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Ratings

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Summary:

Port of Houston Authority of Harris County, Texas; General Obligation; Ports/Port Authorities

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Credit Profile		
US$313.695 mil 1st lien rev bnds (non-AMT) ser 2021 due 10/01/2051		
Long Term Rating	AA+/Stable	New
Port of Houston Auth GO		
Long Term Rating	AA+/Stable	Affirmed
Port of Houston Auth GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Port of Houston Authority of Harris County, Texas' (PHA) proposed approximately $313.7 million first-lien revenue bonds series 2021. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on PHA's approximately $573 million unlimited-tax refunding bonds outstanding. The outlook is stable.

The proposed revenue bonds are secured by net revenues of the port facilities and include gross revenues minus cost of operations and maintenance. We view the bond provisions as credit neutral. The rate covenant requires net revenues to provide at least 1.25x debt service coverage (DSC), per the resolution, on all revenue bonds outstanding; however, we note that management has a debt policy to target 3x DSC on first-lien revenue bonds. An additional bonds test is also in effect based on a historical test of 1.5x maximum annual DSC. The series 2021 bonds will not have a debt service reserve account, given net revenues are expected to exceed 3x DSC per the resolution.

The unlimited-tax refunding bonds are payable from the receipts of an annual ad valorem tax levied by the Harris County Commissioners Court, without limit as to rate or amount, on all taxable property within Harris County. The PHA is a political subdivision of Texas, having boundaries generally coterminous with Harris County.

The proposed series 2021 bond proceeds will be used to finance the design, construction, property acquisition, and equipment of the Houston Ship Channel Expansion Channel Improvement Project and pay costs associated with issuance. The proposed 2021 bonds, with a final maturity of Oct. 1, 2051, will be the only long-term revenue debt outstanding when issued.

Credit overview

The rating reflects our opinion of the relatively stable activity levels and PHA's very strong enterprise risk and financial risk profiles, as well as our view of operational support from the port's significant property tax revenues. The authority's ability to levy property taxes without limit, subject to Harris County voter approval, as to rate or amount to make debt service payments on the unlimited-tax bonds is a key factor contributing to high investment-grade rating.

Property tax revenues generated from the regular tax levy available for debt service on the general obligation bonds outstanding amounted to $49 million in fiscal 2020, accounting for approximately 11% of total revenue. We believe the property tax revenue from a diverse and increasing tax base in conjunction with a low direct tax rate is sufficient to support the unlimited-tax bonds debt service and has contributed to the port's balance-sheet and operational stability.

The rating further reflects our opinion of the very strong enterprise risk profile, tempered by current logistical challenges at the port due to global supply chain disruptions. The enterprise risk profile reflects the port's size, being the sixth largest container port in the U.S., with 3 million 20-foot equivalent units (TEU), and the port's essentiality to the local and regional economy as well as the strength of its service area with capacity for growth and a capable, experienced management team. The greater port of Houston is the No. 1 port in the U.S. for waterborne tonnage. In addition, we expect that the port's financial metrics will be maintained, despite the additional debt from the proposed transaction and an additional $350 million revenue bond under consideration for 2024. The financial risk profile reflects the authority's DSC (S&P Global Ratings-calculated including unlimited-tax bonds in an all-in coverage calculation) that we expect will be no lower than 3x (5.4x per the indentures calculation of revenue bonds) through the five-year forecast period, with extremely strong debt and liability capacity. The port has a large-but-manageable capital improvement plan (CIP) of about $1.9 billion of projects through fiscal 2025 potentially requiring additional bonds in fiscal 2024 of approximately $350 million, although most projects will be funded through ongoing cash flow and grant funding. We incorporated the effect of the additional bonds through management-provided forecasts, which we view as reasonable.

PHA entered the pandemic financially and operationally very strong, reflective of its position as a gateway to a large market in North America, with steady demand trends across different economic cycles but limited by some modest competition.

