



Contact

Angela M. Kukoda

Senior Vice President

1620 26th Street, Suite 230 South

Santa Monica, CA 90404

Direct: 310.401.8065

Fax: 310.401.8055

angela.kukoda@firstsw.com

Association of Pacific Ports – Navigating Ports Through the Rating Process

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Bond Ratings—The “Gateway” to the Capital Markets

- **More Important to investors since Sept. 2008 financing meltdown**
 - Lack of viable credit enhancement
 - No more active “Triple-A” insurers
 - Investor skittishness about municipals
 - Media speculation about possible spike in municipal defaults
(Hasn’t happened!)
- **Rating agencies under increased pressure to conduct frequent rating reviews**
 - All three major rating agencies—Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings—conduct regular surveillance of outstanding ratings
 - Standard & Poor’s and Fitch have moved to annual cycles
 - *Rating changes can and often do occur in the interim of bond sales*
- **Maintaining a continuous dialog with the rating agencies is essential**
 - Even if there are imminent plans to issue debt, rating actions taken today can have a significant impact on future borrowing costs

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Port Ratings Are Under Pressure

- **Since Sept. 2008, the following port's revenue bond ratings have been downgraded by at least one of the three major rating agencies:**
 - Alabama State Port Authority
 - Puerto Rico Port Authority
 - Port of Oakland, CA
 - Tampa Port Authority, FL
 - Port of Palm Beach, FL
 - Port of New Orleans, LA
 - Port of West Sacramento, CA
 - Hawaii Harbors Division
 - Port of Cleveland, OH

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Port Ratings Under Pressure

- **The following ports have had their outlooks adjusted—either from “stable” to “negative” or “positive” to “stable:”**
 - Galveston Wharves, TX
 - Hawaii Harbors Division
 - Jacksonville Port Authority, FL
 - Massachusetts Port Authority*
 - Port Everglades, FL
 - Port of New Orleans, LA
 - Port of Palm Beach, FL
 - Port of Redwood City, CA
 - Port of San Diego
 - Port of Stockton, CA*
 - Port of West Sacramento, CA
 - Virginia Port Authority
 - Port Manatee, FL
 - Tri-City Regional Port District, IL

*S&P outlooks subsequently revised back to “stable”

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What Caused the Rating Declines?

- **Primary port revenue bond rating factors are similar to those of other enterprise fund debt:**
 - Customer base characteristics
 - Competitive position
 - Financial performance, with an emphasis on liquidity
 - Legal provisions of bond documents
 - Debt service coverage
- **Seaport debt is, however, more vulnerable to changes in national and global economic conditions**
- **The most recent recession had a strong negative impact on many seaports**
 - Sharp declines in throughput
 - Fiscal stress resulting in depletion of financial reserves
 - Often significant reductions in debt service coverage

