

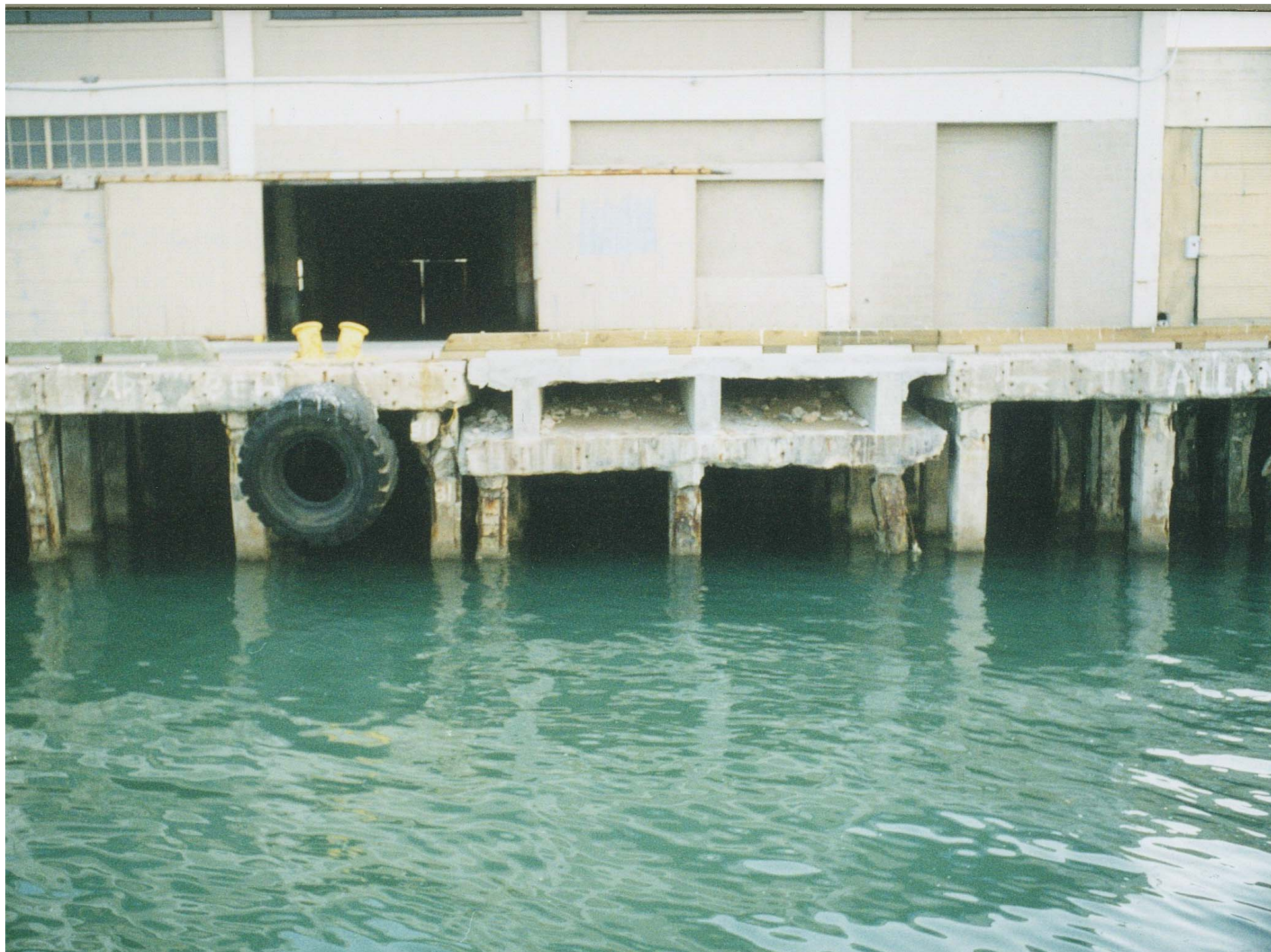
Partnerships for Connectivity: Leveraging Public-Private Partnerships for Mutually Beneficial Infrastructure Projects

The Port of Galveston Experience

AAPA Annual Convention

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Port of Galveston**

**New Orleans, LA
September 12, 2006**













































































How Does the Port of Galveston Operate?

