

Port of Houston Authority, Texas

Unlimited Tax Bonds New Issue Report

Ratings

New Issue

Unlimited Tax Refunding Bonds,
Series 2011A (AMT/Taxable) AAA

Outstanding Debt

Unlimited Tax Bonds AAA

Rating Outlook

Stable

New Issue Details

Sale Information: \$49,450,000 Unlimited Tax Refunding Bonds, Series 2011A (AMT/Taxable), via negotiated sale on Sept. 20.

Security: Unlimited ad valorem tax pledge on all taxable property within the authority, which is essentially coterminous with Harris County, TX (GOs rated 'AAA' with a Negative Rating Outlook by Fitch Ratings).

Purpose: Refunding for interest savings.

Final Maturity: Oct. 1, 2026.

Key Rating Drivers

Expansive Tax Base: The Port of Houston Authority's property tax base is very large and diverse, coterminous with the tax base of Harris County. Preliminary taxable assessed valuation (TAV) figures show stabilization of the tax base for 2012 following moderate contraction in 2011.

Fairly Resilient Economy: The end of the energy boom contributed to a strong recessionary impact on the local economy beginning in 2009. However, the area's housing market remains relatively healthy as evidenced by steady home prices, which Fitch believes will aid the economy's return to growth. Net gains in jobs in recent months suggest local economic conditions may be improving.

Sound Financial Profile: The authority's financial profile is characterized by ample liquidity and generally positive net operating income. Freight volume continues to improve after sharply declining in 2009 as a result of the global economic downturn.

Sizeable Capital Plan: The authority's forward-looking capital improvement plan (CIP) positions it for continued pre-eminence as a major national port, with expansion to its cargo and ship capacity needed to accommodate an anticipated increase in demand.

Above-Average, Growing Debt: The capital intensive nature of port operations and large number of overlapping taxing entities bring the overall debt burden to above average levels and principal payout is slow. Debt levels will likely rise, in support of the sizeable CIP, but remain within a range consistent with the high rating.

Related Research

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Fitch Rates Port of Houston Authority, TX ULTGOs 'AAA'; Outlook Stable, Sep. 12, 2010

Port of Houston Authority, Texas, July 28, 2010

Fitch Rates Port of Houston Authority, TX UTGO's 'AAA'; Outlook Stable, July 21, 2010

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Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	9/12/11
AAA	Affirmed	Stable	7/21/10
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	1/7/10
AA+	Affirmed	Stable	11/24/09
AA+	Affirmed	Stable	9/15/06
AA+	Affirmed	Stable	8/11/05
AA+	Affirmed	—	10/3/02
AA+	Affirmed	—	5/23/00
AA	Assigned	—	4/9/96

Credit Profile

The authority operates all public facilities of the Port of Houston (the port) and helps maintain the 52-mile ship channel that connects it to the Gulf of Mexico. The port is one of the nation's largest maritime ports, ranking first among all U.S. ports in foreign tonnage and second in total tonnage. All outstanding bonds of the authority are unlimited tax GOs (ULTGOs) and are supported with the property tax levy, and tax revenues are used solely for debt service.

Economy

The authority's large and diversified tax base encompasses the city of Houston and is essentially coterminous with Harris County. With a population of 4.1 million, Harris County is the largest county in Texas and the third largest in the nation. The county experienced solid growth since the 2000 census with the majority occurring in the unincorporated areas.

Falling oil prices have taken their toll on the job market of the Houston metropolitan statistical area (MSA). Consequently, the MSA's unemployment rate has exceeded 8% every month since June 2009. The June 2011 unemployment rate totaled 9%, which is just above the state rate but below the U.S. rate. As a possible sign of a stabilizing economy, the MSA posted a 2% increase in employment for the 12 months ending July 2011.

General Fund Summary

(\$000, Audited Years Ended Dec. 31)

	2006	2007	2008	2009	2010
Vessel and Cargo Services	143,550	164,595	172,381	144,365	159,799
Rental of Equipment and Facilities	18,103	18,872	19,984	20,524	20,346
Grain Elevator	717	809	787	1,155	911
Other Revenue	5,293	6,582	4,841	4,283	5,640
Total Revenue	167,663	190,858	197,993	170,327	186,696
Expenditures	138,772	172,567	186,493	193,986	201,391
Operating Income/(Deficit)	28,891	18,291	11,500	(23,659)	(14,695)
Non-Operating Revenues	27,362	14,639	30,850	10,853	26,523
Net Transfers and Other Sources/(Uses)	6,490	7,886	6,061	4,966	6,748
Net Income/(Deficit)	62,743	40,816	48,411	(7,840)	18,576

Note: 2009 results are as restated by a new auditor in 2010. Numbers may not add due to rounding.

