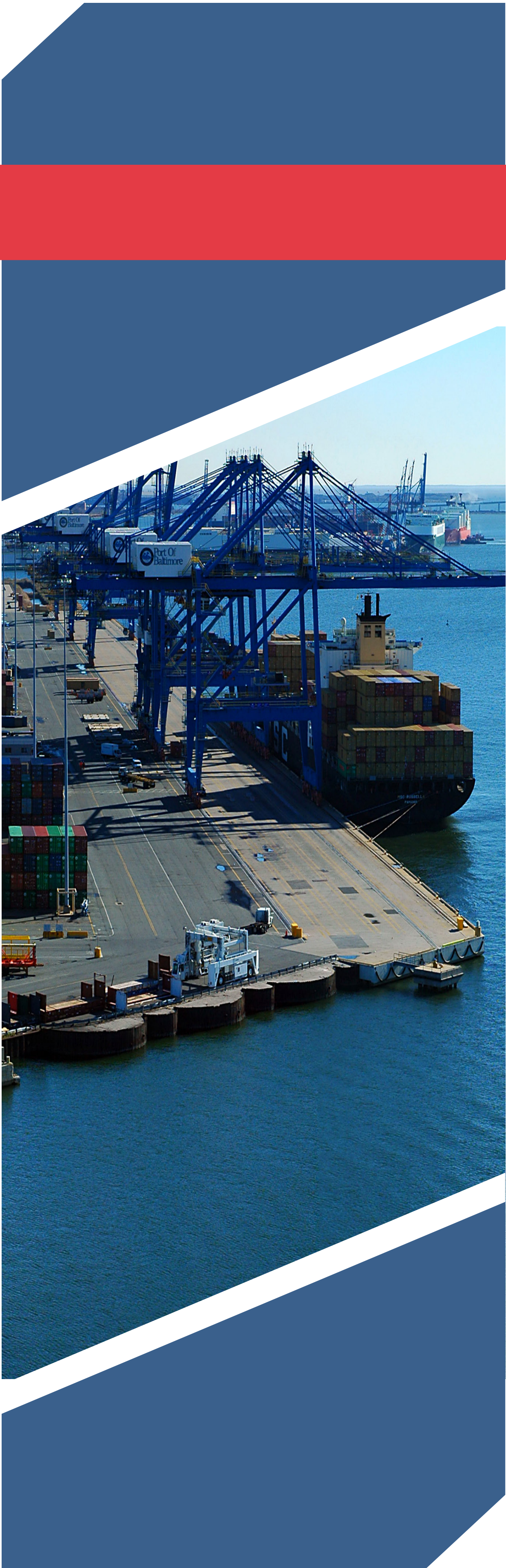


INFRASTRUCTURE CASE STUDY:

Seagirt Marine Terminal

SUMMARY

PROJECT TYPE	YEAR
Port expansion	2013

DEAL STRUCTURE

Design-build-finance-operate-maintain agreement

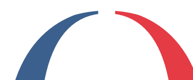
TOTAL COST
$140 million upfront payment to state plus annual payments as well as significant private investment in marine terminal

FINANCING
25-year municipal bond and private equity

FUNDING

Port operations revenue

PUBLIC BENEFIT
Improvements to serve super-post-Panamax cargo ships bringing more tax money and jobs



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Background

The Port of Baltimore is ranked ninth in the United States for total foreign import/export value ($52.4 million).[1] In 2014, the port moved nearly ten million tons of cargo, well above pre-recession levels.[2] In mid-2014, the Panama Canal was set to expand, allowing passage of bigger, super-post-Panamax cargo ships, and a berth expansion would make the Port of Baltimore one of only two East Coast ports that could handle the new ships.[3] Expanding an East Coast port not only brings more business to Baltimore, but it reduces the amount of cargo that has to enter the country in West Coast ports and then travel by rail. It would cost $150 per container to bring goods destined for the East Coast through the canal and to Baltimore, versus $2,000 per container to bring them to the West Coast and ship by rail.[4] However, Maryland's State Transportation Trust Fund was depleted, and so, private capital was sought.[5] The public-private partnership (P3) agreement to lease the 284-acre Seagirt Marine Terminal was entered into in 2010, and the cranes and deep berth construction were delivered by 2012, two years ahead of schedule.

