Port Authority Approaches to Terminal Financing and Investment Recovery

For TOTE Maritime

mercator
Trusted. Independent. Experienced.

Final Report – January 21, 2022

Introduction and Background

- The Port of Alaska (POA) is embarked upon a project to rebuild its two terminals for unitized cargoes in Anchorage, one to be used primarily by Matson for Lift-On / Lift-Off (LO-LO) container ships, and the other to be used primarily by TOTE for Roll-On / Roll-Off (RO-RO) trailer ships. This project is referred to as the Port of Alaska Modernization Program (PAMP).
- The PAMP requirements of the LO-LO Terminal (Terminal 1) which is being designed to suit the needs of Matson and its LO-LO container ships, are substantially different from the requirements of Terminal 2 (for TOTE and its RO-RO ships), resulting in a substantial differential in cost for each project.
- According to the Port's engineering advisors (HDR), per the latter's report to the POA in 2021, the differences in characteristics of each terminal (especially the length and size of wharf structures and ship-to-shore handling equipment and utilities that are required for Terminal 1 but not required for Terminal 2) result in a development cost differential on the order of $400 million:
  - *The Terminal 1 construction cost is estimated to be $672 million*
  - *The Terminal 2 construction cost is estimated to be $275 million.*
- POA is evaluating surcharge schemes that could be implemented to raise the substantial additional revenue required to support these improvement projects. A key question being considered by the Port and its principal unitized cargo service providers (Matson and TOTE) is how the costs of each terminal development project ought to be apportioned among the main users, especially considering that the costs of meeting the stated requirements of each of the two ocean carriers are substantially different.
- Mercator International was retained by TOTE to first review how circumstances similar to this have been addressed in other ports, in order that decision makers for the Anchorage project could have the benefit of experience derived from those other ports.
- Because project parameters that are directly equivalent to what is being undertaken in Anchorage were not found in our survey of American ports, we looked at the more general underlying economic questions common to most port development projects:
  - *How projects are structured and financed by Port Authorities*
  - *How Port Authorities recovery their investments*
  - *How costs paid by the lessees of terminals (the terminal operators) are generally determined*
- Mercator also evaluated how a uniform wharfage surcharge fee on unitized cargoes – whether moving on TOTE vessels versus Matson versus - would be inequitable to TOTE, unnecessary, and suboptimal for the POA.

Executive Summary – Key Observations on Port Authority Charges to Finance Terminal Projects

Mercator looked at a range of ports and container terminal development projects across the USA and ascertained the following general themes that are common across port projects:

- The development of a terminal by a port authority is generally evaluated as a defined "project", and there is an expectation that an acceptable return will be earned on the resources invested in that project, ***without being subsidized by another project in the same port.***
  - We ***found no circumstances*** where the evaluation of a terminal development project assumed that ***revenues to pay for the project would come from cargos/customers not using that project***
- It is understood and accepted by both port authorities and port users / tenants that when the particular requirements of a prospective lessee change the port authority's costs (up or down), the change is naturally reflected in the charges paid by the lessee to the port authority.
- Although port authorities understand that the economics of a project must be attractive to a prospective lessee (otherwise the project would have no tenant), ***equality of costs among terminal operators is not necessarily a specific objective***.
- ***A port authority would generally not expect tenants to pay for port improvements that don't benefit said tenants*** or the cargo handled by those tenants.
  - ***In no circumstances do we see the cost of ship-to-shore gantry cranes being collected from port users or tenants that don't use those port cranes***.
- The particular requirements of a tenant can be met in one of two ways:
  - The port authority may make the investment to develop the facilities, with the investment cost then recovered through user charges (land lease or tonnage)
  - The tenant develops the improved facilities at its own cost, and the lease or other payments to the Port Authority are correspondingly less.

