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Summary:

Port of Houston Authority, Texas; General Obligation

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Summary:

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Credit Profile		
US$178.565 mil unltd tax rfdg bnds ser 2018A due 10/01/2038		
Long Term Rating	AAA/Stable	New
Port of Houston Auth GO		
Long Term Rating	AAA/Stable	Affirmed
Port of Houston Auth GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AAA' rating to Port of Houston Authority, Texas' series 2018A unlimited-tax refunding bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the authority's unlimited-tax general obligation debt. The outlook is stable.

The 2018A 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 GO bonds are eligible to be rated above the sovereign because we believe the authority can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, U.S. local governments are considered to have moderate sensitivity to country risk. The authority's GO pledge is the source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the authority. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy and independent treasury management, and there is no history of government intervention. The authority has considerable financial flexibility, as well as very strong liquidity, and a trend of stable operating performance.

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;
- Strength of the stable and growing tax base, coupled with a very low direct tax rate;
- The authority's strong financial and cash position;

- Moderately high overall net debt as a percentage of market value, which includes overlapping debt, with growth-related capital needs; and
- Relatively low funding interdependencies with the federal government, which we rate lower than the authority.

The Port of Houston Authority owns, operates, and leases public terminals and other facilities at the Port of Houston, an industrial complex on the Houston Ship Channel that includes the authority and more than 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 operations.

The authority's taxing boundaries are coterminous with Harris County. The tax base has exhibited solid and strong sustained growth over the past five years, increasing 52% since fiscal 2013. The current market value for fiscal 2018 is a sizable $425.8 billion. Harris County is the nation's third-largest county. The MSA encompasses the city of Houston, more than 25 municipalities, and 20 school districts. Per capita effective buying income equates to 103% of the national level, which we consider good. Market value per capita, a wealth indicator, is what we consider very strong at an estimated $93,465. The county commissioners set the tax rate for the authority and other county functions. The countywide property tax rate for the Port of Houston Authority is a modest $0.0126 cents per $100 of assessed value (AV).

As a result of Hurricane Harvey making landfall, it's estimated that 148,413 single-family residential units and 163,446 multi-family units were affected in some way. While hurricane damage does create some near-term uncertainty, we expect the county's total market value will remain relatively stable in the medium term given rebuilding efforts, population and housing demand growth, and ongoing development projects. The county's top 10 taxpayers (which account for a modest 4.89% of the total tax base) are relatively stable and include several large global oil and gas companies. Employment in the oil and gas industry, which has a significant presence in Houston, has been weak in recent years. Yet as oil prices have improved from historical lows in 2016, so have the region's employment statistics.

The authority's financial position remains very strong. It ended fiscal 2017 with an unrestricted net position of $311 million, or 119% of operating expenses. Cash and short-term investments totaled $304 million at fiscal yearend. On Aug. 25, 2017, ahead of Hurricane Harvey, the authority began closing its terminals. They reopened on Sept. 1, 2017. Management reported no significant loss or damage. The authority anticipates dredging costs in the channel may be reimbursed, in part, through disaster aid. Overall, management believes the hurricane had no lasting material effects on the port. We also do not expect any significant long-term credit effects from Harvey. Year-to-date strong financial performance is, in part, spurred by solid activity throughout the port's various sectors, particularly exports of resins.

The overall net debt of the authority, which includes overlapping issuers, is, in our view, moderately high at 7.9% of fiscal 2018 AV, and about $7,381 per capita, which we consider high. These overall debt levels are inflated by a considerable amount of debt issuance from the area's independent school districts, community college districts, local utility districts, and overlapping municipalities (including Houston). The authority does have tentative future debt plans as the port manages expansion and upgrade projects, yet there is nothing planned that we think will materially affect its debt profile in the near term.

In September 2015, the authority executed a three-year $300 million note purchase program with a group of banks in order to provide for liquidity and the capability for the port commission to continue to award capital projects, as unencumbered operating cash flows were projected to be depleted. This form of financing is not considered a long-term solution, as any funds actually drawn must be repaid by September 2018, but is an interim measure while decisions are being made regarding financing alternatives. No encumbrances or drawdowns against the program have occurred and the authority reports likely reducing the note purchase program to $100 million in the near term.

The authority provides pension benefits to employees through a single-employer defined-benefit plan, or a defined contribution plan (for employees hired in or after August 2012). The funded status of the authority's defined-benefit plan has historically remained strong and at July 31, 2017, the fiduciary net position as a percentage of total pension liability was 94.5%, which we consider strong. The authority also provides other postemployment health care and life insurance benefits (OPEB) to retirees on a pay-as-you-go basis. Combined, the authority's pension and actual OPEB payments represented a manageable 4.9% of total operating expenditures in 2017. We do not expect any near-term pressure related to the authority's pension or OPEB obligations.

Outlook

The stable outlook reflects our expectation that the authority's sizable property tax base will remain relatively stable in the near term despite effects from Hurricane Harvey. The outlook also reflects our expectation that the authority's capital needs will not weaken its available reserves, liquidity, or debt profile.

Downside scenario

While we do not expect it, should the authority experience any sustained trend of substantial tax base or financial deterioration, we could lower the rating.

Related Research

- Credit FAQ: Financial Management Assessment In U.S. Public Finance, June 27, 2006
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.