



Moody's Bond Rating Process

U.S. Seaport Industry

Agenda

1. What are credit ratings?
2. U.S. port ratings
3. Three Bond types
4. Case Study

About Moody's

- An independent NYSE listed company
- Over 100-year-old institution
- ~ 4,500 employees globally
- 2012 revenues of \$2.7 billion
- Our Mission:

To be the world's most respected authority serving credit-sensitive markets

What Are Credit Ratings?

- An independent opinion of credit
- Measures probability of default
 - risk of missed or delayed payment of interest or principal
 - bankruptcy filing
 - distressed exchange
- Measures severity of loss in event of default
 - how much investors can ultimately hope to recoup

What Are Credit Ratings?

- Only one component of investment decision
 - do not address relative value, pricing
 - do not replace investor due diligence
- Based on information provided
 - public, audited financial statements
 - additional information provided by management
 - not a second audit, not designed to police fraud

To What Are They Applied?

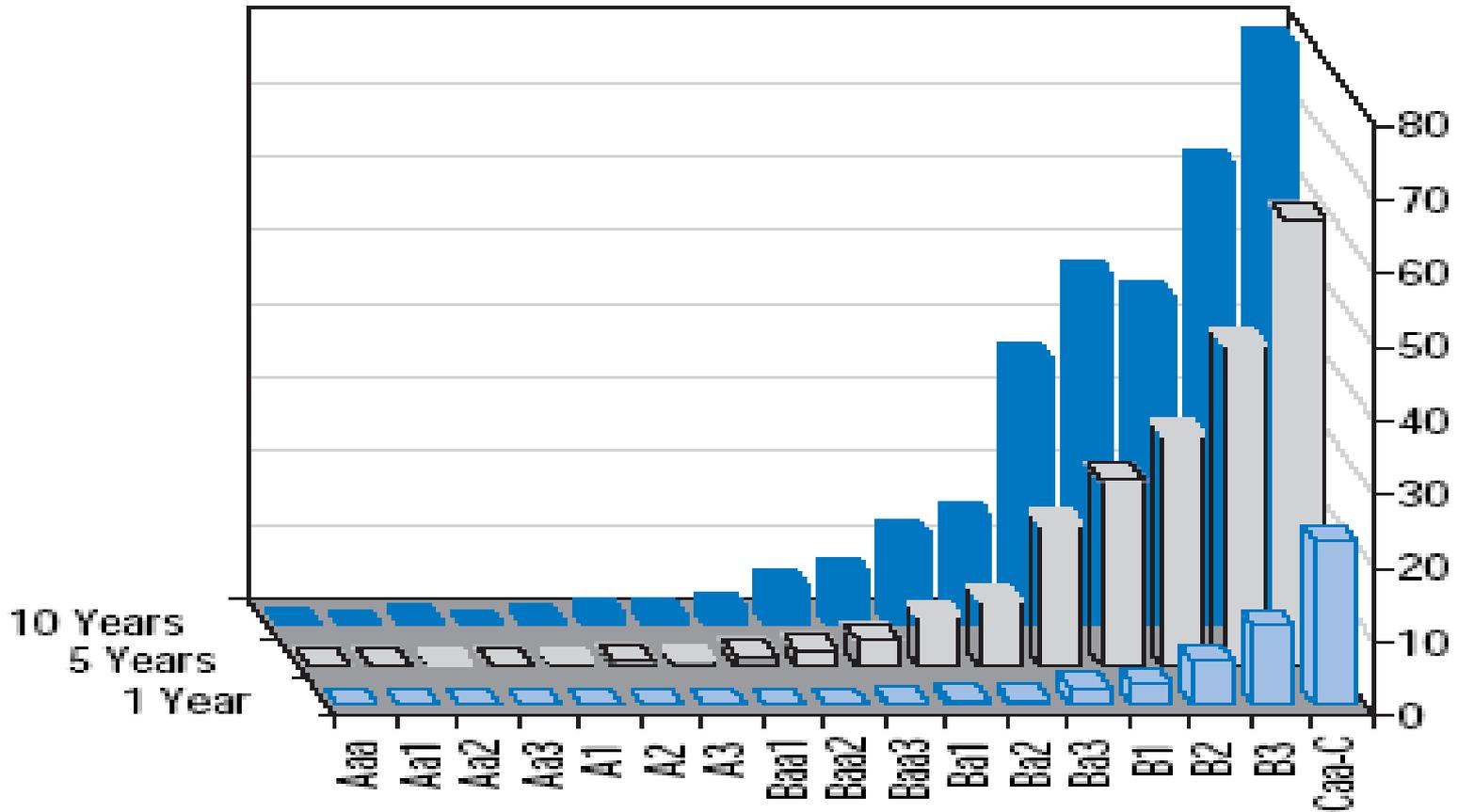
- Corporate bonds
- Syndicated bank loans
- Sovereign nations
- Municipal obligations
- Infrastructure projects
- Structured transactions
- Bank deposits
- Mutual funds

