Item #4a

# Target Rates of Return and Value
# April 17, 2014

# Overview and History of Target Rates of Return at POLA

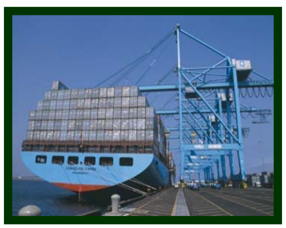




- Traditionally, a hurdle rate is used to asses whether the monetary return on a project measured as a percentage, given its risks and costs versus other projects, should be undertaken
- The Harbor has established target rates of return
- Codified in a board report from the Executive Director to the Board in January of 2006
  - 12% for improvements
  - 10% for land
- Previously, the rate for both improvements and land was 12%
- Such rates seeks to sustain the economic well being at the Port

# What Do Others Charge?




- Original rates set based on what other municipalities and Ports charged
  - POLB – 10% for Land, 12% for Improvements
  - Port Authority of NY & NJ – 7.5%
  - Port of Oakland – 10%
  - Port of Portland – 10%
  - Port of San Diego – 9%
  - Port of Seattle – 6.5% to 14.5%
  - Port of Tacoma – 10%
  - Southern CA Edison – 5-8%
  - Vancouver Port Authority – No standard
  - Watson Land Company – 10%





# Possible Reasons Why There are Different Hurdle Rates

- Other sources of revenues to support the port
  - Taxes
  - Airports
  - Roadways
- Different costs
  - For maintenance
  - For infrastructure needs

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# A Simple Way to Look at Why Our Rate of Return is 12% for Improvements

- Historically our cost to borrow has been approximately 6.0%
- We have a stated policy of generating operating income in excess of our debt service by 2 times
- Since our debt service is 6.0%, to achieve generating operating revenues that are twice the debt service or 2 X 6.0% or 12%

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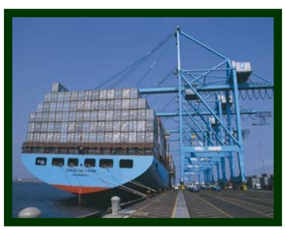
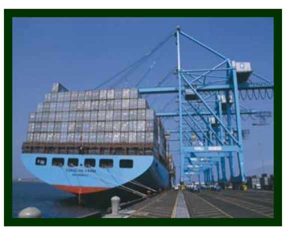



# Do We Achieve Our 12% Return?

- As we apply the 12% hurdle to individual projects, the answer is sometimes “Yes” to certain projects but “No” in general
- So if we are not meeting the 12%, how have we “survived”?
  - We have used our own cash that have been stored
  - The returns we obtain from land
- Our returns are diminishing to where costs of borrowing is higher than what we can generate from projects

