Port of Houston Authority, Texas

General Obligation Bonds
New Issue Report

Ratings

New Issues

Unlimited Tax Refunding Bonds, Series 2015A (Tax Exempt Non-AMT)	AAA
Unlimited Tax Refunding Bonds, Series 2015B (AMT)	AAA
Unlimited Tax Refunding Bonds, Series 2015C (Taxable)	AAA

Outstanding Debt

Unlimited Tax Bonds	AAA

Rating Outlook
Stable

Related Research

Fitch Affirms Port of Houston Authority, TX ULTGOs at ‘AAA’; Stable Outlook (August 2013)

Analysts
Jose Acosta
+1 512 215-3726
jose.acosta@fitchratings.com

Emma Griffith
+1 212-908-1124
emma.griffith@fitchratings.com

New Issue Details

Sale Information: $62,945,000 Unlimited Tax Refunding Bonds, Series 2015A (Tax Exempt Non-AMT), $26,010,000 Unlimited Tax Refunding Bonds, Series 2015B (AMT), $49,770,000 Unlimited Tax Refunding Bonds, Series 2015C (Taxable), via negotiation during the week of July 20.

Security: Unlimited annual property tax levy.

Purpose: Refund outstanding debt for interest cost savings.

Final Maturity: Oct. 1, 2017 (2015A); Oct. 1, 2023 (2015B); Oct. 1, 2031 (2015C).

Rating Drivers

Large, Diverse Regional Economy: The expansive regional economy has continued to show solid gains in recent months, although the recent plunge in oil prices is expected to slow the pace of growth over the near term.

Strong Financial Performance: The authority continues to exhibit good financial performance and has maintained its sizable liquidity position while investing its cash flow in capital expenditures.

Port’s Inherent Economic Importance: The Port of Houston is one of the nation's largest maritime ports, ranking second among all U.S. ports in total tonnage. The port’s shipping and trade activities support a significant number of jobs and economic activity throughout the region and the state.

Large 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 Debt Burden: The overall debt burden on the tax base is above average levels, and principal payout is slow. Debt levels will likely remain elevated but within a range acceptable for the high rating. Pension and OPEB liabilities are well funded.

Sensitivities

Economic Pressures: Material and sustained erosion in the local economy, including taxable values, could lead to negative rating pressure.

Port Operations: A material shift in the currently strong operating metrics and financial position of the port could affect the authority’s ULTGO rating. The Stable Outlook reflects Fitch’s view that such shifts are unlikely over the near term.

Debt Profile: An increase in overall debt levels beyond current expectations could also lead to a change in the rating.

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	6/30/15
AAA	Affirmed	Stable	8/27/13
AAA	Affirmed	Stable	9/12/11
AAA	Affirmed	Stable	7/21/10
AA+	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	—	11/11/04
AA+	Assigned	—	10/3/02

Related Criteria

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Tax-Supported Rating Criteria (August 2012)

Credit Profile

The authority is the local sponsor of the 52-mile Houston Ship Channel, and owns and operates the public terminals of the Port of Houston. The authority's large and diverse tax base encompasses Harris County, including the city of Houston. Harris County's population, estimated at 4.4 million, makes it the largest county in Texas and the third largest in the nation.

Oil Price Decline Clouds Otherwise Strong Economic Picture

The post-recession recovery of Houston's regional economy has outpaced that of many other large U.S. cities, as a robust energy sector, the Port of Houston and healthcare all contributed to recent population and employment gains. County employment continued to register moderate gains, posting a 1.3% increase in the 12-month period ended March 2015; the county's unemployment rate of 4.2% for the month was down from 5.2% in the same period last year and is on par with the state average but below the U.S. rate (5.6%). The metro population continues to expand at an annual rate of roughly 2%, in line with state growth trends and double the U.S. average.

The recent plunge in oil prices may materially affect the pace of economic growth in the county over the near term. The county is home to several thousand energy companies, ranging from large multinational concerns to numerous mid-sized to smaller exploration, construction, engineering and service companies. Growth in other sectors (e.g. shipping, healthcare) has reduced dependence on the energy sector over the past several decades, and direct employment in the sector was only 4% of the 2014 regional total. However, estimates of the oil and gas contribution to the MSA's 2014 GDP range from 15%–20%, and when associated industries are included the share of GDP increases to 35%–40%.

A number of energy companies have announced layoffs in recent weeks, including Schlumberger, Halliburton and Baker Hughes. Total job loss estimates vary, but projections for 2015 county employment gains are sharply lower than the 100,000 annual increases in jobs the county has experienced recently. The diversity between up-stream (exploration and production) and down-stream (refining and chemical manufacturing) users of oil & gas provides some stability during price swings of these commodities.

The authority's taxable assessed value (TAV) has resumed good growth following a one-year recessionary decline in 2011, climbing 8% and 11% in 2014 and 2015, respectively, due to reappraisal gains and surging home building. The top 10 taxpayers make up only 5.1% of TAV, although many are oil & gas firms. Continued downward pressure on oil & gas prices may result in a return to more moderate rates of TAV gains over the next several years.