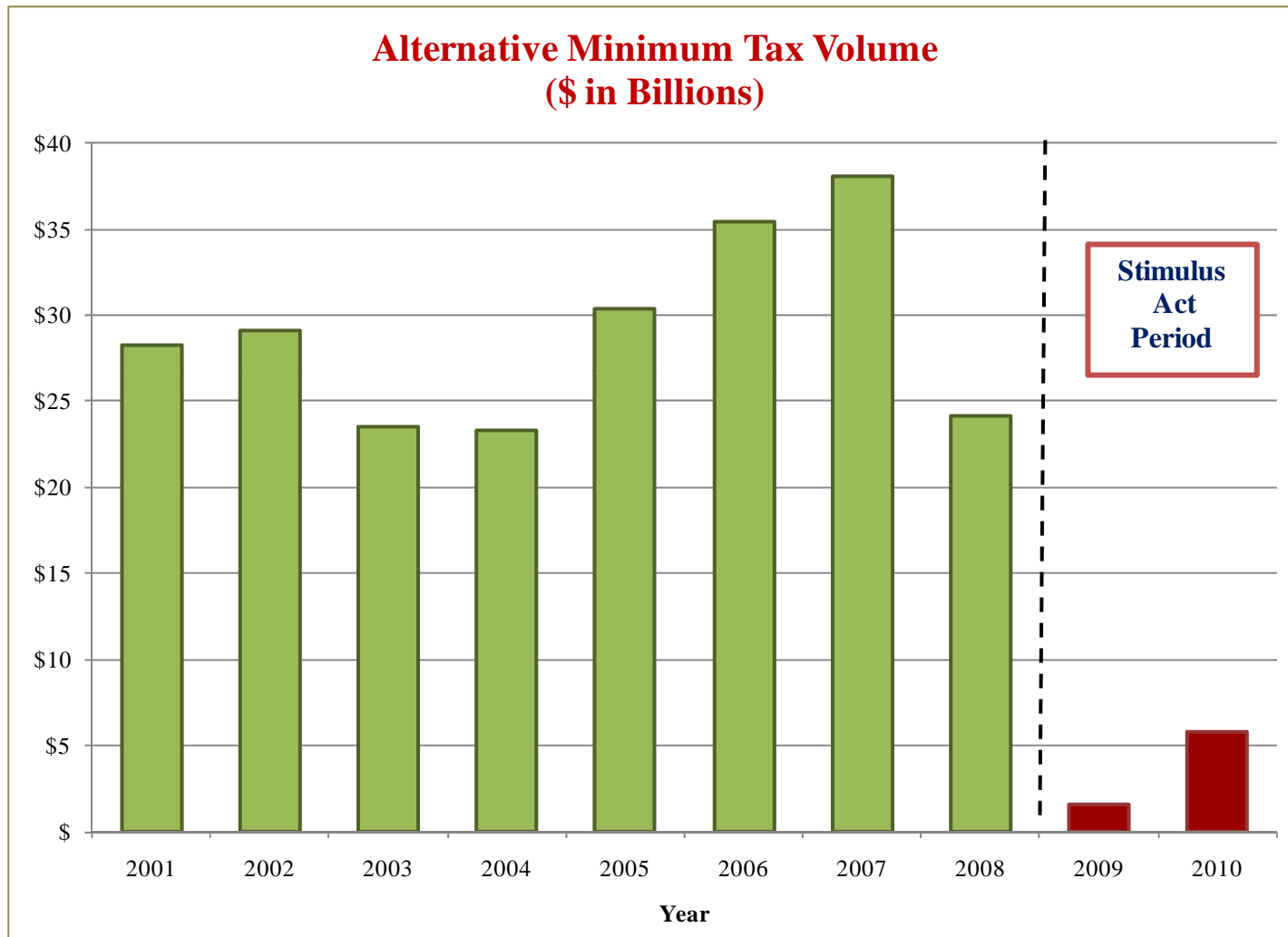
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AMT Spreads Also Add to the Cost of Borrowing

- **Trading differentials between AMT and Non-AMT bonds have decreased since the 2008 financial meltdown**
 - Spreads had been as wide as 110-120 basis point amid periods of “flight to quality”
 - Current spreads are approximately 70 bps at the short-end of the yield curve and 60 basis points at the long end
- **Because of AMT holiday in 2009-2010, there was immaterial issuance of AMT debt in recent years**
- **The future spread between AMT and Non-AMT bonds will depend on supply of AMT bonds**
 - An abundance of new issuance by seaports, airports and other issuers of AMT debt will drive AMT yields up
 - New seaport issuance, in turn, depends of continued recovery of the national and global economies