Executive Summary – Commentary on POA Wharfage Surcharge Fee Plans

Based on our review of how other US ports structure their charges to terminal operator tenants for major new construction projects, Mercator concludes that ***a uniform wharfage surcharge fee per ton on unitized cargoes (whether moving in RO-RO trailers or LO-LO containers) to finance the PAMP is inconsistent with common US port authority pricing practices for those projects.***

Moreover, and perhaps more importantly, ***the uniform wharfage surcharge fee plan proposed by HDR for POA would impose inequitable and discriminatory port pricing on TOTE, because:***

- TOTE's RO-RO ships will not be utilizing the new gantry cranes and wharf infrastructure required to support those cranes at Terminal 1
- TOTE's ships will also be occupying the new Terminal 2 berth for far fewer hours/week than Matson's ships will be berthed at Termina1
- TOTE invested far more capital dollars per container-equivalent unit on its faster RO-RO ships than Matson
- TOTE's ships have higher fuel costs per ton of cargo than Matson's ships
- TOTE incurs about $510 per FEU more vessel capital and fuel combined cost than Matson, the uniform wharfage surcharge fee would effectively be an additional penalty on TOTE for building and using its fast RO-RO ships.

It is not uncommon for ocean carriers to react to discriminatory and unfair port pricing practices by shifting vessel services and cargo flows to the next nearest port. ***Adoption of the HDR uniform wharfage surcharge proposal could potentially cause TOTE to aggressively explore alternative port options to Anchorage for at least a portion of its cargo flows***.

Moreover, despite HDR's claim that the "cost cause/cost payer" surcharge structure *"will likely result in a significant shift in Alaska-bound cargo business from Matson to Tote,"* ***Mercator assesses this prediction to be exaggerated*** for the following reasons:

- TOTE has existing commitments with customers and would thus ***not be able absorb a significant shift of Alaska-bound cargoes from Matson.***
- ***Ocean carriers do not necessarily pass 100% of a cost increase to their respective customers.***

Section	Pg.
1. Introduction and Executive Summary	
2. Investment and Cost Recovery Examples for Selected Ports • Port of Long Beach • Port of New York / New Jersey • Northwest Seaport Alliance (Seattle and Tacoma) • Port of Jacksonville • Port of Honolulu	

Investment and Cost Recovery Examples for Selected Ports

Port of Long Beach – the second busiest port in the U.S.

- Port of Long Beach (POLB) is a landlord port with several large-scale container terminals. Mercator interviewed San Pedro Bay terminal executives along with a former POLB Executive Director and a former Planning Director, to discuss the Port's development strategy in general and to discuss two important projects - the Long Beach Container Terminal (LBCT) redevelopment project and the Pier B Railyard project.
- The normal approach for POLB's Harbor Department management is to develop the design for a new terminal or for the upgrade of an existing terminal in cooperation with the eventual lessee, determine the cost to build and finance the project, and agree on lease terms that provide a suitable return to the port.
- The objective is for each project to pay its own way, covering the cost of financing and delivering a suitable return to the Port.
- Lessees are given the opportunity to customize the design of the terminal infrastructure and the systems to be employed, and they do so with the clear understanding that the Port's investment costs will be recovered through the fees that the lessee will pay over the course of the lease.
- POLB and Port of Los Angeles (POLA) do not force terminal lease rates to be the same, but to the extent the overall infrastructure package at terminals across the two ports is broadly similar, the rates fall into a band, although with some outliers.
- The norm is for tenants to provide their own ship-to-shore (STS) cranes.

Aerial view of Port of Long Beach

Source: https://polb.com/port-info

Investment and Cost Recovery Examples for Selected Ports

Port of Long Beach – Long Beach Container Terminal

- OOCL management agreed in 2012 to new 40-year lease for a thoroughly modern, high capacity, automated terminal. The POLB as the landlord and developer of the project wanted a modern low-emission terminal, but recognized it would be more expensive than a conventional terminal and that this would need to be reflected in the payments made by the tenant of the terminal.
- As the prospective tenant, OOCL understood the need to repay the port for its investment, and that what OOCL wanted the port to build was far in excess of what the port had previously done. OOCL management evidently reached the conclusion that a new automated terminal was worth acquiring and they were willing to pay for it.
- POLB had a requirement that, like other terminal development projects, the "Middle Harbor Redevelopment," as it was called, would have to pay its own way. **To achieve this, the LBCT lease was structured with wharfage payments like other leases in POLB, but with a higher "breakpoint" level [1] and higher Minimum Annual Guaranteed payments.**
- When translated into annual cost per acre, the tenant's minimum annual payments to the port would come to nearly $400,000 per acre, with actual payments per acre even higher once high throughput levels are reached.