Freight Traffic

(Short Tons: 2,000 lbs.)

	Total Authority and Private Terminals	% Change	Authority Only	% Change
1995	135,231	—	19,802	—
1996	148,183	9.6	21,010	6.1
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)	40,342	(0.2)
2008	212,207	(1.8)	42,740	5.9
2009	211,341	(0.4)	36,736	(14.0)
2010	227,133	7.5	40,246	9.6
2011	237,798	4.7	42,441	5.5
2012	238,185	0.2	44,035	3.8
2013	229,246	(3.8)	44,669	1.4
2014	N.A.	—	46,637	4.4

N.A – Not available.

Positive Margins and Strong Cash Position

Operating revenues have grown by a robust annual average of 9.2% over the past six years, which is notable as it includes a large 13% decline in 2009 commensurate with the economic downturn. Solid financial performance has been aided by steady cargo tonnage trends that have posted average annual gains of 4.9% since 2009. Total authority tonnage has grown in every year except 2009, when overall tonnage declined by 14%. Property taxes are levied only to pay debt service on voter-authorized ULTGO bonds.

General Fund Summary

($000; Audited Years Ended Dec. 31)

	2010	2011	2012	2013	2014
Vessel and Cargo Services	159,799	177,405	190,618	200,101	238,083
Rental of Equipment and Facilities	20,346	22,030	23,077	25,114	17,763
Grain Elevator	911	1,923	683	592	1,821
Bulk Materials	2,368	2,131	2,485	2,665	4,270
Other Revenue	3,272	3,356	8,512	5,201	1,960
Non-Operating Revenues	14,892	8,481	13,424	19,094	10,574
Total Revenue	**201,588**	**215,326**	**238,799**	**252,767**	**274,471**
Operating Expenditures	149,230	139,117	146,782	146,931	164,149
Non-Operating Expenditures	5,872	3,350	3,906	2,998	2,694
Total Expenditures	**155,102**	**142,467**	**150,688**	**149,929**	**166,843**
EBITDA	37,466	67,728	78,593	86,742	99,748
Margin (%)	20.1	32.7	34.9	37.1	37.8

Authority management is expecting a strong operating margin in 2015 based on year-to-date cargo statistics through May. Tonnage statistics for the first five months show general cargo up by 24%, countered by bulk cargo tonnage decline of 25%, resulting in total tonnage increase of 9% year over year. Because of the higher revenues associated with general cargo, year to date operating revenues are up by a large 27% although operating expenses and general and administrative (G&A) expenses are also up by 10% and 4%, respectively. Fitch considers the port’s five-year financial forecast to be conservative, projecting annual revenue growth of only 0.8% but still able to generate an average of $100 million in cash flow for its capital plan.

Elevated Debt Burden; Very Large CIP But Modest Employee-Related Liabilities

Overall debt ratios are elevated at 6.4% of market value (MV) and $6,221 per capita. The port’s debt portfolio consists entirely of ULTGO debt, the repayment of which is slow at only 34% retired in the next 10 years.

The authority is in the midst of funding its sizable capital improvement program to build new freight and ship terminals and to deepen the channels into its Bayport and Barbours Cut container terminals to accommodate larger ships. The authority's capital

Debt Statistics

($000)

These Issues	147,770
Outstanding debt	554,609
Direct Debt	**702,379**
Overlapping Debt	26,928,096
Total Overall Debt	**27,630,475**
Debt Ratios	
Direct Debt Per Capita ($)	158
As % of Market Value	0.2
Overall Debt Per Capita ($)	6,221
As % of Market Value	6.4

Population: 4,441,370 (estimate 2015). Market value: 429,797,449,000 (2015). Note: Numbers may not add due to rounding.

needs are focused on the expected increased demand for the port resultant from the expansion of the Panama Canal that should be completed by 2016; the port is one of the closest major ports in the Gulf of Mexico to the canal.

The authority's 2015–2019 CIP calls for total spending of $1.1 billion and will be funded with a combination of cash and debt. In addition to the $100 million annually from cash flow, the authority will soon issue a $300 million flexible-rate revolving note secured by port (non-tax) revenues. This bridge financing will either be extended or refunded with long-term revenue or GO debt prior to the note's three-year maturity. 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 capital project implementation history as a credit positive. Fitch projects the authority will maintain strong debt service coverage of its upcoming revenue-supported note issuance under various sensitivity scenarios. If the entire CIP was funded solely by GO bonds, Fitch anticipates that the increase in the debt burden and the overall tax rate would be minimal given its expansive tax base.

The authority's exposure to retiree liabilities has been significantly diminished by the closure of its well-funded defined benefit pension plan to staff hired after Aug. 1, 2012, who are eligible for a new defined contribution plan, and by the proactive establishment of an asset trust in fiscal 2011 for other post-employment benefits (OPEB) for retiree healthcare. The closed pension plan is funded at 104% as of the most recent Aug. 1, 2014 valuation using the plan's 7% discount rate. The OPEB trust had a $27 million cash balance as of Jan. 1, 2014, relative to the $60 million unfunded liability, which equals a nominal 0.01% of full MV.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.