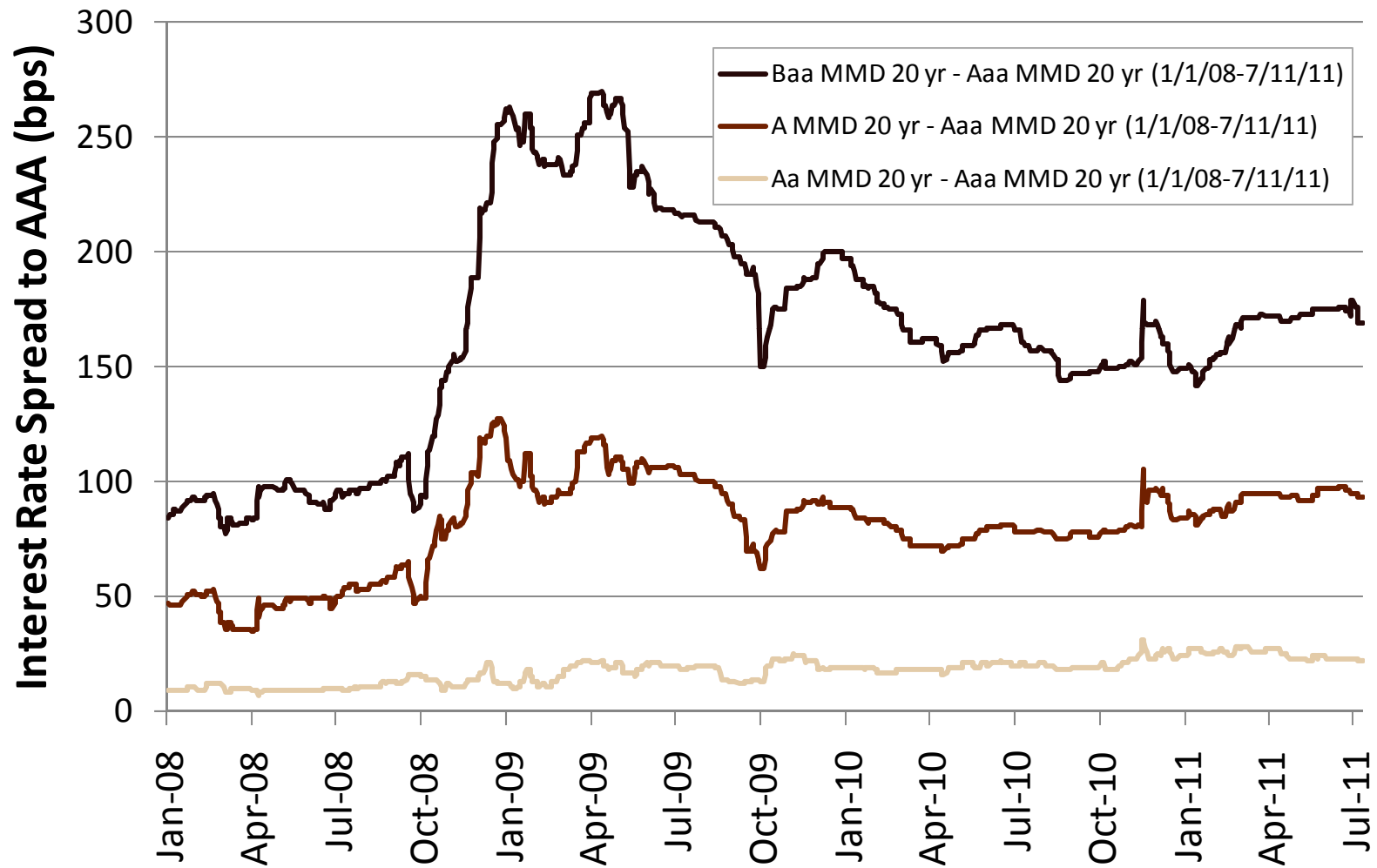
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AMT Issuance Over Time



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Historical Credit Spreads as of July 11, 2011



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Good News?

- **The shipping industry is showing signs of recovery**
- **The recent downturn in activity gave many ports a “breather” in implementing their capital plans**
- **Most ports preserved their bond ratings**

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The information in this book portrays historical interest rates and their respective relationships. Future interest rates are dependent upon many factors such as, but not limited to, interest rate trends, tax rates, supply, changes in laws, rules and regulations, as well as changes in credit quality and rating agency considerations. The effect of such changes in such assumptions may be material and could affect the projected results. These results should be viewed with these potential changes in mind as well as the understanding that there may be interruptions in the market or no market may exist at all.

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