The Rating Scale

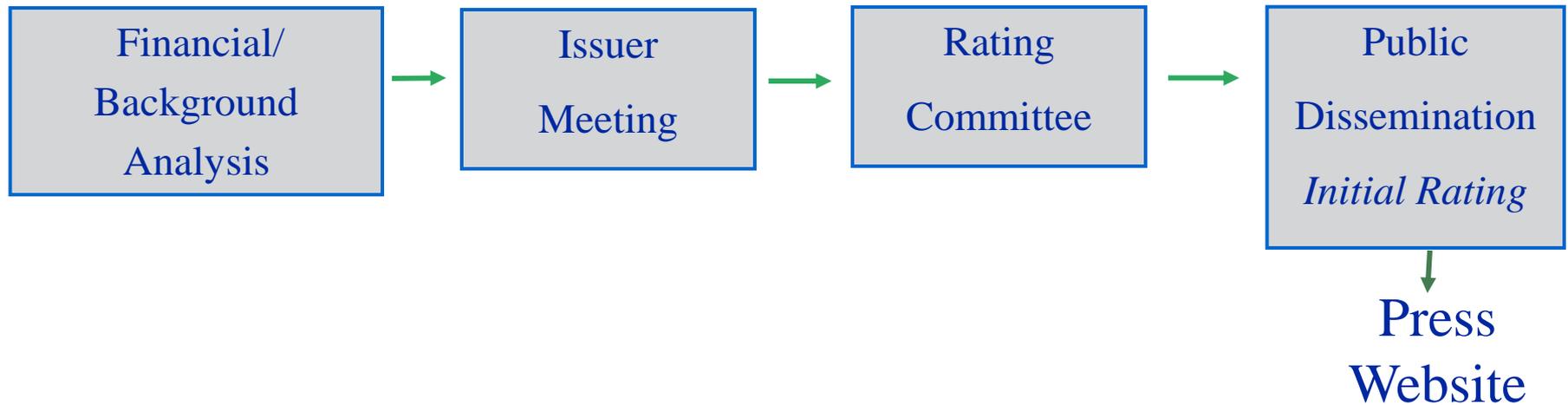
<u>Quality of credit</u>	long term	short term	
Gilt edged	Aaa		Investment Grade
Very high	Aa1	Prime-1	
	Aa2		
Aa3			
Upper-medium	A1	Prime-2	
	A2		
A3			
Medium grade	Baa1	Prime-3	
	Baa2		
	Baa3		
Questionable	Ba1	Not Prime	Speculative Grade
	Ba2		
	Ba3		
Poor quality	B1	SGL-1	
	B2	SGL-2	
	B3	SGL-3	
Very poor	Caa1	SGL-4	
	Caa2		
	Caa3		
	Ca		
	C		

