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Summary:

Port of Houston Authority, Texas; General Obligation

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Credit Profile

Port of Houston Auth GO

Long Term Rating

AAA/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' rating on the Port of Houston Authority, Texas' outstanding general obligation (GO) debt. The outlook is stable.

The rating reflects our assessment of:

- The port's participation in the broad and diverse Houston-The Woodlands-Sugar Land metropolitan statistical area (MSA);
- The underlying property tax base's ongoing expansion, coupled with a very low direct tax rate;
- The Harris County commissioners' oversight and tax-setting authority;
- The authority's strong net operating position; and
- Moderately high overall net debt as a percent of market value.

The bonds are secured by an unlimited ad valorem tax levied against all taxable property within Harris County.

The Port of Houston Authority, which is conterminous with Harris County, operates and leases public facilities at the Port of Houston on the Houston Ship Channel. On several occasions, Harris County's electorate has authorized the authority to issue unlimited-tax GO bonds to finance port improvements. The Harris County Board of Commissioners annually sets the tax rate to cover the debt service while revenues for cargo services and facility rentals internally fund the authority's annual operations.

Port financial operations remain very strong, in our view. Following net operating income results of \$32.4 million in fiscal 2013 and \$23.9 million in 2012, the authority ended fiscal 2013 with an unrestricted net position of \$324.5 million, or 162% of operating expenses. Based on the year-to-date financial results that show net operating income exceeding 2013's income by about \$19 million as of October, as well as the port's long-term financial plan, which projects continuing operating surpluses through fiscal 2018, we expect the financial operations to remain very strong. Cash and short-term investments totaled \$180.3 million at fiscal year-end 2013, or about 70% of operating and nonoperating expenses.

The tax base has exhibited strong growth over the past three years following the Great Recession, increasing by a combined 28% since fiscal 2011, to \$339 billion for fiscal 2015 (tax year 2014). After increasing each year for more than a decade, the authority's property tax base declined 4.1% year-over-year to \$264.3 billion for fiscal 2011 due to the impact of the national recession on the regional economy. We consider the county's economy very strong. With

over 4.3 million residents, it is the nation's third-largest county and is the anchor of the broad and diverse Houston-The Woodlands-Sugar Land MSA. The MSA encompasses the city of Houston and more than 25 municipalities and 20 school districts. Per capita effective buying income levels equate to 101.5% of the national level, which we consider good. Market value per capita, a wealth indicator, is strong at about \$79,000. The county's 2013 unemployment rate was 6.2%.

The county commissioners set the tax rate for the authority, as well as other county functions. The countywide property tax rate for fiscal 2014 included the levy for the Port of Houston Authority of \$0.017 per \$100 of AV.

In our view, overall net debt is moderately high at about 6.6% of tax year 2014 assessed value and high at about \$5,241 per capita. These levels are boosted by considerable amounts of debt issued by the area's K-12 school districts and community college districts, local utility districts, and Houston. The authority's direct debt burden is low, in our view, at 0.2% of market value. The authority has no authorized, but unissued, GO debt remaining, and does not have any plans to issue new tax-supported debt within the next 12-24 months.

The authority provides pension benefits to employees through a single-employer defined-benefit plan. The Port of Houston Authority's actuarial value of pension assets exceeded the actuarial accrued liability by \$1.1 million as of Aug. 1, 2013. The authority provides postemployment health care and life insurance benefits to retirees on a pay-as-you-go basis. Its other postemployment benefits (OPEB) unfunded liability was \$40.8 million as of Jan. 1, 2013, and the annual contribution of \$11.2 million exceeded the annual required contribution (ARC). Combined, the pension ARC and actual OPEB payments were 8.2% of total annual operating expenditures for 2013.

Outlook

The stable outlook reflects our expectation that the authority will continue to maintain its very strong financial operations and liquidity. We do not expect to change the rating within the two-year horizon, as we anticipate the authority's operations will continue to generate surplus operating income to support capital needs, and that future capital needs will not pressure its very strong liquidity and unrestricted net position or low direct debt level.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Ratings Detail (As Of December 23, 2014)		
Port of Houston Auth		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Port of Houston Auth GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Ratings Detail (As Of December 23, 2014) (cont.)

Many issues are enhanced by bond insurance.

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