

# An Analysis of Port Concessions

Prepared on behalf of:  
**Manatee County Port Authority**

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## BACKGROUND

Granting a “concession” for the use of maritime facilities has been part of the international port industry for decades. It has many forms and is used for a variety of reasons. Concessions may or may not be an element of whatever business model a port authority or other port governing body chooses to implement.

*The operating philosophies of public seaport agencies in the US are dictated largely by local circumstances ... port tariffs are filed with a federal regulatory agency [Federal Maritime Commission] to ensure compliance with the law, and lease and service agreements must be made available to the agency [and hence the public] upon request ... however, port investment and management decisions are a local, state or private sector function*

American Association of Port Authorities

The first question that needs to be examined is the business model. How does the port best serve its constituency and create economic vitality for the region? Most port authorities in the US are either landlords, which means they rent their land for specific periods of time, with or without improvements, or operating ports where the authority actually operates certain elements of their facilities. Many ports also mix both business models depending upon their business partners and needs.

Structure	Description	Example
Non-operating	Basically landlords, all facilities leased, tenant operates	NY/NJ
Operating	Generally provides all port services except stevedoring (union workers) with their own employees, including operation of container terminal	Georgia
Limited operating	Lease some facilities, operate others with port employees	South Carolina
	Hybrid: operates facilities with separate non-profit company	Virginia

The Manatee County Port Authority (“the Authority”) has historically followed the landlord model, developing land and or facilities that are leased to private tenants at Port Manatee for a specified period of time. This model has proven successful for the Authority and appears to be well accepted by the current tenants. Traditionally, Florida’s leading container ports follow this model, including Jacksonville, Port Everglades, Miami and Tampa.

Basically a concession can be viewed as a form of a leasehold agreement. The concepts are really interchangeable. In recent years, concessions have come to mean longer-term agreements to operate a business on port authority owned land with annual fees paid for these rights. This has the same attributes as a lease, but normally today concessions carry with them actual contributing business (minimum annual TEU volume guarantees for a container terminal), as well as the commitment by the concessionaire to invest in facilities and equipment necessary to service that business for an extended period of time.

Recent examples in Florida’s port community provide a recap of the options. In 2004, Mediterranean Shipping Company signed a traditional lease agreement with Port Everglades to operate an existing container terminal for 10 years. The lease included a mutually agreed upon option to extend the term. In 2008, the partnership of Maersk and CMA CGM signed a similar deal with the Port of Miami with an initial lease period of 15 years. Jaxport has chosen the less traditional concession agreement for development of new container facilities. Mitsui OSK Line signed a 30-year lease in 2005 for a “Greenfield” terminal and Hanjin Shipping is planning a new terminal under a 30-year agreement. In both cases, the carrier has committed its own container business to insure the facility has throughput and generates revenue from its start.

Concessions are also used as an alternative financing vehicle when a jurisdiction either does not have the funds available or the funding authority to develop certain activities. Under ideal conditions, development of maritime infrastructure would be done by the port authority under tax exempt bonding, special purpose bank loans or government funding as opposed to commercial terms. Where that is not possible, or provides an insufficient investment, private capital can be employed via concessions or long term leases. The stipulation for private investment usually comes in the form of an upfront concession payment, which the port authority is likely to earmark for terminal and infrastructure development, or through a commitment by the concessionaire to utilize its own capital and funding mechanisms to develop and maintain a facility.

Historically, most organizations that are prepared to develop maritime infrastructure and assume the risk of a concession that includes development costs also desire to have business already committed to the venture in order to mitigate the risks associated with “build it and they will come.”

## **CONSIDERATIONS for Port Manatee**

As with any business opportunity, there are positives and negatives that must be weighed carefully when determining the value of a lease or concession, and its specific terms and commitments. It should be emphasized, that a potential container operation at Berth 12 is a “Greenfield” terminal without the benefit of existing terminal operations, infrastructure or ocean carrier clients.

Long term arrangements such as concessions may allow for development without direct funding from port authorities, but the concession could lead to a loss of control of not only the development process but also the ultimate use of the authority’s land.

The following is Ports America’s rationale for investing in the Port of Oakland. It should be noted that the prior tenant at this particular Port of Oakland facility (APM Terminals) bid, but lost the long term concession to Ports America.