Default Rates: The Empirical Record

One, Five, and Ten Year Default Rates by Rating Category



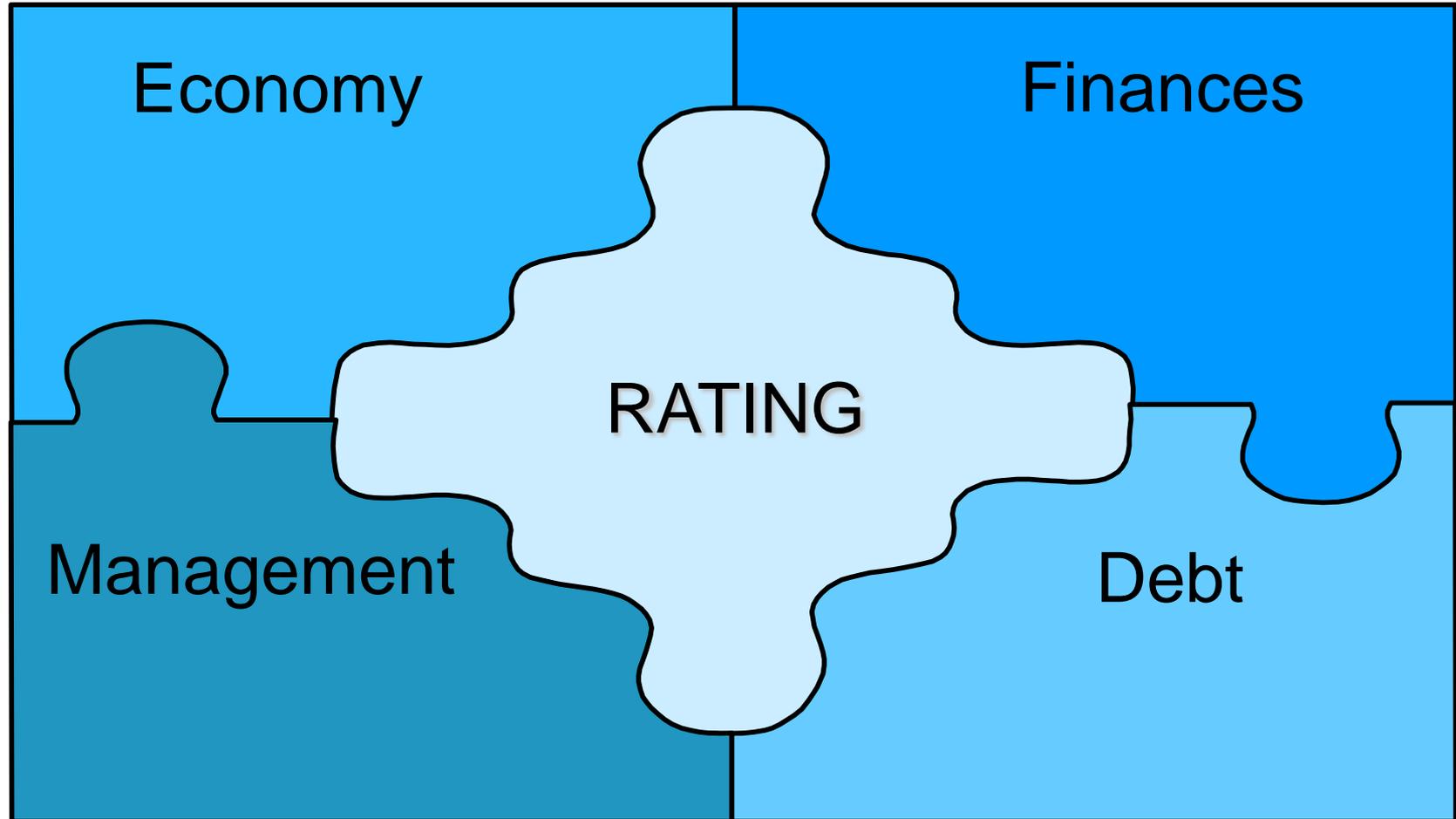
The Rating Process



US Port Ratings

- Three types:
 - General Obligation/Tax-backed bonds
 - Tax supported
 - May include port revenues
 - Port revenue bonds
 - Based primarily on port generated revenues
 - May have tax or implicit gov't support
 - Project finance bonds
 - Based solely on project revenues
 - No other recourse

Tax Supported Overview - Moody's Rating Factors



Tax Supported - Key Analytical Variables

Economy

- Size and growth trends
- Type of Economy
- Job gains or losses; Unemployment rate
- Wealth indicators and poverty rates

Management

- Ability and willingness to tax or raise fees
- Flexibility to cut expenses
- Policies and practices – for example, reserves
- How do actual financial results compare with their budget?
- Procedures for enacting laws
- Financial disclosure practices