In addition, the combined impact from the tariffs and the economic uncertainty in the early months of the COVID-19 pandemic contributed to a 1% decline in revenues for fiscal 2020 and revenue tonnage decreasing 3%. However, in summer 2020, the port began processing a surge in TEUs due to a spike in consumer spending caused by government-mandated stay-at-home orders related to the pandemic. This trend has been ongoing since September 2020, with container volumes rising 12% for the first six months of 2021 compared with 2020. This extreme growth has benefited the port financially but has introduced operational and logistical stresses for management, leading to some congestion. As at any port facility, the supply chain operations are complex and interconnected, with many parties involved, and we do not view the congestion as a reflection on management. For more information, see "Too Much Of A Good Thing? U.S. Ports Are Stable In The Face Of Challenges," published Oct. 20, 2021, on RatingsDirect.

The enterprise risk profile reflects our view of PHA's:

- Very strong market position from its business position as a gateway to the large North American market and its place as the largest Gulf Coast container port, processing almost 3 million total TEUs and supporting almost 250 million tons of cargo annually through the Houston Ship Channel;
- Extremely strong service area economic fundamentals, which include favorable GDP per capita, a large and rapidly growing population, and average unemployment rate although presently elevated given the effects of the pandemic;
- Low industry risk relative to that of other industries and sectors; and

- Extremely strong management, including an experienced and capable management team and detailed financial and capital planning practices.

The financial risk profile reflects our view of PHA's:

- DSC (S&P Global Ratings-calculated) that we expect will remain what we consider very strong, with pro forma all-in coverage no lower than 3x through the five-year forecast, including additional borrowing;
- Extremely strong debt and liabilities capacity that we expect will continue, including the sizable CIP through 2025 funded in part with potentially $350 million of additional debt in 2024; and
- Very strong liquidity and financial flexibility, reflecting our expectation that the port will hold sufficient liquidity.

The stable outlook reflects our expectation that the port's TEU and tonnage levels will remain stable, supporting our expectation of financial metrics we consider very strong.

Environmental, social, and governance (ESG) factors

Our analysis encompasses our review of current ESG risks. Elevated health and safety issues, which we consider a social risk factor, are abating and are considered credit neutral in our analysis. PHA facilities did not sustain material damage during recent extreme weather events. However, we acknowledge the environmental risks that Harris County-Houston faces, as the area is susceptible to future significant extreme weather events and other climate risks.

Stable Outlook

Upside scenario

We do not anticipate raising the rating during the two-year outlook period, given our expectation that financial metrics will remain near current levels.

Downside scenario

Although unlikely, we could lower the rating if the authority issues significant additional debt above our current expectations of the potential $350 million of debt in fiscal 2024 with a net revenue pledge, which may significantly lower projected DSC and debt to net revenue.

Credit Opinion

The U.S. economy has cooled somewhat but remains resilient, leading S&P Global Economics to revise forecasts of real GDP growth for 2021 and 2022 to 5.7% and 4.1%, respectively, from estimates in June 2021 of 6.7% and 3.7%, respectively. Supply disruptions remain the leading factor slowing the world's biggest economy, and the delta variant is now an additional drag. Recent economic data indicate people are pulling back after the reopening earlier this year. Still, the near-term health of the U.S. economy remains strong and our current GDP forecast, if correct, is still the highest reading since 1984. The U.S. economy has felt less impact with each wave of the coronavirus and has been able to withstand the damage. We maintain our assessment of U.S. recession risk over the next 12 months at 10%-15%--our lowest assessment in six years. For more information, see "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off," published Sept. 23, 2021, on RatingsDirect.

Significant tax support

In our view, the port receives significant tax support from property tax revenue. This is evidenced by the unlimited-tax revenue that supports debt service obligations. Harris County Commissioners Court levies a modest direct tax rate on behalf of PHA at $0.0099 per $100 of assessed valuation to service unlimited tax refunding general obligation debt payments. The authority has historically reduced its direct tax rate every year with growth in assessed valuation and taking advantage of refunding opportunities to lower the debt service obligation of the county taxpayers. The breadth and depth of the economy from which taxes are collected provide support for the rating in conjunction with a low direct tax rate.

Related Research

- How We Apply Our Global Not-For-Profit Transportation Infrastructure Enterprise Criteria, Nov. 2, 2020
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020