Aerial view of Long Beach Container Terminal

Source: Port of long Beach

- The project was not without risk to POLB, which agreed with the Assignee that the port would be responsible for cost increases relating to engineering changes or the result of unknown factors that caused costs to be higher, <u>while the tenant would be responsible for cost increases relating to changes in the tenant's requirements</u> (such as expanding the sizes of buildings or making provisions for more cranes or revising the layout to suit the tenant's operational preferences).

1) The concept of a breakpoint is a standard feature of POLB terminal agreements and is the volume throughput level per acre at which the per container wharfage drops from the standard rate to 50% of the standard rate. **Raising the breakpoint makes the terminal lease more expensive per acre and per container because a higher fraction of volume will pay the higher rate.**

Investment and Cost Recovery Examples for Selected Ports

Port of Long Beach – Pier B Rail Yard Expansion

- The Pier B Rail Yard Expansion was conceived to improve the flow of rail container traffic to and from the port, particularly to those terminals at the south end of the Long Beach branch line of the Pacific Harbor Line railroad – namely LBCT, ITS, and PCT. The Port's other container terminals – Pier T, Pier A, and Pier C – are likely to gain much less benefit because trains to or from these terminals would normally not use or benefit from the new rail yard.
- The estimated cost of the project is on the order of $800+ million – a huge sum which POLB could not invest without a means to recover the costs. Port leadership understands that it would be unrealistic to expect operators of Pier T, Pier A and Pier C to pay similar increased charges for this rail infrastructure improvement as their competitors who will obtain far more substantial benefits.
- The solution to funding and paying for the Pier B Railyard Expansion project has been much discussed, although a specific mechanism has still not been agreed. What is apparent, however, is that any discussion of fees and responsibility for payments starts with an assessment of expected benefits, and that in any scheme that will win support of stakeholders, those entities (terminals, shippers, rail operators) that receive the benefits will have to be the ones paying the costs.

Aerial view of Pier B Rail Yard Expansion and key project elements

Source: Port of Long Beach

Development, Investment and Cost Recovery Rules

A synopsis of the Underlining Policy or Rules for Setting Rates for Terminal Development or Expansion Projects -- as expressed by the former POLB senior staff -- include these principles:

- ***Projects must be self-sufficient.*** *The structure for "lease" payments must be robust and sufficient to pay the costs of developing the infrastructure being built.*
- ***Maintaining equivalent unit costs across terminals is not a priority****. More expensive terminals must naturally generate a higher revenue stream to the port. To achieve this, more expensive infrastructure features must deliver increased value that justifies the cost to the users who will pay for it*
- ***Tenants must pay for the features that they desire****, either by paying directly for those features (such as the cranes, yard equipment, computer systems, etc.), or by adjusting the lease cost structures and parameters.*

Relevance for Anchorage

- The LBCT Middle Harbor Redevelopment was based on OOCL's unique requirements for a highly efficient, automated terminal.
  - ***OOCL accepted that it would pay lease fees commensurate with the POLB's investments, even though the fees would be significantly higher than the levels paid by other container terminal operators at the port.***
  - *OOCL and POLB thus worked cooperatively to execute the project with the understanding that the recovery of extra costs for features requested by the tenant would be reflected in the eventual lease terms and rate.*
- To date, the work of the Port Authority and its consultants to formulate a revenue structure to support the project has started with the identification of benefits and which entities receive those benefits.
  - *This is consistent with the concept that we have seen across all the ports studied, which is that new fees and charges need to be attached to the benefits they produce and collected from recipients of those benefits.*
- The expected financial structuring of the Pier B Rail Yard Expansion project reflects the view that only the tenants benefitting from the improvements should be obligated to pay increased fees to pay for the project.

Investment and Cost Recovery Examples for Selected Ports

Port of New York and New Jersey – the third busiest port in the U.S.