Tax Supported - Key Analytical Variables

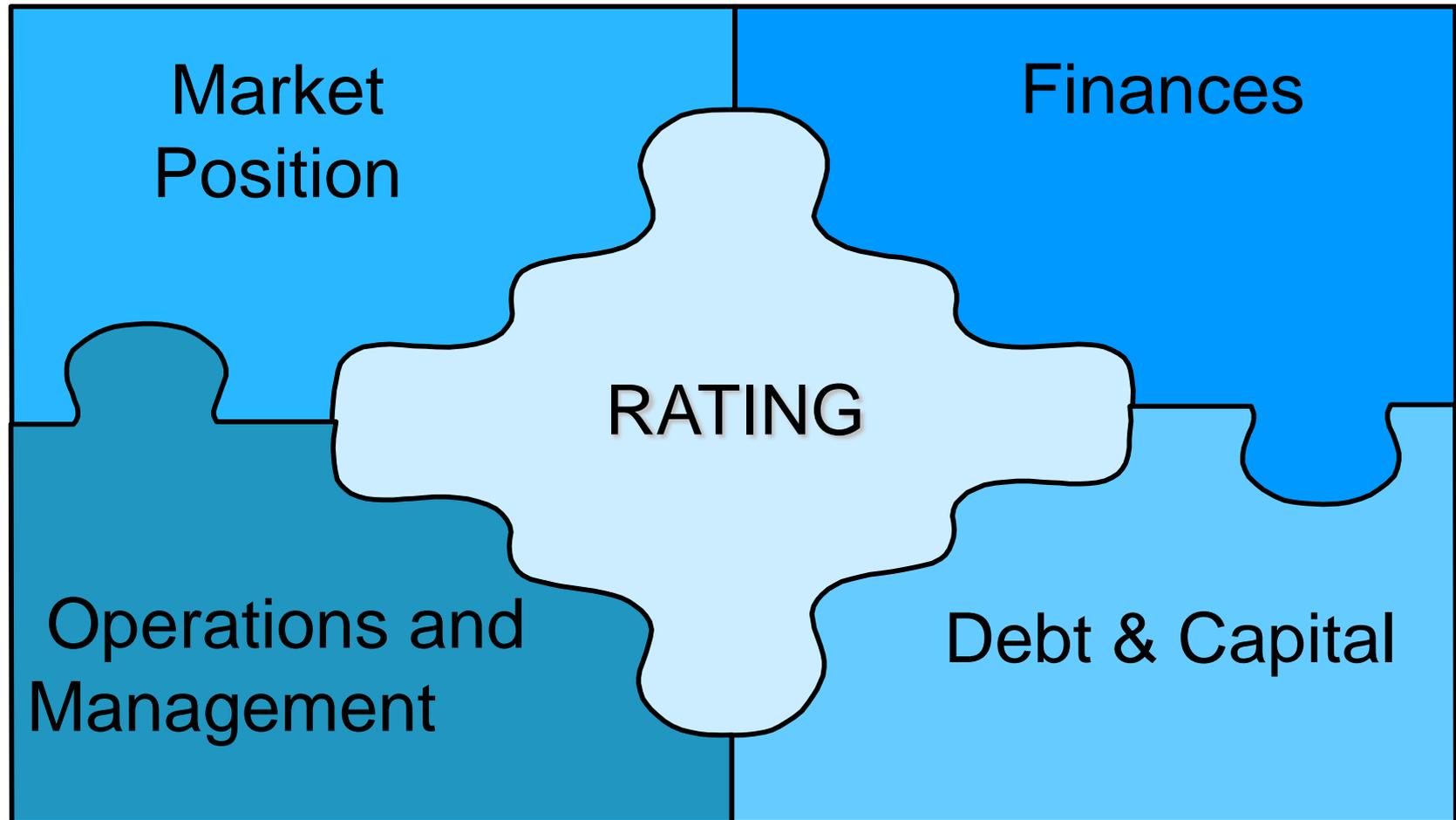
Debt

- Relative debt levels to population or size of tax base.
- Debt schedule- do they pay it off quickly or push it out into the future?
- How much variable rate debt?
- Do they issue debt to help balance their budget?

Finances

- Balance sheet and liquidity
- Operating flexibility - Do they run a surplus or deficit?
- Revenue raising ability/Tax limits
- Budget assumptions – are they reasonable?

Port Revenue Bond Overview - Moody's Rating Factors



Port Revenue - Key Analytical Variables

Market Position

- **Location and size**; local area economy
- Demand for port services
- Operational restrictions

Operations and Management

- Governance structure
- **Ability and willingness to tax or raise fees**
- Flexibility to cut expenses
- **Scope and nature of operations**
- Policies and practices – for example, reserves
- How do actual financial results compare with their budget?
- Major partners and shipping lines
- Facilities and infrastructure