- ***The Port operates as an Enterprise Utility:***
 - The properties belonging to the City of Galveston are set apart and designated as a separate utility of the City known as the "Galveston Wharves."
- ***The Port is Financially Independent from the City:***
 - The Galveston Wharves, and the income and revenue there from, shall be fully managed, controlled, maintained and operated by a Board of Trustees to be known as "Board of Trustees of the Galveston Wharves."
- ***The Board of Trustees have complete management and control of the Port of Galveston and the income and revenue thereof.***

How Does the Galveston Wharves Operate?

- *The Board of Trustees has the power to contract for all essential purposes.*
- *These provisions are set forth in the Galveston City Charter and also under Chapter 54 of The Texas Transportation Code.*

Financial Considerations

- As an Enterprise Utility, the Port had limited ability to issue new debt to support project development.
- Existing Bonds had very restrictive covenants that pledged all future earnings towards the repayment of that debt.
- Debt Service coverage was mandated at 150%.

Galveston Port Facilities Corporation

- **The Port had an opportunity to capture a unique market opportunity, but had to find a way to capture the increased revenue while ensuring that existing bondholders were protected.**
- **The solution was found in the creation of the Galveston Port Facilities Corporation, a 501c3 Corporation created under the Texas Transportation Code.**

Steps Taken in the Creation of the Galveston Port Facilities Corporation

- The Galveston City Council created the Galveston Port Facilities Corporation as a 501c3 Corporation under Chapter 431 of the Texas Transportation Code
- The Port entered into two separate Leases with the Galveston Port Facilities Corporation, which leased Terminal 1 and the land and warehouse on which Terminal 2 would be constructed, which would allow the GPFC to operate both Terminals for the benefit of the Port.
- The Galveston Port Facilities Corporation entered into a new Operating Agreement with Carnival Corporation for Terminal 1 and a new Operating Agreement with Royal Caribbean for Terminal 2
- The GPFC enters into design/build agreement for the design and construction of the Terminal improvements with CH2MHill.

Additional Steps Taken in Advancing the Project

Subsequent to the original agreement:

- **The Port of Galveston and the City of Galveston issued bonds to repay the construction loan provided by the RCI and also construct additional improvements to Terminal 2.**
- **The GPFC arranges for a construction loan.**
- **The Port of Galveston entered into a separate agreement with the GPFC to acquire the leasehold interests upon completion of construction.**
- **As a result, Terminal 2 is now operated by the Port of Galveston, rather than the Galveston Port Facilities Corporation.**

Why This Approach?

This Solution Provided the ability to:

- Capture Increased Market Share**
- Develop a true “Public-Private Partnership”**
- Develop a long-term Partnership with Carnival Corporation and Royal Caribbean International**
- Secure Long-Term Operating Agreements**