- The Port Authority of New York and New Jersey (PANYNJ) manages Port of New York and New Jersey (NYNJ) properties with a landlord port structure. As a landlord, it develops and leases its six container terminals to tenants that operate the facilities under long-term concession agreements, typically of 30 or more years. PANYNJ derives its revenue from these concession leases.
- **PANYNJ's investments in the terminals are ultimately paid for by the users of those facilities (the tenants/concessionaires/lessees), entirely or in part, subject to the lease terms.**

Port of New York and New Jersey terminal map

Source: Globest.com

Investment and Cost Recovery Examples for Selected Ports
Port of New York and New Jersey

- Mercator's analysis of concession agreements and amendments for Port Newark Container Terminal (PNCT), APM Terminals (APMT) Port Elizabeth, New York Container Terminal (NYCT), GCT Bayonne Container Terminal, and Maher Container Terminal revealed common terms, conditions and cost item categories that include:
  - *Annual Base Rental Rate*
  - *Annual Base Rent per Acre*
  - *Exemption Number or Annual Terminal Guarantee Number - number of Qualified Containers exempted from being assessed the Tier 1 Rental Rate*
  - *Annual Tier 1 Rental Rate - chargeable per Qualified Container after the minimum quantity of containers (Number of Qualified Containers) beyond the Exemption Number to be handled each year is reached*
  - *Annual Tier 2 Rental Rate – about 60% of the Tier 1 Rental Rate, chargeable once a higher threshold of Qualified Containers is handled each year*
  - *Container Throughput Rental*

Port of New York and New Jersey concession agreements examined

	PNCT	APMT Port Elizabeth	NYCT	Bayonne Container Terminal	Maher Container Terminal	Red Hook
Terminal operator	Ports America	APM Terminals	GCT Global Container Terminals New York	GCT	Maher Terminals LLC	Red Hook Terminals
Lease expiration	11/30/30 (2050 possible)	12/31/29	12/31/29	2047	11/30/30	2023
Acreage	227	350	210	169	450	NY - 80; NJ - 30

Investment and Cost Recovery Examples for Selected Ports

Port of New York and New Jersey

- Although there are commonalities across the concession agreements, **the details of the terms, conditions, and some cost item categories are specific to each lease because the physical infrastructure characteristics of the marine terminals** (such as acreage, number of berths and their length, age and level of development**), are unique,** and because the original agreements were negotiated in different years and do not have simultaneous expiration dates.
  - *Leases may include a complex mix of capital contributions by either the Port or the tenant, along with terminal-specific rates and minimum volume guarantees.*
- Another factor underpinning the levels of the fees is the fact that the agreements for PNCT, APMT, and NYCT were amended several times for assorted reasons such as when acreage was added (PNCT, NYCT) or surrendered (APMT), a new improvement needed to be made, ownership of the terminal transferred (NYCT), or an ocean carrier Annual Throughput Guarantee was negotiated (PNCT: MSC Throughput Guaranty Agreement).

Port of New York and New Jersey concession agreement dates

	PNCT	APMT Port Elizabeth	NYCT	Bayonne Container Terminal	Maher Container Terminal
Original lease agreement	12/1/00	1/6/00	6/3/95	6/23/10	10/1/00
Lease amendments	12/1/00, 1/26/01, 8/31/01, 10/1/02, 10/5/04, 11/16/05, 3/13/07, 6/14/11	3/13/07, 7/24/08	3/30/98, 7/15/98, 10/14/98, 3/31/99, 4/15/99, 4/8/03, 12/31/04, 11/1/05, 6/6/07		

- The agreements include clauses that require the lessee to make certain agreed upon improvements by an agreed upon date (Construction Work by Lessee). These also vary by terminal. For example:
  - *PNCT was required to invest no less than $63 million between December 1, 2000 and November 30, 2005, and purchase four straddle carriers with an aggregate cost of no less than $3 million by December 31, 2005, among other investments.*
  - *GCT was required to make improvements at Bayonne Container Terminal (Lessee's Construction Work for Phase 1, 2 and 3 Development Parcels, Wetland Development Area, Additional Terminal Facilities, berth expansion, and construction of new berth) at lessee's sole cost and expense.*
- Initial improvements made at one terminal to render the terminal operable, or improvements made during the concession term are paid for by PANYNJ, or the tenant, or jointly.
- **We found no evidence that any of the marine terminal operators or users were assessed fees to cover the development or improvement costs of another terminal or for improvements unrelated their own terminal operation.**