Port Revenue - Key Analytical Variables

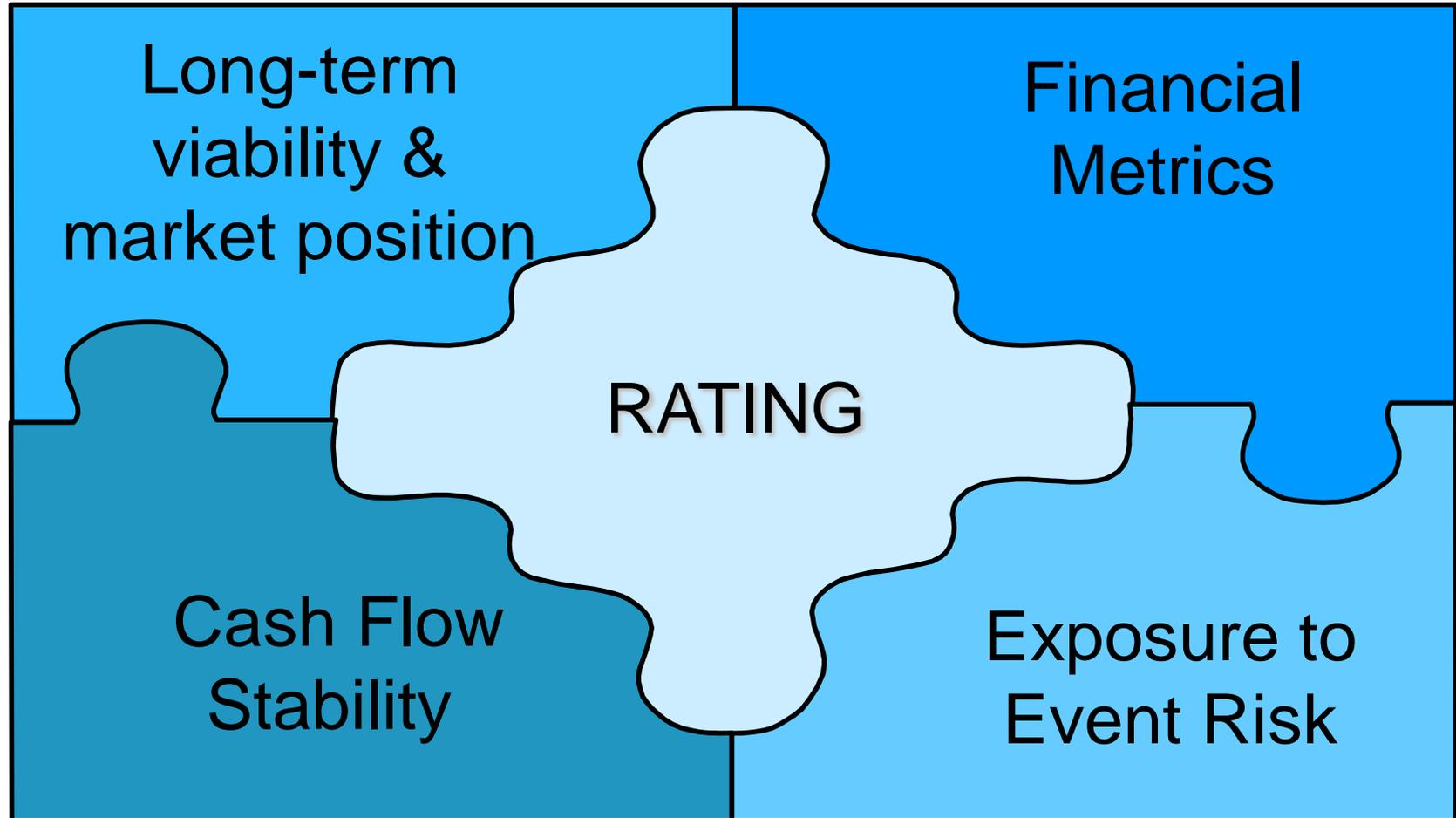
Debt & Capital

- **Debt levels relative to operating revenues**
- Debt service structure (amortization schedule)
- How much variable rate debt?
- **Need for future debt expected**

Finances

- **Financial performance - revenue and expenditure trends**
- Revenue diversity and stability
- **Debt service coverage by net revenues**
- **Reserve funds / Cash on hand**
- Expense drivers
- Is there any tax support?

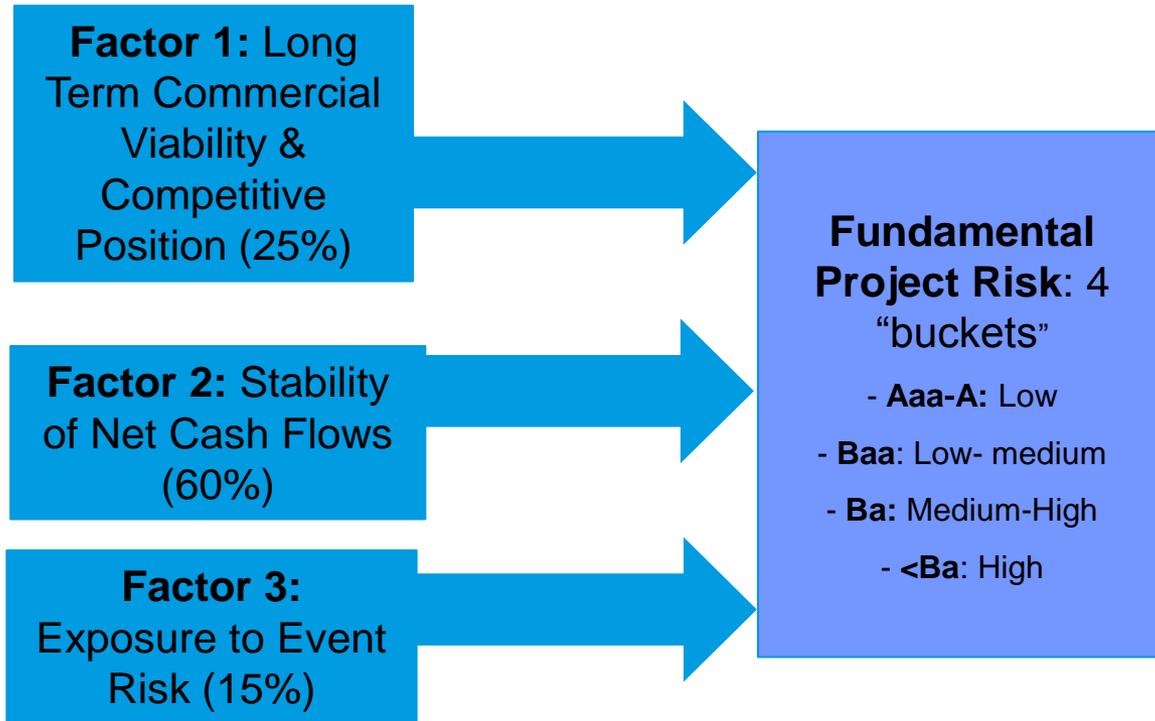
Project Finance Bond Overview - Moody's Rating Factors



