VIRGINIAN PILOT

As Virginia mulls port privatization, Baltimore dives in

BALTIMORE

The state is tight on money, but the region needs roadwork and the port is figuring out how to pay for a needed expansion.

Sounds a lot like Hampton Roads, but this state, region and port are about 170 miles north, or a day's steam up the Chesapeake Bay.

On Jan. 12, Maryland closed on a lease of the Port of Baltimore's primary container facility, Seagirt Marine Terminal, to a private operator for 50 years. The deal is expected to generate hundreds of millions of dollars for the state, which plans to use some of the money to pay for an array of regional road and bridge projects.

The state of Virginia and the Virginia Port Authority face a similar decision: whether to cede operational control of the port of Hampton Roads for a long time in exchange for a lot of money. Three companies have submitted proposals to operate the state-owned cargo terminals.

Maryland officials say they're elated over the lease of Seagirt to Ports America Chesapeake, an affiliate of New Jersey-based Ports America, the largest independent port operator in North America. It does business in Hampton Roads as a 50 percent partner in the stevedoring firm CP&O.

The agreement is estimated to be worth as much as $1.8 billion over time. The Maryland Transportation Authority is getting $140 million in upfront cash that it plans to use on eight projects, including improvements to

Interstate 95 and bridge upgrades. Ports America also agreed to invest $105.5 million to build a fourth berth at Seagirt. This one will be 50 feet deep, with four new cranes able to handle the massive container ships expected to begin moving through an expanded Panama Canal in 2014.

The state, which expects to collect $15.7 million in new annual taxes, projects the deal will create about 2,700 permanent jobs and 3,000 short-term construction jobs.

"We believe this partnership is an excellent deal for all involved, including the Maryland taxpayer," Maryland Gov. Martin O'Malley said when the deal closed last month.

Jim White, executive director of the Maryland Port Administration, added, "This could improve the economic well-being of the state right out of the box."

Officials in Virginia, where the port handles about three times the container traffic of Baltimore, have been much cooler to the idea of privatizing the port.

In March, CenterPoint Properties, a Chicago-area industrial real estate firm, filed an unsolicited proposal to lease the Virginia Port Authority's terminals for 60 years in a public-private partnership. Executives at CenterPoint, which also plans a large warehouse development in Suffolk, said the deal could be worth $3.5 billion - in today's dollars - to the state over the 60 years.

Four months later, two other private groups - The Carlyle Group, a Washington investment firm, and a partnership of terminal operator Carrix Inc. and investment bank Goldman Sachs - filed similar proposals.

The three preliminary proposals offer upfront cash ranging from $250 million to $700 million, profit-sharing plans and varied levels of commitment to fund a fourth marine terminal at Craney Island, which the Virginia Port Authority wants to build to accommodate future growth in trade.

The proposals moved to the back burner in August with the disclosure that the Port Authority was in talks about a partnership with privately owned APM Terminals in Portsmouth. Those appear to be leading to the authority's lease of APM's $500 million, state-of-the-art facility for 20 years.

If a deal between the Port Authority and APM is reached - which many in the port community expect soon - the port's value would jump.

"If an agreement is reached, we'd like to give the proposers the opportunity to revise their proposals to reflect the different scope" of the port's operations, said Sean Connaughton, Virginia's new transportation secretary.

A General Assembly joint subcommittee, led by Del. Bob Purkey, R-Virginia Beach, spent two years studying port privatization. The consensus of the 17-member panel at its last meeting in December was to proceed cautiously with any deal.

Though none of the Virginia proposals seeks to buy the port's terminals, two bills filed in the General Assembly would give state legislators a say in any change of ownership of the state's port assets. A third bill would extend that power to leases of more than 10 years.

Purkey, the patron of one of the bills, said he didn't know the details of the Baltimore agreement but believed it's apples and oranges to compare the ports of Baltimore and Hampton Roads.

"I think we have strategic advantages over Baltimore and that they were acting to preserve what is in their best interests," he said. "But our interests and their interests may be somewhat different."

Maryland's primary incentive for moving forward with privatization was that it offered the only viable way to afford construction of a new container berth, said White, the Maryland port director. While Seagirt has three berths with 40-foot-plus depths, the port's future viability was at stake if another berth with a 50-foot draft wasn't built, he said.

Baltimore has spent the past 20 years losing ground to other ports, particularly Hampton Roads, in part because it lies 12 hours up and down the Chesapeake Bay from the Atlantic Ocean. It's become a niche port, focusing on break-bulk cargos and roll-on/roll-off vehicles rather than rapidly growing containerized shipments.