Relevance for Anchorage

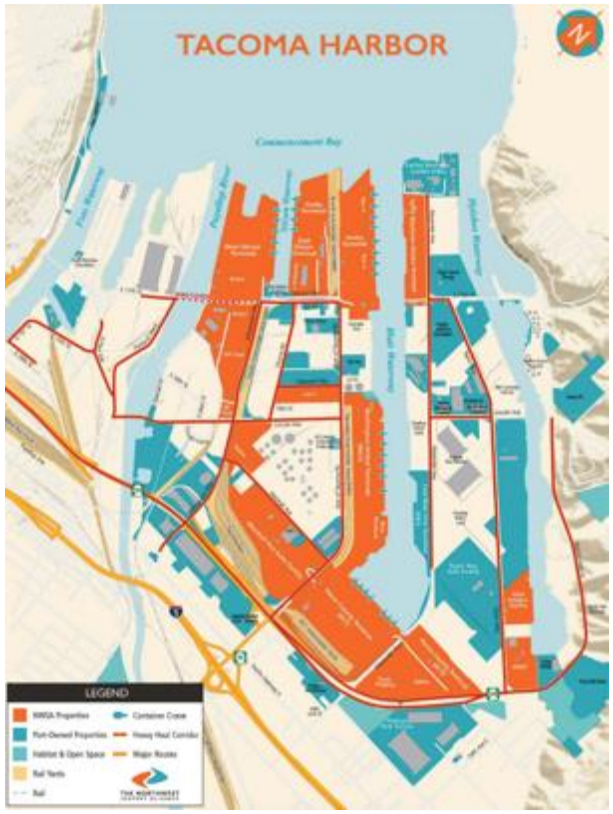
- We conclude from our examination of the concession agreements for container terminals in this port, that **PANYNJ negotiates its leases with each tenant to ensure the tenant's collective fees meet PANYNJ's targeted revenue for that terminal, which is based upon the resources/capital that PANYNJ had invested in the facility.**
- The port's cost to provide a particular terminal facility to its lessee depends on the lessee's requirements and the nature of the facility being developed. **Given the need for each lease to stand on its own financially, the structure and level of the lease charges and the total amounts collected vary by lease.**

Investment and Cost Recovery Examples for Selected Ports

Northwest Seaport Alliance

- The ports of Seattle and Tacoma formed the Northwest Seaport Alliance (NWSA) in August 2015 to jointly manage their maritime cargo operations.
- Mercator located and examined numerous Memorandum written by NWSA staff and directed to the Managing Members of the NWSA that described capital improvement projects that the NWSA desired to implement for which the NWSA staff sought the Managing Members' approval and authorization of funding.
- What we see across the NWSA terminals is a range of lease rates and terms that appear to be related to the quality and attractiveness of the facility being leased.

Port of Seattle and Port of Tacoma terminal maps



Source: NWSA

- The standard approach to NWSA marine terminal development projects is for the port staff to evaluate the required investments and establish various rates, required threshold volumes, and minimum payments that will deliver the target return for the port.
- Normally, each project is evaluated according to its own merits and risks, without relying on non-project-driven funds. Lease rates are agreed between the Port and the tenant, based on what the market will bear but subject to meeting the Port's required return. In each request for approval of the lease, port management states that the project has been analyzed and target returns will be achieved.
- The lease rate for the container-on-barge terminal on the Duwamish River is substantially lower than for the large container terminals in Seattle and Tacoma. It is clear from this difference in costs that fees paid for terminals do indeed depend upon the characteristics of the terminals rather than what is being shipped through them. An analogous differential is seen in Vancouver, BC, where users pay far less for the lower-spec terminal on the Fraser River than for the three main terminals that handle the majority of containers.
- Another reference that addresses the question at hand is found in the published tariff of the NWSA. In the published tariff, a much lower rate is applied per RoRo unit (a $22.33 rate for a 20-foot to 50-foot cargo container with wheels) than for a LoLo container ($62.14 per TEU, which amounts to nearly $125 per 40-foot container). **Although unitized liner cargo generally moves through leased terminals and is not subject to this tariff, published tariff suggests a recognition that the infrastructure required for RoRo is less involved and less costly, and therefore calls for a lower tariff. If applied to Anchorage, this would of course result in a lower surcharge for cargo moving over the Ro-Ro terminal than over the Lo-Lo terminal.**
- The underlying rate setting principal for the NWSA is that a project should itself generate sufficient revenue to the port that the port can earn an acceptable return on its investment. Projects are generally related to a single cargo handling terminal (i.e., T-5, T-18, Pierce County, West Sitcum, OCT, WUT, TOTE, etc.), although the NWSA's "North Harbor Strategy" was noteworthy for encompassing multiple terminals, with the resulting terminals all to be leased to the same entity.
- In each of their memoranda seeking project approvals (for the North Harbor Commercial Strategy, Husky Terminal, West Sitcum Terminal, and T-5), Port staff state that the project will meet a target return.