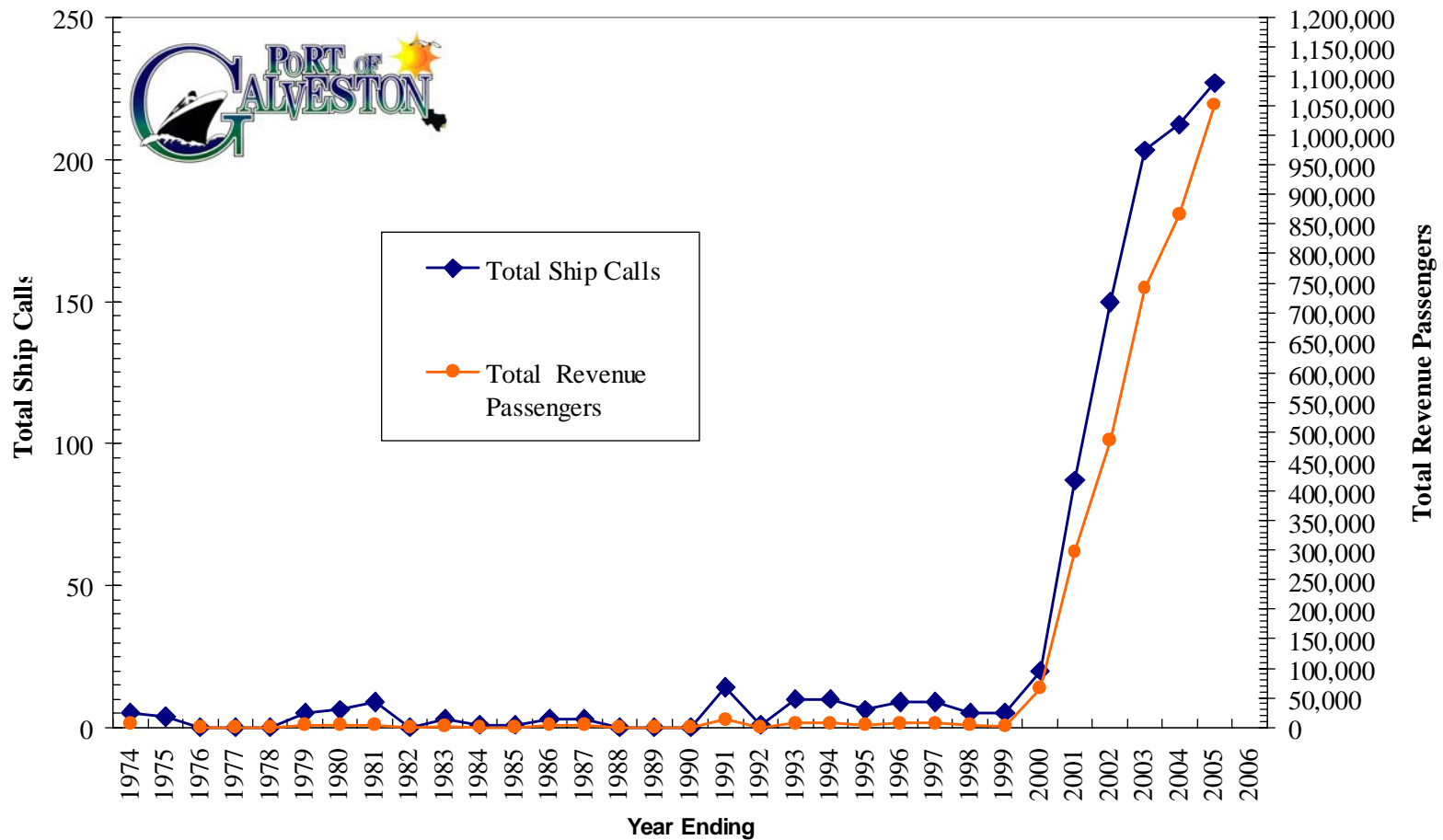
How Did The Bond Rating Agencies View This Strategy?

“To assist ports with cruise terminal capital costs, cruise lines increasingly lend funds to ports, or privately develop their own cruise passenger terminals. The Port of Galveston (BBB+/Stable) is an example of a port that in 2002-2003 created a Private Port Facilities Corporation to leverage future cruise revenue and obtain a loan from Carnival Cruise Lines, which it used to develop its Cruise Terminal 1. The Port Facilities Corporation then leveraged cruise revenue to obtain a loan from Royal Caribbean Lines, to be repaid in (2004) with funds from the sale of subordinate tax and revenue bonds, to develop its Cruise Terminal 2. Under this financial structure, future cruise revenues from each terminal were excluded from Port revenue bondholders and instead pledged to repay the Port Facilities Corporation’s loans.

How Did The Bond Rating Agencies View This Strategy? (Cont'd)

To prevent bondholders from suffering a loss of pledged revenue, the Port pledged a fixed dollar amount of cruise revenue equal to the amount of 2001 cruise revenue. Despite a drop in debt service coverage caused by the low fixed dollar amount of pledged cruise revenue, the Port's revenue bonds retained their 'BBB+' rating. Credit strengths include the Port's increased parking revenue, which remained pledged to bondholders, and provided 19% of the Ports pledged revenue."

How Successful Has This Been?



We Were Recognized For Our Efforts

This Project was recognized by the National Council for Public Private Partnerships by awarding the Port, Carnival Corporation, Royal Caribbean International, CH2MHill and the Port of Galveston their 2004 Industry Award.

In Summary

The PPP model utilized by the Port of Galveston allowed port management to:

- Be Creative**
- Provide Quality**
- Provide Value**
- Provide Timely Implementation**





Thank You