Still, Baltimore lies at the heart of a consumer market with 14 million people, stretching from Washington, D.C., to Philadelphia. Maryland port officials believe that market is sufficient to attract shippers.

The new berth will make Baltimore one of three East Coast ports able to accommodate ships requiring a 50-foot draft. The others are Hampton Roads, which has nine such berths, and Charleston, S.C.

Virginia is "well-positioned today for the Panama Canal project completion," White said. "We were not going to be ready and we knew that."

Maryland gives its port about $100 million a year from a transportation trust fund. About $60 million is spent on dredging and $40 million goes to maintenance. There isn't enough left over to pay for a major capital investment.

"We needed to go elsewhere in order to secure our future - that when the Panama Canal project is done that we will benefit as well as the other East Coast ports," White said.

Virginia could be missing the boat on a public-private venture in the port, White suggested.

"These concerns that these public-private partnerships are not good deals for their state, I think they need to re-evaluate that," he said. "They could be dragging their feet on moving forward, or study and restudy, and by the time they're done it's going to be too late."

In addition to adding to the Port of Baltimore's capacity, Ports America will pay the Maryland Port Administration an annual fee of $3.2 million plus $15 for each container moved in excess of 500,000 a year. Both the annual payment and the per-container fee will be adjusted for inflation.

Those combined payments will yield between $564 million and $1.08 billion for the Port Administration over the 50-year lease. Additionally, Ports America will pay for Seagirt's maintenance and capital replacement costs, estimated to be $500 million over the life of the deal.

Port officials say the new revenue, including the transportation trust-fund money that had been spent at Seagirt, will be reinvested in Baltimore's five other public marine terminals.

"I think that we made a wise choice for the state, in the economic impact in the state, and relieving the state of hundreds of millions of dollars in systems preservation and replacing container cranes," White said. "You know that funding is going to go into other projects now."

One sticking point in Virginia is the duration of the three proposed deals - as long as 60 years. Some suggest they amount to a virtual sale of the port's assets.

White, however, disagreed with the notion that a long-term lease and a sale are the same thing.

"We never discussed sale - ownership - of our marine terminals," White said. "We did a concession agreement.... It's a long-term lease agreement, basically. We still own the land the property's on. And after 50 years, the facility has to be delivered back to us in a comparable state that it's in today."

The value of the land and whatever improvements are made at the leased Baltimore facility are only going to grow over time, he said.

Port officials still will exercise oversight of the state-owned property.

"It is not our intention to walk from it, because we still need to be the face of the Port of Baltimore as the Maryland Port Administration," he said. "We have a commitment to the General Assembly that this is good for the economic well-being of the state, and we have to make sure we pull that off."

All improvements made at the terminal must be approved by the Maryland Port Administration, said Laurie Mahon, a port-privatization expert who helped put the Baltimore deal together.

In a straight sale, a new owner could conceivably turn the property into condos or decide to change the kind of cargo handled - from containers to break-bulk or autos - through decisions limited only by local zoning rules.

That can't happen under the terms of the concession, Mahon said.

Another concern in Virginia emerged in Maryland the day after the Maryland Board of Public Works approved the Seagirt lease - the last governmental hurdle the deal had to clear.

The Baltimore Sun reported that Highstar Capital, the investment firm that owns Ports America, intended to sell the company. The paper reported that a Ports America official said it was Highstar's intention to sell Ports America in five to seven years.

"I don't think anybody was surprised when he said that," White said.

The possibility of firms changing hands in long-term transactions such as the Baltimore deal is always present, Mahon said.

"Highstar, given that it's a fund, will at some point sell Ports America," she said. "Companies change hands all the time. Bloomingdale's is now owned by Macy's."

The Baltimore deal includes provisions that protect the state in the event Ports America is sold.

Ports America is prohibited from selling only the Baltimore concession, and the state has the right to challenge any sale to ensure, for example, that a new owner can fulfill the lease agreement.

The state also retains first right of refusal in the event of a sale, meaning it has the option to buy the port back from Ports America at fair market price, Mahon said.

Another concern raised in Virginia is that the deals underestimate the value of the port and the risks involved in leasing it for so long. James V. Koch, an economist at Old Dominion University, has questioned the financial assumptions in the Virginia proposals.

White said he was comfortable with what the Maryland agreement will mean to the Port of Baltimore.

"They're still paying us," he said. "Our revenue stream is a lot more secure after this deal than it is before it."

Mahon, who has worked on dozens of public-private partnership deals since 1984, said Virginia's privatization offers, as they stand, are essentially first-draft offers.

The difference between the initial bid from Ports America and the final negotiated offer meant 40 percent more money for Maryland, as well as significantly better terms, she added.

"The first offer is the starting point," Mahon said. "It's never the ending point."

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