*Capital is needed to be competitive and plan for the future. U.S. ports have limited funds to build or expand, so financing choices are: bonds, bank financing, government funding or private investment. Considering the current financial situation, the best option is a value-creation opportunity that attracts private investors like Ports America, which looks for long-term sustainable growth in commercially viable projects.*

*The 2009 Port of Oakland's 50-year concession agreement with Ports America for the 165-acre site of Outer Harbor Berths 20-24 is an example of a new model of shared risk and reward that will provide immediate benefits to the port in terms of upfront financing and transferred responsibility. By taking the facility "as is," facility maintenance and expansion expense is shifted to the leaseholder. Ports America also bears the commercial risk, but it controls the development design and timeframe.*

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By sharing control and terminal development/operations risk, port authorities cannot always insure that the economic, environmental and security/safety mandates are being properly addressed.

Ports America recognized these concerns in their assessment of the Port of Oakland, but acknowledges that the implementation decision for such investments by a private company as opposed to a port authority can be influenced by profitability:

*Equipment investment and the environment are major considerations. A 50-year concession period allows the added time for the investor to achieve return on investment, or ROI, for substantial purchases of state-of-the-*

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*industry environmental terminal equipment that is necessary to increase throughput productivity, reduce emissions, decrease environmental footprint and augment existing equipment. The environmental issue is a key factor when growing a facility.*

Concessionaires may also have conflicting business interests from those of the region which could adversely affect the community that the authority is charged with protecting and invigorating.

Concessions may be developed that can also utilize port authority preferred funding mechanisms to insure long term financing costs are competitive with other ports. Jaxport deployed such a financing vehicle in its concession with Mitsui OSK Line. The competitive nature of international shipping is well known and bottom line costs to the cargo must be seriously considered in any scheme. In the end, cargo will flow to the least cost shipping alternative and it is essential that the Authority considers the competitive realities at Port Manatee, with the Port of Tampa, and throughout the US Southeast container terminal markets.

Where concessions must use commercial funding, competitive costs are critical to a strong business plan designed to serve existing as well as future clients. Where the concession is a “Greenfield” facility - like Port Manatee’s Berth 12 - with no pre-existing terminal structure or customers with cargo, the task becomes more difficult. Typically the funding and development costs incurred by the concessionaire reflect the higher risks associated with “a concept without business”. Potential risk of failure increases as does the time and opportunity delays that stem from inactivity for protracted periods of time. Naturally, such a business model with significant upfront risks restricts the concessionaire from sharing future potential earnings with the port authority before recovering out-of-pocket costs and debt. As a result, a port authority is not always guaranteed significant near term payments from such concessions.

Again, citing Ports America’s decision to invest in the Port of Oakland, their ability to jump-start operations with existing business, coupled with the long term lease, appeared critical:

*With a 50-year concession period, there is time to make improvements and introduce state-of-the-art technology as demand requires. Also, it allows the concession-holder enough time to ride out the cycles of business. In this case, Oakland provides sustainable volumes from both the local market as well as intermodal expansion.*

Concessions granted that do not have firm business associated with them must have strong, well funded marketing activities to actually develop business. This should be a requirement for any potential concessionaire at Port Manatee’s Berth 12. These plans must be realistic and be driven by industry experts with proven track records of success in the international marketplace. For example, infrastructure investment firms will partner with terminal operating companies to match strengths. The success of other port

concessions in the US will not necessarily be duplicated at Port Manatee given the innumerable number of variables that constitute international container trade.

Concessions must be so designed to insure that the port is compensated fairly for its existing land and land acquisitions, improvements and development work performed. This is also true for lease arrangements. Opportunity costs must be considered for the short and long term. The port authority also needs to require long term revenues to drive their mandate of economic growth for their region while insuring environmental responsibility as well as safety and security. Given the unknown future costs of landlord expenses, leases will normally include variable fees paid by the tenant which are tied to inflation. Concession financial terms must have adequate guarantees associated with them and cannot just be predicated upon a concessionaire's forecast performance. Besides market risk, a concessionaire that is independent of a carrier who controls ship deployments and port choice adds another layer of uncertainty to securing and growing terminal throughput.