Property taxes are levied only to the extent necessary to pay debt service on voter-authorized ULTGO bonds. Total TAV declined 4% in 2011 after growth slowed from prior years, but the tax base remains large at \$264 billion for the 2011 levy. Preliminary 2012 TAV estimates for the authority indicate flat to 1% growth. Stabilization in the tax base is attributable to the relatively stable residential taxable values, as home prices were not subject to high rates of appreciation prior to the recession, aided by ample land and limited zoning regulations.

Single-family housing starts within the county declined from 2007–2009 by 22%–28% annually, although 2010 permit activity declined by a more modest 5%. The top 10 taxpayers accounted for a modest 5.2% of the total TAV in fiscal 2011, but five of the 10 were in the oil and gas sector.

Related Criteria

Tax-Supported Rating Criteria, Aug. 15, 2011

U.S. Local Government Tax-Supported Rating Criteria, Aug. 15, 2011

Finances

Financial performance of the authority continues to be favorable as evidenced by sizable cash reserves and net income posted in four of the past five fiscal years. A small net deficit in fiscal 2009 reflects one-time litigation costs. Freight traffic improved in 2010 following a decline in 2009 associated with the global recession. Operating revenues — primarily dockage, wharfage, and crane fees directly correlated with freight volume — rebounded to 9% growth in 2010 following a 14% decline in 2009. With the growth in freight traffic, 2010 results show \$18.6 million in net income. The authority also held significant unrestricted cash and investment balances at year end totaling \$234 million, or 1.2x annual operating costs.

Management reports that freight volume continues to strengthen in 2011, with total cargo tonnage up 11% on a year-over-year basis through July. Cost containment measures were implemented to curb general and administrative costs, including a hiring and salary freeze and reduced spending on contract and marketing services. As a result, year-to-date financial results show a moderate net operating income of \$6 million, and management expects to end with at least break-even results.

Debt

Overall debt ratios are elevated at 6.4% of market value and \$5,366 per capita, although Fitch notes that these ratios do not account for direct state support for numerous area school districts, resulting in somewhat inflated overall debt ratios. This series of refunding bonds is being issued for level interest savings with no extended maturities. With this issuance, amortization remains slow with 27% of principal retired in 10 years.

The authority is in the midst of funding its sizable CIP, particularly on the Bayport project, which is an estimated \$1.8 billion, 15–20 year project to build new freight and ship terminals and to deepen the Bayport channel to accommodate larger ships. The authority's capital needs are being driven to a degree by increased demand for the port

Freight Traffic

Short Tons (2,000 lbs.)

Year	Total Authority and		Authority Only % Change	
	Private Terminals	% Change	Authority Only	% Change
1996	148,183	—	21,010	—
1997	165,456	11.7	22,621	7.7
1998	169,070	2.2	25,972	14.8
1999	158,828	(6.1)	25,349	(2.4)
2000	186,567	17.5	28,717	13.3
2001	185,050	(0.8)	27,460	(4.4)
2002	177,561	(4.0)	28,660	4.4
2003	190,923	7.5	30,019	4.7
2004	202,046	5.8	32,773	9.2
2005	211,666	4.8	34,791	6.2
2006	222,147	5.0	40,437	16.2
2007	216,064	(2.7)	40,420	0.0
2008	212,207	(1.8)	42,738	5.7
2009	211,341	(0.4)	36,787	(13.9)
2010	N.A.	N.A.	40,246	9.4

N.A. – Not available.

Debt Statistics

(\$000)	
This Issue	49,450
Outstanding Direct Debt – Net of Refunding	711,428
Total Net Direct Debt	760,878
Overlapping Debt	21,200,022
Total Overall Debt	21,960,900
Debt Ratios	
Direct Debt Per Capita ^a	186
As % of MV ^b	0.2
Overall Debt Per Capita ^a	5,366
As % of MV ^b	6.4

^aPopulation: 4,092,459 (2010). ^bMarket value (MV): \$344,395,041,000 (2011). Note: Numbers may not add due to rounding.

resultant from the expansion of the Panama Canal that should be completed by 2015. The port is the closest major port to the canal.

Capital spending plans show a sizable drawdown on the authority's cash reserves over the next three years, but officials plan to seek federal reimbursement for a portion of the dredging costs and may also utilize a short-term credit facility. Management maintains an informal minimum cash target of \$50 million–\$75 million, which Fitch views as adequate. Additionally, some of the capital projects are demand driven and can be reduced or eliminated if growth in cargo does not materialize, and Fitch views the authority's successful implementation history as a credit positive.

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