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

1413348 | 301254383

Summary:

Port of Houston Authority, Texas; General Obligation

Credit Profile		
US$62.945 mil unltd tax rfdg bnds ser 2015A dtd 08/26/2015 due 10/01/2027		
Long Term Rating	AAA/Stable	New
US$49.77 mil unltd tax rfdg bnds ser 2015C dtd 08/26/2015 due 10/01/2031		
Long Term Rating	AAA/Stable	New
US$26.01 mil unltd tax rfdg bnds ser 2015B dtd 08/26/2015 due 10/01/2023		
Long Term Rating	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		
Long Term Rating	AAA/Stable	Affirmed
Port of Houston Auth		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Port of Houston Auth GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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