A port authority's potential concession revenues over the life of the agreement must also be evaluated against more traditional operating arrangements over a comparable span of time.

## **RECENT CONCESSIONS**

Recently, there have been a number of notable container terminal concessions or lease arrangements completed in the U.S. worth reviewing.<sup>1</sup>

### **1. Port of Oakland (March 2009) – Berths 20-24 and related backlands**

**RFP process:** Concession process from RFQ to Board approval took 11 months (for an existing facility with two major carrier customers and considerable volume).

**Term:** 50 year lease with Ports America. This includes a contingent option to expand premises to include adjacent berths 25-26 if current tenant does not exercise extension option in 2013. Concessionaire has "right of first offer" to develop a new berth 21. Ports America does not have a renewal option on its 50-year lease.  
Ports America is the largest stevedore and terminal operator in the US (common user facilities) with business in 42 ports.

**Facility:** Berths 20-24 (total 3,130 feet of berth) include an adjacent 165 acres of land for container operations. Annual volume is approximately 175,000 TEU. There are 4 post-Panamax cranes (leased separately by the port, with newer additional cranes on order)

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<sup>1</sup> Information on these concessions is recapped from publicly available documents, and assumed accurate subject to interpretation by the author of this paper.

Port Remuneration:

\$60 million upfront fee. Annual rent of \$19.5 million, subject to CPI increases. After 10 years, concessionaire required to pay the port a per-TEU fee of \$15 if volume exceeds 1.66 million TEUs per year. (As noted above, current volume is only estimated at 175,000 TEU). Port estimates the current discounted value of all future earnings from this concession at \$686 million. Prior to this new long-term concession, the port received approximately \$18.9 million annually from the prior tenant.

Specifics: Port maintains responsibility for shore cranes and berth maintenance. Concessionaire responsible for all capital investments. The port was required to apply the \$60 million upfront fee to defease outstanding revenue bonds. For the current 9 months of the port's fiscal year (July '09 thru March '10), volume through this terminal has declined -19% compared to the same period under the prior tenant. Overall for this same time period, total port volume has increased +13%.

**2. Maryland Port Authority (December 2009) – Port of Baltimore, Seagirt terminal & Canton property**

RFP process: Concession process from RFQ to Board approval took 8 months. Only two prospective terminal operators responded to the state's bid invitation. The winner had already been operating at the facility since it opened in 1990.

Term: 50 year lease with Ports America. No option for renewal.

Facility: Seagirt is a 183-acre container facility. The Canton property is an adjacent breakbulk facility of 18 acres. Annual container volume is approximately 450,000 TEU, with two significant clients – Evergreen and MSC.

Port Remuneration:

Upfront payment of \$100 million, and a commitment by Ports America to build an additional berth at an estimated cost of \$105 million. Upfront payment needed by port authority to pay the state for the land which was previously on a long-term lease from the Maryland Transportation Authority. Annual rent of \$3.2 million and a variable assessment of \$15 per container over 500,000.

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**Specifics:** Maryland Economic Development Corporation (state agency) issued two types of revenue bonds to support Ports America. \$170 million in bonds was used to pay for the transfer of land to the port from the transportation authority. \$89 million in bonds was lent to Ports America to help build the required berth (matched by \$75 million equity from Ports America). Both bonds are backed by a lien on Ports America's concession. Concession requires that all container business at the Port of Baltimore flow through the Ports America terminal.

### **3. Port of Portland, Oregon (approved by Board, May 2010) – T6 terminal**

**RFP process:** Concession process was conducted over a 29-month period. The port first conducted a competitive process (via RFP) in 2008 with the intent to secure a +50 year concession. The port suspended the public process in November 2008 due to “declining global and national market conditions impacting the container shipping industry”. The port resumed the process in 2009; however, they chose to conduct a private due diligence discussion with just one party for a shorter term agreement, which recently culminated in this lease.

