APPLETON PARTNERS, INC.

LABOR DISPUTE DISRUPTS WEST COAST PORTS FEBRUARY 2015

On Friday, February 20th, the Pacific Maritime Association (PMA), representing the owners of West Coast ports, and the International Longshore and Warehouse Union (ILWU) reached a tentative five-year labor agreement, restoring operations along West Coast ports and resolving a dispute that has lasted since November 2014. As major players in the importing and exporting of Asian goods, the disruption of West Coast port operations has caused a widespread effect on national economic activity. In addition, the disruptions posed concerns for the ports themselves, as the volume of cargo moved has significantly slowed. Below, we provide a brief background on the dispute and our analysis on credit impacts.

BACKGROUND

The PMA and ILWU began negotiations nine months ago as the most recent contract between the two expired on June 30, 2014. Negotiations stalled over the ability to remove arbitrators, which take the place of a jurisdictional court, in mediating a labor dispute. In response to the standstill, West Coast port operators suspended vessel loading and unloading, while unions instituted work slowdowns. At one point, 36 ships sat idly outside of the Long Beach and Los Angeles ports. Prior to the recent resolution, the Obama Administration sent Labor Secretary Tom Perez to help bring the two sides to the table. The last extended work stoppage occurring at West Coast ports took place in 2002 and lasted 10 days. Industry participants estimated that stoppage cost the economy $1.0 billion per day. At the time, President Bush intervened, invoking his powers under the Taft-Hartley Act, which basically forced labor back to the docks while the Administration mediated negotiations. Although an official strike was never declared in the most recent dispute, the effect on the broader economy was certainly impactful.

SHORT-TERM CREDIT IMPACT IS LIMITED

While the amount of cargo moving through the West Coast ports has dropped significantly, *we believe the short-term credit impact will be limited*. All five major West Coast ports – Los Angeles, Long Beach, Oakland, Tacoma, and Seattle – enter into Minimum Annual Guarantees (MAG) as part of their customer contracts. The contracts are multi-year in nature, reducing the risk that FY2015 operating performance will be significantly different from 2014 data. According to the table below provided by Moody's, the MAG payments represent on average over 50% of operating revenues and more than 100% of annual debt service requirements. We believe these MAG payments reduce revenue volatility and provide stability to the ports' financial performance. We also note that many of the larger ports have strong balance sheets, bolstered by cash reserves that on average represent more than a year's worth of operating expenses.

WEST COAST PORTS ARE WELL PROTECTED BY MINIMUM ANNUAL GUARANTEES

Port	FY2014 Minimum Annual Guarantee	MAG as % of Operating Revenues	MAG as % of Debt Service	Ratings
Los Angeles	$228.9 million	54%	350%	Aa2/AA
Long Beach	$265.3 million	76%	263%	Aa2/AA
Oakland	$117.8 million	75%	119%	A2/A+
Tacoma	$96.1 million	72%	325%	Aa3/AA-
Seattle	$53.5 million	56%	N/A*	A1/A+

*SeaTac International Airport represents 70% of revenues and is responsible for the majority of Port of Seattle's debt.

Source: Moody's

BROADER LONG-TERM EFFECTS

With the widening of the Panama Canal and the willingness of East Coast ports to improve infrastructure to handle larger ships, the recent slowdown and disruption has the potential to effect long-term shifts in trade routes. However, West Coast ports continue to be the most cost-effective and convenient location for trade from Asia. Significant infrastructure already exists, including transportation routes for trucking and rail to vast portions of the country. We also note that East Coast ports have experienced their own labor issues, including a contract dispute in 2012 that narrowly avoided a strike.

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