed over the past year
  - Financing techniques used in the past can not be executed in today’s market
  - Bank financing more difficult and terms more onerous
    - In recent years, many P3 financing plans utilized bank loans and assumed rollovers of bank facilities in 3 to 5 years or long-term takeout financings in the future
    - In the current market, bank facilities are often not available for more than one year and pricing is much less favorable
  - Market access problematic for lower rated credits
    - “A” rated credits and below have widened dramatically over the past year when compared to a “AAA” benchmark
      - For A rated bonds, from 51 bps a year ago to 134 bps today
      - For BBB rated bonds, from 113 bps a year ago to 340 bps today
Current Privatization Trends

• Generally lower valuations than earlier in the decade
  – Reduced EBITDA multiples
    • High multiples of 30x to 40x EBITDA paid in recent years likely not duplicated in near to medium term
    • Multiples expected to be in the 10x to 20x EBITDA range
      – Lower upfront payments
      – Credit crisis and global financial difficulties will continue to slow privatization activity in the U.S.
  • More reliance on annual rent payments and revenue sharing
    – Port of Oakland structure is closer to what is anticipated
  • Shorter concession lengths
    – 50 years rather than 99 years
Stability of Shiplines in Question

- Shiplines were overly optimistic
- Economic downturn has been particularly hard on international trade
- Throughout the shipping industry, shipping companies’ earnings per day were down 48.9% through February 2009, compared to the 10 year average

<table>
<thead>
<tr>
<th>Shipline</th>
<th>Date Downgraded</th>
<th>Rating Agency</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMA-CGM</td>
<td>3/23/2009</td>
<td>Moody’s</td>
<td>Revised outlook from Ba1 to Ba1 (neg watch)</td>
</tr>
<tr>
<td></td>
<td>3/17/2009</td>
<td>S&amp;P</td>
<td>Revised outlook from BB+ to BB+ (neg watch)</td>
</tr>
<tr>
<td></td>
<td>12/16/2008</td>
<td>Fitch</td>
<td>Downgraded from BBB- to BB+ (neg outlook)</td>
</tr>
<tr>
<td>CSAV</td>
<td>4/2/2009</td>
<td>S&amp;P</td>
<td>Downgraded from BB- (neg watch) to B- (neg watch)</td>
</tr>
<tr>
<td></td>
<td>3/17/2009</td>
<td>Fitch</td>
<td>Downgraded from A (stable) to BBB (neg watch)</td>
</tr>
<tr>
<td>Nippon Yusen KK (A3/BBB+/NR)</td>
<td>4/10/2009</td>
<td>S&amp;P</td>
<td>Revised outlook from BBB+ (stable) to BBB+ (neg watch)</td>
</tr>
</tbody>
</table>

Ships Anchored in the Singapore Harbor
(January, 2009)
# Top 20 Containerlines’ Capacity on Order

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Ships</th>
<th>TEUs</th>
<th>Ships Ordered</th>
<th>Ordered TEUs</th>
<th>% Capacity on Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Maersk Line</td>
<td>538</td>
<td>2,027</td>
<td>82</td>
<td>411</td>
<td>20.2%</td>
</tr>
<tr>
<td>2. Mediterranean Shipping Co.</td>
<td>427</td>
<td>1,457</td>
<td>54</td>
<td>637</td>
<td>43.7%</td>
</tr>
<tr>
<td>3. CMA CGM</td>
<td>380</td>
<td>991</td>
<td>74</td>
<td>597</td>
<td>60.2%</td>
</tr>
<tr>
<td>4. Evergreen</td>
<td>174</td>
<td>623</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>5. Hapag-Lloyd</td>
<td>131</td>
<td>496</td>
<td>14</td>
<td>123</td>
<td>24.7%</td>
</tr>
<tr>
<td>6. COSCO</td>
<td>150</td>
<td>489</td>
<td>63</td>
<td>452</td>
<td>92.4%</td>
</tr>
<tr>
<td>7. APL</td>
<td>133</td>
<td>483</td>
<td>25</td>
<td>183</td>
<td>37.8%</td>
</tr>
<tr>
<td>8. China Shipping</td>
<td>142</td>
<td>447</td>
<td>29</td>
<td>227</td>
<td>50.8%</td>
</tr>
<tr>
<td>9. NYK</td>
<td>117</td>
<td>424</td>
<td>31</td>
<td>176</td>
<td>41.5%</td>
</tr>
<tr>
<td>10. MOL</td>
<td>111</td>
<td>379</td>
<td>36</td>
<td>205</td>
<td>54.0%</td>
</tr>
<tr>
<td>11. Hanjin</td>
<td>88</td>
<td>369</td>
<td>34</td>
<td>288</td>
<td>78.0%</td>
</tr>
<tr>
<td>12. OOCL</td>
<td>85</td>
<td>361</td>
<td>20</td>
<td>130</td>
<td>36.0%</td>
</tr>
<tr>
<td>13. &quot;K Line</td>
<td>95</td>
<td>318</td>
<td>36</td>
<td>174</td>
<td>54.7%</td>
</tr>
<tr>
<td>14. Hamburg Sud</td>
<td>119</td>
<td>315</td>
<td>29</td>
<td>152</td>
<td>48.2%</td>
</tr>
<tr>
<td>15. Yang Ming</td>
<td>81</td>
<td>301</td>
<td>28</td>
<td>175</td>
<td>58.1%</td>
</tr>
<tr>
<td>16. CSAV</td>
<td>95</td>
<td>295</td>
<td>25</td>
<td>185</td>
<td>62.7%</td>
</tr>
<tr>
<td>17. ZIM</td>
<td>98</td>
<td>262</td>
<td>42</td>
<td>295</td>
<td>112.5%</td>
</tr>
<tr>
<td>18. Hyundai</td>
<td>57</td>
<td>249</td>
<td>14</td>
<td>133</td>
<td>53.4%</td>
</tr>
<tr>
<td>19. PIL</td>
<td>111</td>
<td>186</td>
<td>21</td>
<td>79</td>
<td>42.4%</td>
</tr>
<tr>
<td>20. United Arab Shipping Co.</td>
<td>47</td>
<td>154</td>
<td>18</td>
<td>159</td>
<td>103.2%</td>
</tr>
<tr>
<td><strong>Top 20 Totals</strong></td>
<td><strong>3,179</strong></td>
<td><strong>10,626</strong></td>
<td><strong>675</strong></td>
<td><strong>4,781</strong></td>
<td><strong>45.0%</strong></td>
</tr>
</tbody>
</table>
AAPA Finance Committee Work

• Leadership succession and recruitment
• Legislation Exempting Seaports from the AMT
• Strategic Planning session in October 2008 for AAPA Leadership
• Seaports and the Financial Crisis Webinar initiated
• Three webinars so far:
  – Financial Crisis and Potential Impact on Ports (November 2008, 40 ports participated)
  – Macro and Micro Economic Conditions (February 2009, 34 ports participated)
  – American Recovery and Reinvestment Tax Act of 2009 (“Stimulus Act”) and Grant Opportunities workshop