Types of Rated Projects



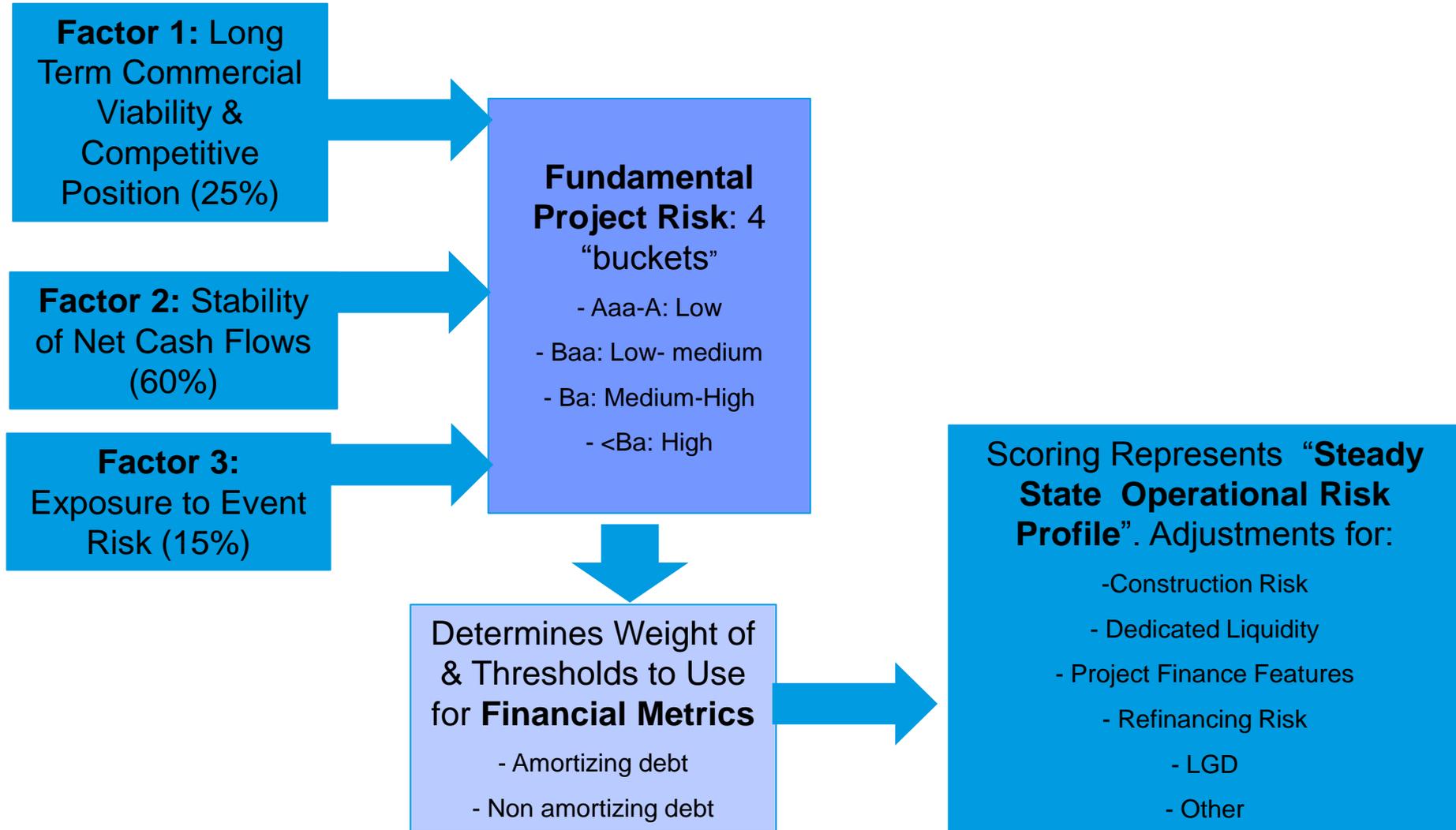
High Level Framework



Project Finance Risk Buckets

	<u>Low</u>	<u>Low-Med.</u>	<u>Med.-High</u>	<u>High Risk</u>
Fundamental Project Risk	80%	70%	60%	50%
Financial Metrics Weight	20%	30%	40%	50%

High Level Framework