**Term:** 25 year lease with International Container Terminal Services (ICTSI). ICTSI is a publicly traded Philippine company that operates 18 terminals in 13 countries

**Facility:** T6 terminal is a 192-acre facility with 3 major container carrier customers. Annual volume is approximately 175,000 TEU and 533,000 tons of breakbulk steel

**Port Remuneration:**

Signing deposit of \$2 million, closing payment of \$8 million (less deposit), \$4.5 million annual rent subject to annual CPI increase, annual TEU assessment of \$10 per TEU once volume exceeds 250,000 TEU. Port estimates total compensation at \$68 million (present value of 25-year payments)

**Specifics:** Port maintains responsibility for shore cranes and berth maintenance. Lessee restricted from operating any other port facility on the West Coast US. Prior to the 15<sup>th</sup> anniversary of the lease, the port cannot develop a competing terminal at Portland. Once annual volume exceeds 400,000 TEU, parties agree to mutually negotiate a terminal expansion.

## **BUDGET CONSIDERATIONS**

There is significant work and expense associated with the development of a viable concession arrangement that will serve Port Manatee and the community with adequate, realistic revenues for many years to come.

Concession advisor compensation can take multiple forms. Some examples include, (a) a contract fee based on hourly billing rates, with a ceiling, (b) a success-only fee, which is usually a percentage of the value of the concession, (c) a retainer service fee for an agreed upon timeline, or (d) a combination of the above.

Success fees are usually tied to the value of the concession. At this point it is too early to determine an accurate budget for this project.

As examples, here are fees charged for some recent deals, or pending opportunities.

- The state of Maryland paid its advisor a fixed fee of \$1 million (not contingent upon a successful concession contract)
- The Port of Oakland paid its advisor a monthly retainer fee of \$20,000, plus a “success fee” of \$2.5 million.
- The Port of Corpus Christi was paying its advisor (for the possible concession of its “Greenfield” La Quinta container terminal) a monthly retainer and a “transaction fee” of \$2.7 million upon successful completion of the concession. After 3 years of unsuccessfully finding a partner, the port reduced the transaction fee to \$1.7 million (essentially taking the 3-year cost of the retainer off the final transaction fee award).
- According to the Galveston Daily News (28 April 2010), the Port of Galveston’s Governing Board approved engaging an advisor to “evaluate and recommend a strategy for redeveloping the aging public docks with private money”. The advisor will only receive payment if a deal is realized. Payment would be a percentage of the total investment in port facilities by a third party. With the exception of control of the cruise business, the intention is to forge an agreement with private partners via a long-term lease that could cover existing port business and development of a container terminal. The Port of Galveston is a landlord port, currently earning \$25 million on non-cruise businesses. The port has about \$50 million in outstanding debt, which is cited as an inhibiting factor for securing the estimated \$500 million needed to upgrade and develop facilities.

## **IMMEDIATE NEXT STEPS for BERTH 12**

Prior to entering into a concession process, the Authority should engage a qualified advisor to provide guidance on the container terminal concession process. Port Manatee executive staff should review recent RFQs related to advisory services issued by the representative governing bodies for the Philadelphia Regional Port Authority, Maryland Port Authority and the Port of Oakland, to name a few.

Once the reviews have been completed an RFQ should be written that speaks to the specifics of the Authority's requirements. The RFQ should be advertised in the appropriate media and procurement website(s). Qualified candidates should have both financial and industry expertise and have conducted such advisory services for similarly situated port authorities in the past two years.

As consultants who have been involved in numerous such solicitations, we estimate that the solicitation process should take two months to complete. The following is a concise but reasonable timeline, subject to staff and Board time commitments and the number of RFQ responses received:

- Week of June 21-25: review recent RFQs, compose and issue RFQ
- June 28 – July 16: receive, review and rank responses from potential advisors
- July 19 - 30: decide on a short-list of prospects and issue to them any specific questions regarding their proposals. Invite short-listed candidates to present their proposals in person (selected Board members should attend presentations, although the process must remain confidential)
- August 6: select and notify preferred partner

We caution that the process of granting a terminal concession will likely take more than a year, during which the port must continue day-to-day operations and longer term capital spending programs. The engagement of a concession advisor now is essential to obtaining necessary guidance, as well as having them provide professional assistance in qualifying potential private partners and negotiating the best agreement for Port Manatee.

The value of the Berth 12 concession will significantly increase if one or more ocean carrier clients can be identified and committed to bringing business once the facility is completed. Port Manatee staff work should continue on marketing initiatives and other development activities such as dredging and land development in parallel with engaging a concession advisor. Both efforts are critical to Berth 12's progress.