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South Carolina Port Authority Eyes Pension Funds to Finance Expansion.

South Carolina's Port Authority is courting pension funds and other institutional investors to help pay for billions of dollars in infrastructure improvements as traditional sources of financing dry up.

The authority has announced plans to spend $1 billion over the next four years on expansions and improvements to ports throughout the state, and is embarking on a $5 billion joint venture with the Georgia Ports Authority to build a terminal along the Savannah River.

Past projects were financed by issuing municipal bonds, including a $290 million sale in November. But the port has effectively maxed out its ability to borrow, requiring new sources of funding, said Jim Newsome, the port authority's chief executive. The port has hired BMO Capital Markets as advisors and has met with pension funds in several states as well as Canada.

"There's just not enough public sector debt available to fund all the infrastructure and terminal improvements we need," Mr. Newsome said in an interview.

South Carolina's ports need to grow to handle growing volumes of containers and other cargo, and to accommodate larger ships from Asia expected to arrive after the Panama Canal completes an expansion next year. Ports along the East Coast are competing for the same business, stretching their finances to dredge deeper harbors, raise bridges and build new terminals.

"A lot of these issuers have good balance sheets, but not enough cash on hand" for large infrastructure projects, said Emma Griffith, who heads port infrastructure research for Fitch Ratings Inc. "People are looking for more flexible forms of capital."

The South Carolina Port Authority's charter prevents it from selling stakes in its terminals, a common way for private port operators to win outside investment. Instead, the authority is offering to pay an annual return at a fixed rate, plus a dividend tied to any increase in cargo volumes, Mr. Newsome said.

Such an arrangement has been used to fund infrastructure projects in Europe and Australia, as well as toll roads in the U.S. Ports can be an attractive investment because they produce stable revenues. The challenge will be to get the rate of return high enough for pension fund and investors specializing in infrastructure, who typically require an annual return of 10% or more, said David Ambler, an infrastructure analyst with AllianceBernstein LP.

For the current fiscal year, South Carolina's ports project a return of 4.5% last year on its $1.1 billion in assets, meaning the port authority expects to earn a profit of about $45 million.

Mr. Newsome said the authority hopes to boost returns by attracting larger ships, increasing the revenue from fees that the port collects on each container and each car that passes through the port. The authority is also investing in technology to increase efficiency and keeping the port open longer hours.

“We are aware that we need to attain a certain return on capital to get investors interested,” Mr. Newsome said. “People look at ports as a utility that should just sort of be there, and that doesn’t work … Ports have got to be run more like a business.”

In recent years, pension funds and private investment firms have invested in or purchased terminals at several U.S. ports. In 2014, Alinda Capital Partners, a Connecticut private equity fund, and a British pension fund bought a marine terminal at the Port of Virginia. The largest terminal at the Port of Newark, on New York harbor, is owned by a fund controlled by German bank DeutscheBank AG.

But such investments are rare when the port authority operates its own terminals. South Carolina’s situation is different because its ports are owned and operated by the port authority, which is run by a state-appointed board.

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By ROBBIE WHELAN

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Write to Robbie Whelan at robbie.whelan@wsj.com