Seaport Bonds Examples

Tax Supported

- Port of Olympia – GOULT A1
- Port of Everett (WA) – GOLT Aa3

Port Revenue

- Port of Long Beach – Aa2
- Port of Beaumont (TX) – A2

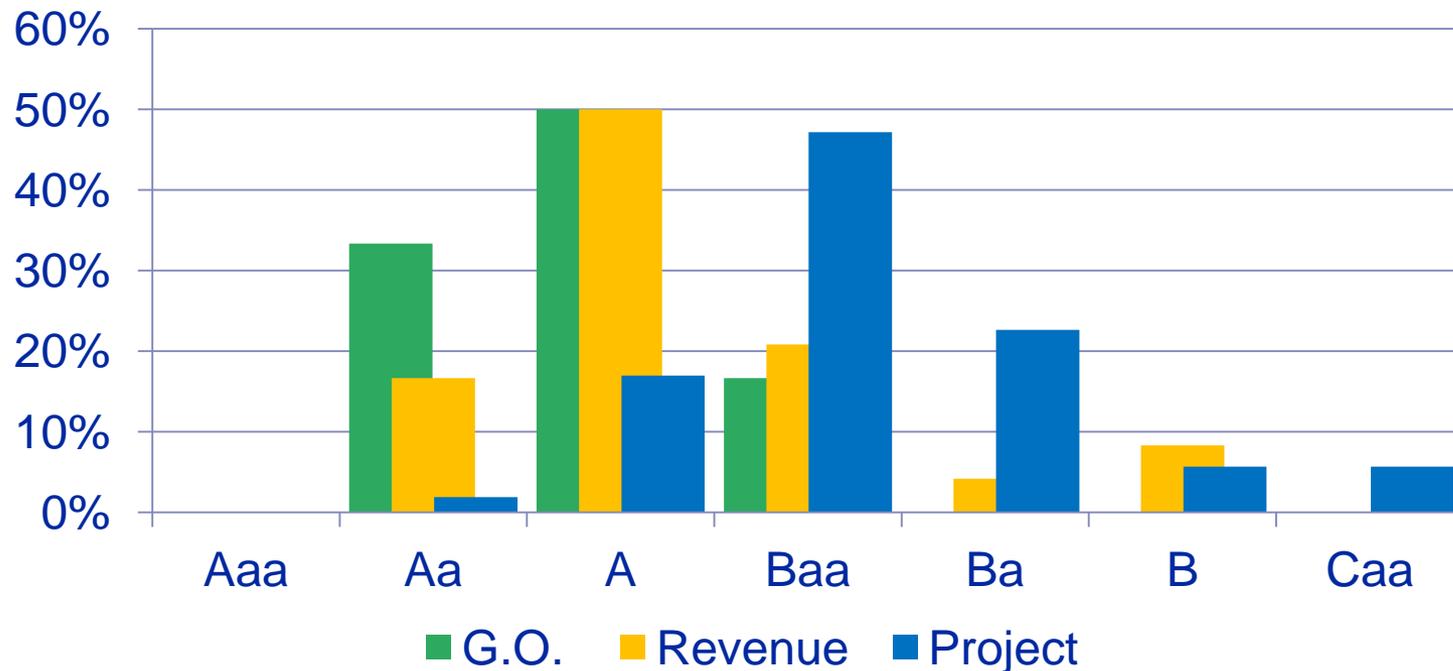
Project Finance Revenue

- Ports America Chesapeake – Baa3

Rating Distributions

Why?

