

# RatingsDirect®

---

## Summary:

# Port of Houston Authority, Texas; General Obligation

### Primary Credit Analyst:

Omar M Tabani, Dallas (1) 214-871-1472; omar.tabani@standardandpoors.com

### Secondary Contact:

Kate Choban, Dallas (1) 214-871-1420; kate.choban@standardandpoors.com

## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

# Port of Houston Authority, Texas; General Obligation

### Credit Profile

US\$62.945 mil unlted tax rfdg bnds ser 2015A dtd 08/26/2015 due 10/01/2027		
<i>Long Term Rating</i>	AAA/Stable	New
US\$49.77 mil unlted tax rfdg bnds ser 2015C dtd 08/26/2015 due 10/01/2031		
<i>Long Term Rating</i>	AAA/Stable	New
US\$26.01 mil unlted tax rfdg bnds ser 2015B dtd 08/26/2015 due 10/01/2023		
<i>Long Term Rating</i>	AAA/Stable	New

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Port of Houston Authority, Texas' series 2015A, 2015B, and 2015C unlimited-tax refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating on the authority's unlimited-tax general obligation (GO) debt. The outlook is stable.

The 2015 bonds will be used to refund existing debt for interest savings. The bonds are payable from an unlimited ad valorem tax levied on all taxable property in the authority's taxing boundaries, which are coterminous with Harris County.

The 'AAA' rating reflects our assessment of:

- The authority's participation in the broad and diverse Houston-The Woodlands-Sugar Land metropolitan statistical area (MSA) economy;
- The underlying property tax base's ongoing expansion, coupled with a very low direct tax rate;
- The authority's strong financial position;
- Moderately high overall net debt as a percentage of market value, with growth-related capital needs; and
- Relatively low funding interdependencies with the federal government, which is currently rated lower than the authority.

The Port of Houston Authority owns, operates, and leases eight public terminals and other facilities at the Port of Houston, an industrial complex on the Houston Ship Channel that includes the authority and over 150 privately owned terminals and facilities. With approval from Harris County's electorate, the county is authorized to levy an unlimited property tax on the authority's behalf to support debt service on authority bonds used to finance port improvements. The Harris County Commissioners Court annually sets the tax rate to cover debt service, while revenues from cargo services and facility rentals fund the authority's ongoing operations.

With over 4.3 million residents, Harris County is the nation's third-largest county and is the anchor for the above-mentioned MSA. The MSA encompasses the city of Houston, more than 25 municipalities, and 20 school

districts. Per capita effective buying income equates to a good 102% of the national level. Market value per capita, a wealth indicator, is what we consider strong at about \$77,000. The tax base has exhibited strong growth in recent years, increasing an aggregate 28% since fiscal 2011, to reach \$337.3 billion for tax year 2014. The county commissioners set the tax rate for the authority and other county functions. The countywide property tax rate for tax year 2014 included a levy for the Port of Houston Authority of 1.53 cents per \$100 of assessed value (AV).

While currently low oil prices have led to a degree of uncertainty over near-term energy industry-related employment (which has a significant presence within the MSA), we believe the local economy is broad and diversified enough to withstand a moderate slowdown in the sector. Downstream petrochemical-related expansions and a thriving medical sector continue to mitigate the impact of the low oil prices.

The authority's financial position remains very strong. The authority ended fiscal 2014 with an unrestricted net position of \$338.13 million, or 154% of operating expenses. Cash and short-term investments totaled \$178 million at fiscal year-end. The authority's fiscal 2015 year-to-date financials show net operating income exceeding 2015 expenses by about \$43 million as of May 2015 (versus \$23 million for the same period in 2014). Furthermore, the authority's long-term financial plan projects continued operating surpluses through fiscal 2019.

The authority is in the midst of a roughly \$1.1 billion five-year capital program to expand and upgrade the port facilities. Officials will likely fund these costs through a combination of cash on hand and either revenue- or property tax-supported debt over three to four years. Officials could also scale back funding of the projects if funding is not available.

The authority's direct debt burden equates to less than 1% of tax year 2014 AV. Including all overlapping entities, overall net debt is a moderately high 8.4% of tax year 2014 AV, and about \$5,241 per capita, which we consider high. These overall debt levels are inflated by a considerable amount of debt issuance from the area's kindergarten through 12th grade school districts, community college districts, local utility districts, and overlapping municipalities (including Houston).

The authority provides pension benefits to employees through a single-employer defined-benefit plan, or a defined contribution plan (for employees hired on or after August 2012). As of the most recent actuarial valuation, the defined-benefit plan was 104% funded. The authority also provides other postemployment health care and life insurance benefits (OPEBs) to retirees on a pay-as-you-go basis. Combined, the authority's pension and actual OPEB payments represented 6.5% of total operating expenditures in 2014.

## **Outlook**

The stable outlook reflects our expectation that the authority's property tax base will demonstrate at least relative stability despite any slowdowns in oil industry employment, and that the authority will continue to maintain its very strong financial position. The outlook also reflects our expectation that the authority's capital needs will not weaken its available reserves, liquidity, or debt profile. While not expected, should the authority experience any substantial tax base or financial deterioration, we could lower the rating.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015

Ratings Detail (As Of July 6, 2015)		
Port of Houston Auth GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Port of Houston Auth</b>		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
<b>Port of Houston Auth GO</b>		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).