# Looking at Overall Returns on our Invested Capital

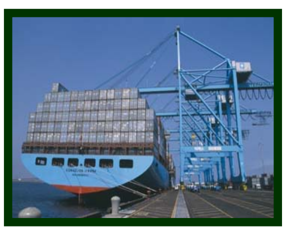


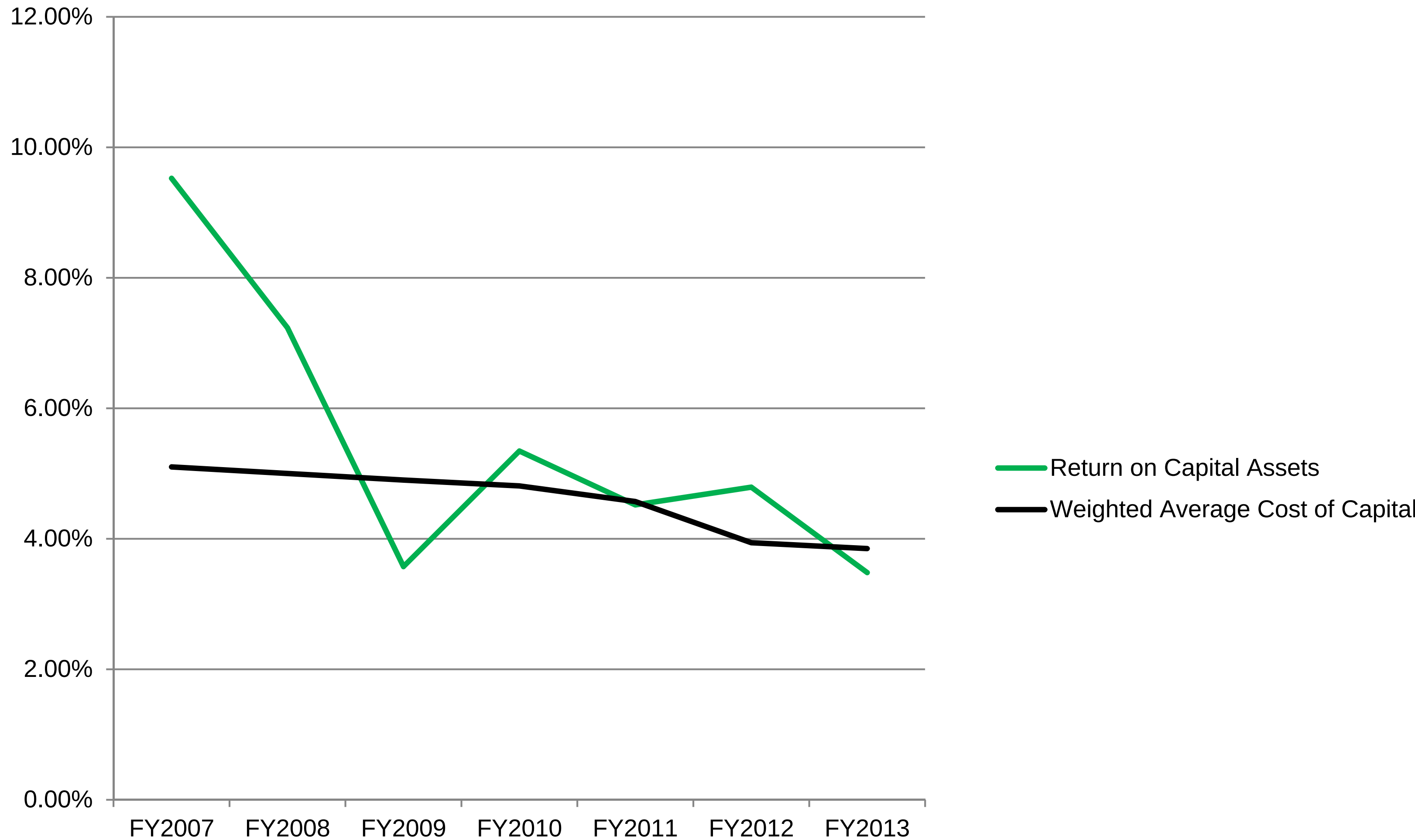




- Using an arithmetic ratio: the Return On Invested Capital (ROIC)
- The ROIC helps an entity understand whether it is adding to its value or eroding it
  - The ROIC calculates whether the money an entity invests generates more than what it costs to borrow
    - The conclusions are
      - If the borrowing costs is more than what is generated from what has been invested, then the entity has reduced value
      - If the borrowing costs is less than what is generated in income, then the entity has increased value
- In FY2007, POLA generated about 4.42% more in revenue than its cost to borrow
- In FY2013, POLA generated about 0.37% less in revenue than its cost to borrow

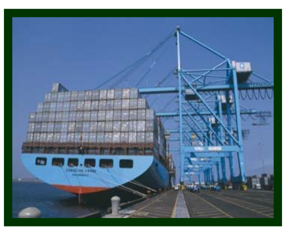
# High Before, Low Now






# An Interesting Comparison

- The ROIC for POLA for FY2011-12 and FY2012-13 were 4.79% and 3.48%
- The ROIC for APM Terminals were 15.2% for FY2012 and 13.5% for FY2013*

*From AP Moller-Maersk A/S 2013 Annual Report