- **G.O. Debt** – Tax raising pressures typically less than competitive pressures
- **Revenue debt**- Faces competitive pressure, benefits from implicit support
- **Project debt**- subject to greater competition, idiosyncratic risk

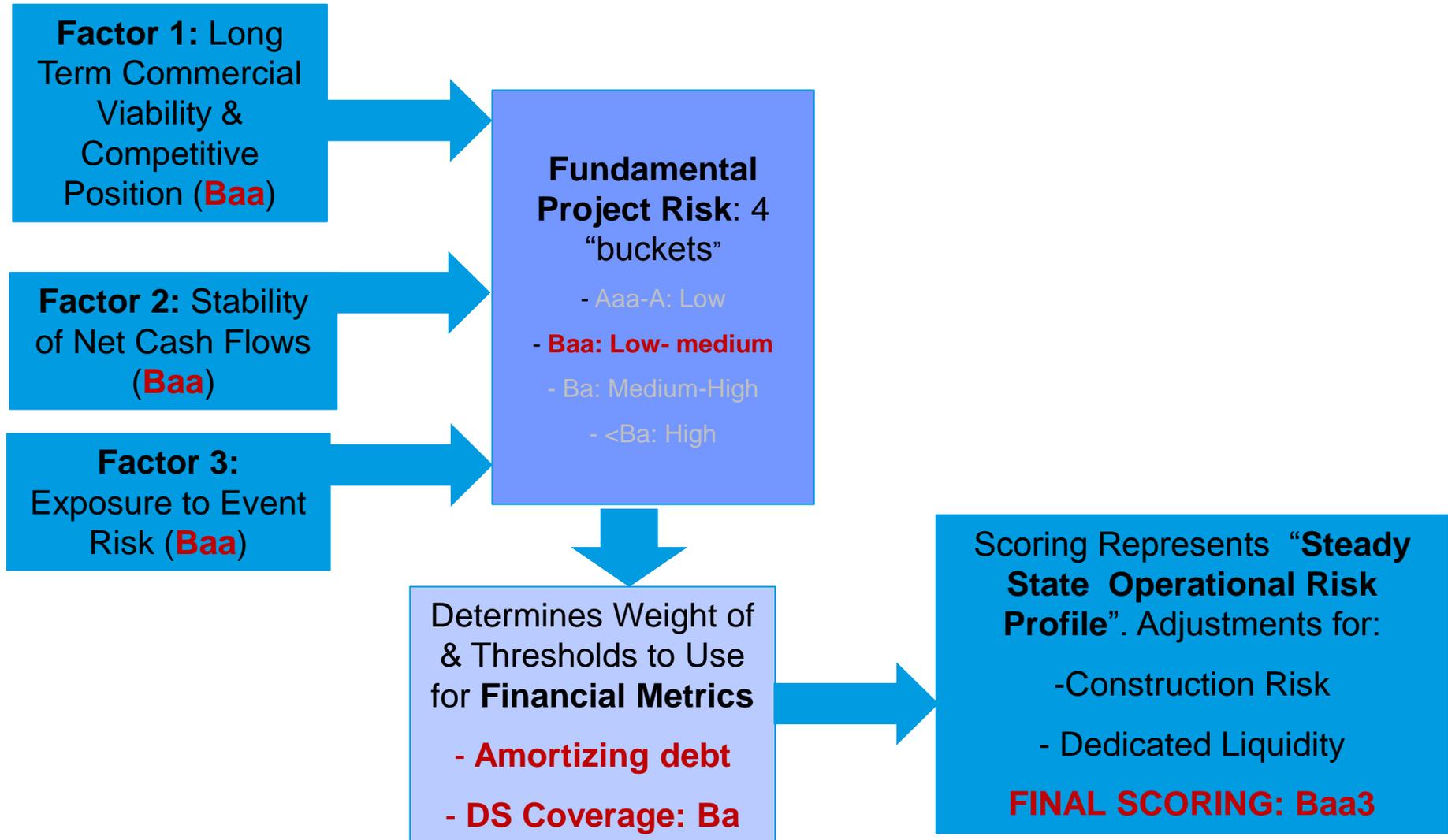


Case Study- Ports America Chesapeake

Baltimore Seagirt Terminal Concession

- **50 year concession to operate and improve Seagirt Marine Terminal**
- **Only container terminal at the port**
- **Two bond series' total \$249 million**
 - **A- \$167 million to acquire the terminal from the Maryland Port Administration**
 - **B- \$82 million to finance construction of 4th SPP-capable berth at terminal**
 - **\$75 million equity contribution from Ports America Chesapeake**
- **Bonds rated Baa3**
 - **Key components:**
 - **Relatively strong market position, but competition exists**
 - **Projected cash flow metrics are robust, debt to capital ratio is high**
 - **Limited construction risk**
 - **Experienced operator (Ports America); highly leveraged equity sponsor (Highstar Capital)**
 - **High degree of customer concentration**
 - **Sound contractual protections**

Scoring Framework- Seagirt



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