Project Description

The P3 agreement for Seagirt Marine Terminal is between the Maryland Port Administration (MPA) and Ports America Chesapeake, LLC. Ports America Chesapeake (PAC) is a subsidiary of Ports America Group, which is owned by Highstar Capital, an infrastructure investment firm based out of New York. The agreement is a 50-year lease of the Seagirt Marine Terminal to the private partner.[6]

The main value to the MPA is the $105.5 million effort to build, equip, and have operational a new 50-foot berth, which includes the acquisition of new cranes.[7] This berth allows the Port of Baltimore to become more competitive. However, the real value to MPA over the 50-year lifespan of the project is estimated at $1.3 billion to $1.8 billion due to the other parts of the deal. This starts with a nonrefundable $140 million capital-reinvestment payment, which will go toward "shovel-ready transportation projects along I-95 and the Chesapeake Bay Bridge."[8] The private partner will also pay fixed annual payments of $3.2 million that increase with inflation and $15 per container in excess of 500,000 per year, and they will cover maintenance, expenses, and major capital expenditures valued at $462.7 million over 50 years.[9] Also, Ports America Baltimore will return 65 acres of leased land at the Dundalk Marine Terminal valued at $56 million. In addition, Ports America is taking on risk related to operations, volume, construction, and costs. Finally, the state of Maryland anticipates $16 million per year in new taxes.[10]

The private partner, PAC, will collect the revenue from operating the terminal for 50 years. It is difficult to place a clear dollar amount on this benefit. In 2012, its net income from the project was $15.72 million up from its 2011 income of $11.63 million.[11] Given the necessary consideration of growth and the eventual lifting of debt interest payments, it is difficult to extrapolate these numbers in any meaningful way to determine whether or not this was a good deal for the private partner. Ports America Group also has the right to move and consolidate all current container business to Seagirt.[12]

PAC must abide by certain rules and restrictions during its ownership of the Seagirt Marine Terminal. The agreement outlines system preservation requirements, and PAC must continue to operate Seagirt Marine Terminal as an import/export facility, with any major changes going through MPA authorization.[13] The state also retains control of security and has inspection and audit rights.[14]

The project took out $250 million in a 25-year municipal bond with an average financing cost of 5.77 percent, which is backed solely by revenues from Seagirt.[15] This money helped pay for the initial expenses of the capital-reinvestment payment and the construction of the new berth (combined value of $245.5 million).[16] The other expenses over the course of the 50-year lease will be taken out of the yearly revenue from operating Seagirt.

Benefits and Criticisms

The public benefits from infrastructure improvements to the Port of Baltimore include more tax money flowing into the region and $140 million

going toward transportation improvements. The state of Maryland also predicts the production of 5,700 new jobs, 2,700 of which will be permanent positions.[17] The project has generated considerable benefits to both the state and the public, and praise for the project has been widespread. The Seagirt Marine Terminal Project is the winner of Project Finance Magazine's 2010 "North American Logistics Deal of the Year" award and Infrastructure Investor Magazine's 2010 "North American Infrastructure Deal of the Year" award.[18] Without the private capital to get the project off the ground, the new berth might never have been built.

Takeaways

This project is an example of how public-private partnerships can benefit all involved. As the MPA noted in its report to the Maryland General Assembly: "Much of the success of this transaction is due to the latitude you provided the MPA for negotiating the business aspects of this transaction." The importance of free negotiation is underscored by the numbers. The Capital Reinvestment Payment Value was negotiated from $110 million to $140 million, the fixed annual payments were negotiated from $2.5 million/year to $3.2 million/year, and the variable payments were negotiated from $10/container to $15/container.[19]

Endnotes

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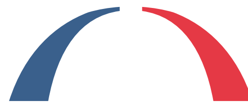

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