Identifying Private Sector Business Partners: Evolution of Terminal 6 Lease

July 12, 2011
Topics Covered

- T-6 Initiative Background
- Getting Educated
- Process
- Final Result
T-6 Background

Project evolved from 2004 experience:
- Loss of two major container carriers in 4th quarter
- Represented 60% of container volume
- Financial “shock” to Port

No strategic response to proprietary terminal development in Puget Sound

Selling land to fund franchise not viewed as sustainable business model

Executive Director mandate to initiate strategic review of the business

By 2006 concluded that terminal structure could be part of the solution
Getting Educated

- Affiliate with a carrier?
  - High risk given volatility of industry
  - Only one opportunity to select the right carrier
  - Potentially lose “common user” capability
  - Can existing facility accommodate both Port Operator and Private Operator?
  - Individual carrier goals may not fit with Port Mission

- Affiliate with Terminal Operator or Stevedore?
  - Those aligned with carrier
  - Those not aligned
  - U.S. based/Foreign
  - Ripples from DP World still fresh
  - Concerns about CFIUS process
  - Multiple WC operations could compete with T-6
Getting More Educated

- Review earlier Port initiatives
- Input from other Ports
- Familiarity with other marine terminal leases and structures
- Input from Airport investment bank advisor
- Consultant input
- Current and former port staff
- Understanding terminal concession models
Getting Even More Educated

- Strategic review period coincides with terminal/stevedore “equity events”
  - DP World
  - Ontario Teachers
  - Maher
  - Goldman Sachs and SSA
  - Highstar and MTC
  - Oakland, Baltimore, Philadelphia, Virginia

- Terminals as investment asset class

- Unlimited growth potential: 2 x GDP relationship
  - Unlocking “the hidden value”
  - Privatization of public assets: toll roads/airports/ports etc
  - Environmental permit regime seen as a barrier to greenfield capacity growth
Range of Operating Models

- Term
- Capital and Business Risk Transfer
- Legacy Labor Agreements
- Port Authority Structure
  - Can Commission Approve?
- Who Markets and Who Prices (Tariff Authority)
- CFIUS Calculus
Establishing Key Project Goals & Objectives

- Identifying Right Partner To Meet Port Cargo Mission
- Global Player with Global Resources
- Shift of Capital and Market Risk
- Stabilize Port’s General Fund
- Long Term Volume Growth
- End Dependence on Land Sales to Fund Franchise
Getting Started

- Executive/Commission: Approval to Proceed
- Governor and Congressional Delegation Check-In
- Organization Preparation
  - Project Manager
  - Core Team
  - Financial, Legal, Operational Support
- Selection of Investment Advisor and Attorney
- Populating Data Room
- Keeping Organization Informed vs. Preserving Confidentiality
T-6 Initiative: Concession Process

- Chartered project – March 2007
- Port Commission approves staff decision to pursue private operating model for T-6 – December 2007
- Port hires Morgan Stanley as “sale side advisor” and initiates solicitation process with global RFQ – January 2008
- Multiple qualified respondents – March 31, 2008
- Parties submit preliminary bids and participate in Port management meetings - July/August 2008
- Submission of second preliminary bid – October 2008
- Port suspends process in late November due to global shipping downturn – Lehman Brothers collapse October 2008
ICTSI: Marine Terminal Lease

- ICTSI introduced to Port during concession process
- Approaches Port in 2009 regarding more traditional maritime lease
- Developing basic framework for lease structure
- Facility and Environmental baselines
- Development and negotiation of lease
- Lease Signing-May 2010
- Financial Close-August 2010
- 180 Day Transition and Go-Live-February 2011
Lease Premises-192 acres
Lease Structure

- 25 year term
- $8 million upfront and $4.5 million inflation adjusted annual rent
- Reimbursement for Port services provided (security and some maintenance)
- Upside with volume growth
- ICTSI parent guarantee
- Establishment of ICTSI Oregon Operating Company
- ICTSI responsible for all maintenance, capital (not defined as capital expansion) and equipment replacement
- Port responsible for berth maintenance
Scorecard

- Traditional Maritime Lease/Hybrid vs. Long Term Concession
- Identified Growing Global Player with a Desire to be in the U.S.
- Not a Covered Transaction Under CFIUS
- Sufficient Shift in Capital Risk
- Stabilization of Port Revenue/General Fund
- No Longer Dependent on Land Sales to Fund Franchise
- ICTSI viewed as Good Fit for Port of Portland