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Summary:

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

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Credit Profile

US\$150.0 mil third lien rev extendible cml pap nts (Taxable) ser A-2		
<i>Short Term Rating</i>	A-1+	New
US\$150.0 mil third lien rev extendible cml pap nts (Tax-Exempt) ser A-1		
<i>Short Term Rating</i>	A-1+	New
Port of Houston Auth GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A-1+' short-term rating to Port of Houston Authority of Harris County, Texas' (PHA) proposed aggregate \$300 million third-lien revenue extendible commercial paper (ECP) notes, series A-1 and A-2. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on PHA's series 2021 first-lien revenue bonds and unlimited-tax refunding bonds outstanding. The outlook, where applicable, is stable.

The ECP rating is correlated with the long-term first-lien revenue bond rating on PHA's debt outstanding and reflects our opinion of the authority's ability to refund current commercial paper notes with revenue bonds. We also deem PHA to have a low market risk profile, meaning that between the long-term rating, strong disclosure practices, and demonstrated history of issuing capital market debt, we view market access risks as remote. However, because the ECP program is not supported by a liquidity facility, its maturities can be extended from 90 days to as long as 270 days, affording PHA up to six additional months to roll over or otherwise retire notes outstanding. We view this as aligned with our contingent liquidity criteria and providing management with sufficient backup options.

The 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 (first, second, and third lien combined); however, 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 do 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.

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 a 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 position as the sixth-largest container port in the U.S., with 3 million 20-foot equivalent units (TEU) annually; its essentiality to the local and regional economy; 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.

The financial risk profile reflects the authority's DSC (S&P Global Ratings-calculated including unlimited-tax bonds in the all-in coverage calculation) that we expect will be no lower than 3x (5.4x per the indenture's calculation of revenue bonds) through the five-year forecast period, with extremely strong debt and liability capacity. We expect that the port's financial metrics will be maintained, despite the additional debt to fund the \$1.6 billion five-year capital plan. We incorporated the effect of the additional bonds, a potential \$200 million in revenue bonds in March 2023, through management-provided forecasts, which we view as reasonable.

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

- Very strong market 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 capital improvement plan through 2026; and
- Very strong liquidity and financial flexibility, reflecting our expectation that the port will hold sufficient liquidity.

The stable outlook reflects our view 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

Our analysis encompasses our review of current environmental, social, and governance risks. PHA facilities did not sustain material damage during recent extreme weather events. However, we acknowledge the environmental risks faced by Harris County-Houston, which is susceptible to future significant extreme weather events and other physical climate risks. We consider PHA's governance factors as a credit positive due to the port's strong risk management, culture, and oversight, as evidenced through strategic positioning with clear reporting of operational goals, and robust multiyear financial and capital planning. We also view social risks as neutral in our credit rating analysis.

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 substantial additional debt above our current expectations, which might significantly lower projected DSC and debt to net revenue.

Credit Opinion

Despite continuing supply chain disruptions along with higher inflation, the overall U.S. economy continues to grow because of the sharp return of consumer demand from pandemic lows. U.S. growth in fourth-quarter 2021 was strong and the impact of the omicron variant in first-quarter 2022 was less than expected; however, we anticipate economic conditions will be additionally affected by a normalizing of monetary policy, rising and more volatile energy prices, and the ongoing Russia-Ukraine conflict. On March 16, the U.S. Federal Reserve voted to increase its benchmark federal funds rate by a quarter percentage point, the first of what we expect could be six rate hikes in 2022 with five more hikes assumed in 2023-2024. S&P Global Economics has lowered its U.S. GDP growth forecast for 2022 to 3.2% from 3.9% after measuring 5.7% for 2021. We are expecting supply chain disruptions to remain the largest stumbling block for the U.S. economy with price pressures lasting well into this year and inflation reaching 6%. Part of this is due to rising energy costs with oil and gas prices, on average, about 30% higher in 2022 than those assumed in our baseline. Importantly, we also assume that oil and gas continue to flow from Russia to its energy trading partners. For more information, see "Global Macro Update: Preliminary Forecasts Reflecting The Russia-Ukraine Conflict," March 8, 2022.

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 certain 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 county has historically reduced the authority's direct tax rate every year with growth in assessed

valuation and taking advantage of refunding opportunities to lower the debt service obligation of 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

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 31, 2022)		
Port of Houston Auth ports		
Long Term Rating	AA+/Stable	Affirmed
Port of Houston Auth GO		
Long Term Rating	AA+/Stable	Affirmed

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