Relevance for Anchorage

- The recent lease projects Mercator examined - Husky Terminal, West Sitcum Terminal, T-18, and T-5 – were of differing scale and complexity.
- From the published documentation that Mercator reviewed, it was apparent that **NWSA staff judged each project independently, assessed the value the project delivered to the tenant, and evaluated the project's unique benefits and risks for the NWSA to ensure it would meet the NWSA's target return on investment before approaching the Managing Members for approval and funding authorization.**
- The careful analysis of projects by Port Staff also revealed that **Tenants pay only for construction projects at their terminal and that assessments are not levied upon terminals or users to pay for improvements at another tenant's or user's facility.**

Investment and Cost Recovery Examples for Selected Ports

JAXPORT

- Mercator studied JAXPORT lease agreements and other information located from Internet searches.
- The Jacksonville agreements defined what Jacksonville Port Authority (JPA) and the Port's customers were obligated to pay for the development and use of the terminals, and demonstrated that **no improvements at one terminal were paid for by the users of another terminal.**

Terminals at JAXPORT

Source: https://www.jaxport.com/wp-content/uploads/2021/12/2022JAXPORTDirectory.pdf

Sea Star Line/TOTE

- JPA signed a 10-year agreement with Sea Star Line, the predecessor to TOTE, on February 1, 2014.
- Amendment 1 on October 1, 2014, required the JPA to construct a fructose piping system at its cost that, and that the lessee would pay for the system, making a $405,000 payment by December 14, 2014, and a total of $228,000 paid in 120 monthly installments. The lessee was also responsible for the costs for day-to-day operations, maintenance, and improvements to the system.
- On September 15, 2015, the second Amendment was agreed. This amendment decreased the acreage from 52.67 to 49.5 acres; increased the Guaranteed Throughput from 950,000 to 1,100,000 ST; increased the Crane Assignments from two to three to accommodate the requirements of TOTE's shift to pure Lo-Lo ships, and added an annual fee to pay for the additional crane; and raised the Throughput Fee from $3 per ST to $3.35 per ST.
- A Service and Maintenance Agreement was executed on January 1, 2020, by which JPA agreed to regularly maintain three spreaders owned by TOTE between January 1, 2020 and December 31, 2022, and TOTE agreed to pay for the costs.

Crowley Maritime

- The initial agreement with Crowley Maritime was signed on April 1, 1996. The 14th Amendment was signed on January 1, 2014.
- A new agreement with Crowley dated February 23, 2015, established an expiration date in 2035. Annual Throughput Fees were set at: for 1 to 1.2 million ST - $3.90, and for over 1.2 million ST - $3.32, plus annual adjustments according to the CPI. It required the lessee to perform all maintenance, repairs, and replacements on the Premises (except common use spaces) at its sole cost and expense. The Minimum Annual Guarantee would be 1.0 million ST starting in year 2. By June 30, 2016, JPA and the lessee were to reach agreement on main gate and security improvements; JPA agreed to spend up to $1 million for the agreed upon work. JPA also agreed to relocate two cranes to handle 53-foot containers from Blount Island to the Talleyrand Terminal by March 1, 2017.

