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September 13, 2011

Port of Houston Authority, Texas; General Obligation

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Credit Profile		
US$49.45 mil unltd tax rfdg bnds ser 2011A(AMT) dtd 10/05/2011 due 12/31/2011		
Long Term Rating	AAA/Stable	New
Port Of Houston Auth GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Port of Houston Authority, Texas' series 2011A unlimited-tax refunding bonds (AMT). Standard & Poor's also affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the port's debt outstanding. The outlook is stable.

The 'AAA' ratings reflect our assessment of:

- The underlying property tax base's ongoing expansion and diversification, coupled with a very low tax rate;
- County commissioners' oversight and tax-setting authority;
- The authority's strong cash operating position;
- The port's status as one of the nation's premier ports;
- The authority's low direct debt burden, and
- Relatively low level of funding interdependencies with the federal government.

The bonds are secured by an unlimited ad valorem tax levied against all taxable property within Harris County. We understand that the authority will use bond proceeds to refund its series 2001B bonds outstanding.

The Port of Houston Authority, which is conterminous with Harris County (AAA/Stable general obligation, or GO, rating), 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 strong, in our view. Following positive net income results of $40.8 million and $48.4 million in fiscal 2007 and fiscal 2008, respectively, the authority initially reported net income in fiscal 2009 of $6.7 million, resulting in an increase in net assets to $909 million. However, the authority has restated its fiscal 2009 statements to reflect a negative $7.8 million net income. Cash and investments at the end of fiscal 2010 totaled $134.7 million, or 91% of $147.7 million in annual operating expenditures, excluding depreciation, amortization, and nonoperating expenses. This position represented an increase of $88.8 million from the restated total of $45.9 million for fiscal 2009. However, the authority's long-term investment position declined by $98.9 million to $100.2 million in fiscal 2010.

The authority restated its fiscal 2009 financial position in its fiscal 2010 audit after identifying an error in the accounting treatment of legal expenses. The main impact of the restatement was to increase general and administrative expenses by $15.4 million while decreasing construction-in-progress by the same amount and reducing amounts invested in capital assets by $14.6 million.

The county exhibits a relatively low level of funding interdependencies with the federal government. For fiscal 2010, contributions from federal and state agencies, including FEMA, accounted for a combined 2.6% of total revenues and contributions.

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. Harris County officials state that the county appraisal district's most recent estimate anticipates a 0.8% increase in the tax base. Although the oil and gas sector remains a substantial presence in the county, there is no significant concentration in the leading taxpayers, in our opinion, as the top 10 property taxpayers account for less than 7% of total assessed value (AV).

The county commissioners set the tax rate for the authority, as well as other county functions. The current countywide property tax rate of $0.630 per $100 of AV is divided as follows:

- To the county, with the general fund and public improvement contingency fund portion of approximately $0.334 and $0.036 for debt service;
- For the road bond debt service, $0.018;
- For the flood control district, $0.029;
- For the Port of Houston Authority, $0.021; and
- For the hospital district, $0.192.

Currently, no property taxes are collected for the debt service on the unlimited-tax toll road bonds outstanding.

In our view, overall net debt ratios will remain high at about $5,250 per capita and moderately high at 8.1% of market value. These levels are boosted by considerable amounts of debt issued by the area 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 0.3% of market value.

The authority has no authorized but unissued debt outstanding. However, the Port of Houston Authority's anticipated capital needs are extensive. Overall, officials estimate capital expenditures of $100.6 million, $215.6 million, and $291.8 million in 2011, 2012 and 2013, respectively. The authority also projects that it may need to invest up to $3 billion for infrastructure and capital expansion projects over the next 10 to 15 years to meet the increased cargo demands and the associated cargo volumes required to support projected growth, including that associated with the Panama Canal's current expansion project, which is expected to double the canal's capacity in 2014 by accommodating larger vessels. The authority believes that the Houston region is well positioned for growth via the Panama Canal and will be one of the U.S. ports that is most positively impacted by the expansion.

The authority provides pension benefits to employees through a single-employer defined-benefit plan. The Port of Houston Authority's annual pension cost was 6.7% of total annual operating expenditures for 2010 while its unfunded accrued actuarial liability (UAAL) of $22.7 million as of Aug. 1, 2010 was 17.7% of its actuarially accrued pension liability. The authority provides postemployment health care and life insurance benefits to retirees on a pay-as-you-go basis. Its actuarially accrued other postemployment benefits (OPEB) liability is 0% funded, with an UAAL of $118.7 million as of Jan. 1, 2010. Combined, the authority's pension and OPEB liability is an estimated 0.05% of market value.

Outlook

The stable outlook reflects our expectation that the authority's tax base and tax collections will remain stable. We believe that the county commissioners have a vast resource base on which to levy property taxes to cover the debt service associated with bonds issued for the port's facilities. In our view, the authority has maintained strong financial operations and high liquidity levels that, while not needed for debt service, allow the port to remain self-sufficient. We do not expect to change our ratings within the next two years as we anticipate the authority's operations will remain self-sufficient, and that its future capital needs will not pressure its strong cash operating position and low direct debt levels.

Port Operations

Port of Houston Authority's boundaries are conterminous with those of Harris County. A board of seven commissioners governs the authority:

- The county judge and commissioners court appoint two of the seven commissioners,
- The mayor and city council of Houston appoint two commissioners,
- The mayor and city council of Pasadena, Texas appoint one commissioner, and
- The Harris County Mayors and Councils Association appoints one commissioner.

The county's and Houston's governing bodies jointly appoint the chairman of the port commission.

The authority's port facilities are part of the Port of Houston complex. The port has been a deep draft port since 1914. The Houston Ship Channel, the heart of the port complex, extends 50 miles inland, linking Houston with the Gulf of Mexico. The port is a complex of diversified public and private facilities along the channel's upper 26 miles. The authority, the channel's official sponsor, owns and operates the public facilities on the channel.

Port of Houston Authority owns a diverse group of facilities and equipment that is designed to handle general cargo, containers, grain, other dry-bulk materials, project and heavy-lift cargo, and virtually any other kind of cargo. In addition, the authority leases land and railroad rights-of-way to others, licenses pipeline and utility crossings on its property, and maintains areas for depositing dredged materials. Facilities owned by the authority are either operated for hire on a first-come, first-served basis; leased to private operators; or in some cases subject to preferential, but not exclusive, berthing arrangements. Most of the port's privately owned wharves are owned by, and operated exclusively for, the various refineries, chemical plants, grain elevators, and other industries lining the channel. The port's privately owned wharves for hire compete directly with the authority's general cargo wharves. The authority neither regulates the tariffs charged by any of the privately owned wharves nor derives any revenues from them, except for certain revenues from private wharves at Bayport.

A Very Deep And Diverse Economy

Harris County consists of Houston (AA/Stable GO rating) and encompasses all or portions of more than 400 active utility districts, more than 20 school districts, and more than 25 cities and towns, along with several other special taxing districts. According to the 2010 U.S. census, the county's population increased 20.3% over the previous decade to 4.1 million in 2010. The county's median household income is good, in our opinion, at 103% of the national average. Market value per capita, an indicator of wealth, is strong, in our view, at about $67,000. As of July 2011, the preliminary county unemployment rate of 8.9% exceeded the statewide average (8.7%) but was below the national level (9.3%).

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Ratings Detail (As Of September 13, 2011)		
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.