Trailer Bridge

- The initial Nov 2013 agreement between JPA and Trailer Bridge reflected a structure for this Ro-RO carrier that was slightly different than for either Sea Star (now TOTE) or Crowley. It established the Annual Premises Rental Fee at $20,695 per acre x 31.96 acres was $661k/year, with CPI increases. The Throughput Fee was on a sliding scale, with yearly CPI increases, and a minimum guaranteed of 500,000 ST, with a penalty for shortfalls. The lessee was responsible for all maintenance, repairs, and replacements at its cost. Container Crane Rental if required was to be $494 per hour without the operator with CPI increases. The Tri-level Ramp Utilization Fee in year 1 was $425,000; in years 2 to 10 it was $525,000. Preferential Berthing for Triple Deck Loading Berth was established at two days a week.

SSA Marine

- JPA executed an agreement with SSA Marine in 2019 for the SSA Jacksonville International Gateway Terminal on Blount Island, which is an expansion of SSA's current leasehold of 50 acres on Blount Island. The concession agreement runs through 2044 plus two five-year extensions. Investment commitments are shared by SSA and JPA: JPA is to invest $109 million in berth rehabilitation and upgrades that are underway to enable handling two post-Panamax vessels simultaneously. SSA will invest $129.7 million in the international container terminal, which is scheduled to be completed in 2023. SSA was to pay an additional $28 million for exclusive use of JAXPORT's three 100-gauge cranes, with those funds going towards the cost of the harbor deepening project at JAXPORT.
- Another agreement was signed in February 2021 that obligated SSA to invest a further $50.9 million to increase the facility to 93 acres and add three cranes, scheduled to be done by November 2024.

Relevance for Anchorage

- **Each of the four agreements has unique terms and rates, and investment provisions**
  - ***The JPA agreements with the domestic carriers are each fairly similar, except that the Ro-Ro operator (Trailerbridge) pays substantially less than the Lo-Lo operators in return for using less investment-intensive infrastructure and equipment.***
- **SSA will serve primarily international ship traffic, and so will need to offer a much higher level of terminal and crane capability. SSA will itself make a substantial part of the investment to achieve this higher standard of infrastructure performance.**

Mainaland – Hawaii Trade Overview

- The main container carriers serving Hawaii from the US Mainland are Matson Navigation and Pasha Hawaii Transport Line. Matson is the larger of the two carriers and has served the Mainland-Hawaii trade for 130 years. It now operates a large terminal on Sand Island. Pasha entered the trade with a single Ro-Ro vessel in 2005 and expanded its participation through the acquisition of Horizon Lines in 2015. Having acquiring Horizon Lines, Pasha took over the Sand Island terminal area that Horizon had traditionally operated.

Honolulu Terminal Arrangements

- Terminals in Honolulu are developed and owned by the State of Hawaii Harbors Division and space for operations is assigned to carriers based on cargo volumes. As the largest volume container operator, Matson has the largest facility, followed by Pasha.
- Although port terminal capacity had long been considered inadequate, due to a variety of constraints, no new terminal capacity had been developed in Honolulu for decades prior to the building the new Kapalama Container Terminal, which is now under construction. Pasha will move its operation to Kapalama and be the principal tenant -- thereby allowing Matson to expand its terminal area at Sand Island.

Terminal Usage Fees in Honolulu

- All cargos moving through Honolulu pay wharfage to the Harbors Division, at the same published rates. Provision of cranes is not included in the wharfage rates, but rather are provided by the terminal operator (Matson Terminals or Pasha's Hawaii Stevedoring Inc.).

Relevance for Anchorage

- **The old (Sand Island) and new (Kapalama) terminals will provide roughly equivalent infrastructure for use by Matson and Pasha, and so consequently it is reasonable that cargo moving through each terminal will pay the same wharfage rates.**
- **If the scope of infrastructure supplied by the Harbors Division was meaningfully different, (if, for example, Harbors División provided cranes or ramps at one terminal but not the other), then we would expect to see a difference in the fees paid to Harbors Division for cargo moving through each terminal.**

Section	Pg.
1. Introduction and Executive Summary	
2. Investment and Cost Recovery Examples for Selected Ports • Port of Long Beach • Port of New York / New Jersey • Northwest Seaport Alliance (Seattle and Tacoma) • Port of Jacksonville • Port of Honolulu	

United States

Headquarters
4040 Lake Washington Blvd.
Suite 310
Kirkland WA 98033
Phone: 425.803.9876
mercatorintl.com