STANDARD & POOR'S
RATINGS SERVICES

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Summary:

Port Freeport, Texas; Ports/Port Authorities

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Credit Profile		
US$33.075 mil sr ln rev rfdg bnds (AMT) ser 2013A dtd 06/13/2013 due 06/01/2028		
Long Term Rating	A/Stable	New
US$13.67 mil sr ln rev notes (AMT) ser 2013B dtd 06/13/2013 due 06/01/2033		
Long Term Rating	A/Stable	New
US$5.865 mil sr ln rev notes (Taxable) ser 2013C dtd 06/13/2013 due 06/01/2033		
Long Term Rating	A/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'A' long-term rating to Port Freeport, Texas' $54.6 million series 2013A, B, and C senior-lien revenue refunding bonds and revenue notes. At the same time, Standard & Poor's affirmed its 'A' rating on the port's bonds outstanding. The outlook is stable.

The rating is based on our view of the following credit strengths:

- Good debt service coverage (DSC) that has historically ranged from 1.7x-2.3x based on net revenues, and is expected to equal 1.6x based on projected maximum annual debt service (MADS);
- A very strong liquidity position, with unrestricted funds totaling $34.1 million as of March 31, representing 1,338 days' operating funds on hand based on budgeted 2013 operating expenses.
- Financial support to pay a portion of operation and maintenance (O&M) expenses from the collection of ad valorem (AV) tax revenue within the district;

These credit strengths are partially offset by our view of the following weaknesses:

- A large capital improvement program (CIP) relative to the size of the port that we understand may be partially financed with additional revenue bond debt;
- Historically fluctuating cargo trends;
- Competition from other Gulf ports including Houston, New Orleans, Gulfport, Galveston, and Corpus Christi.

The $54.6 million in revenue bonds and notes is secured by a senior lien on net revenues of the port with no pledge of tax revenues levied by the port. Proceeds from the series 2013A will refund the port's existing 2008 bonds. The series 2013B and C bonds are being issued to reimburse the port. The port also has $7.1 million in general obligation bonds outstanding, backed by dedicated AV tax revenue. It is our understanding that proceeds will be purchased by a sole investor with no repayment terms.

Located 60 miles south of Houston in Brazoria County, Texas, Port Freeport is a harbor district governed by a six-member port commission whose members are elected to six-year staggered terms. The port district, as defined for tax assessment purposes, encompasses approximately 85% of the county. The port owns and operates public wharves, transit sheds, open storage facilities, freight handling facilities, and related equipment for the use of stevedoring companies to load and unload vessels. In addition, the port leases land, buildings, and improvements to others and provides areas for depositing dredging materials for port waterway construction and maintenance. Its facilities are located on the Brazos River Channel between the mouth of the Brazos River and the Gulf of Mexico. Port operations are overseen by what we view as an experienced management team.

We view the port's bond provisions as adequate. The revenue bond rate covenant requires net revenues to provide at least 1.25x DSC. In the calculation of net revenues, the port can include AV tax revenue associated with O&M expenses. The additional bonds test requires that net revenues for a 12-month period in the past 18 months provide at least 1.25x coverage of average annual debt service on all revenue bonds, including the proposed bonds. The port may adjust net revenues to give effect to any rate increases at least 60 days prior, and AV tax revenues associated with O&M can be included. The bonds have a reserve funded at 50% of MADS, a level that is below the typical reserve requirement for the port sector. Port Freeport's cargo traffic consists of a variety of imported and exported goods, including aggregate, chemicals, crude, bananas, other green fruits, wind-generation products, paper goods, resins, autos, clothing, and rice. In our view, the port is exposed to fluctuations in these cargo markets and faces competition from other Gulf ports. However, it generally structures its leases with minimum annual guarantees, mitigating some risk of a downturn in cargo activity. The port's customer base is concentrated in our view, with the top five tenants representing 81% of total revenues, and three of the top five tenants operating in the fruit import business.

Tonnage has fluctuated over the past five years, but has generally averaged 1.2% growth since 2009. Fiscal 2012 tonnage was down 18.8% from 2011, primarily due to one-time increased volume in liquid bulk from offshore drillers docking at the port in fiscal 2011. Liquid bulk comprised 22.3% of fiscal 2012 tonnage versus 43.3% in fiscal 2011. Fluctuating cargo trends are somewhat offset by the port's diverse cargo mix. Fruit products, general cargo, liquid bulk, and rice constituted 24.2%, 24.0%, 22.3%, and 17.3% of total cargo, respectively. The port's financial profile has remained solid during the past few years, despite some cyclicality in volume. Operating revenues totaled $14.7 million in fiscal 2012, down 5.7%, whereas operating expenses excluding depreciation were $8.3 million, essentially flat. In addition to operating revenues, Port Freeport also receives operating assistance from an AV tax collected within the district. The portion that can be used to pay O&M costs totaled $3.9 million in fiscal 2012. The port's board can change the tax rate, and has lowered it in recent years (though tax revenue has remained steady due to AV increases).

Including the 2013B and 2013C notes, the port's revenue bond debt is structured with level debt service of about $4.2 million through 2028 and steps down thereafter. Fiscal 2012 net revenues plus investment earnings provide 1.6x projected MADS coverage, which we consider good. Actual debt service coverage was a solid 2.0x in fiscal 2012. Including the AV tax revenue in the calculation, we expect MADS coverage to improve to 2.48x based on historical fiscal 2012 results. AV tax revenue is not pledged toward debt service, but can be used to pay O&M expenses, which are senior to debt service. We view the O&M support provided by the AV tax as an important credit strength. This support has been relatively stable during the past five years, ranging between $4.3 million and $4.5 million; however, it declined in 2010 to $3.9 million due to declines in property tax revenues. We would view any large reduction of this revenue stream as a credit concern.

Port Freeport's liquidity position is very strong, in our view. Unrestricted cash and investments totaled $34.1 million as March 31, 2013, representing about 1,338 days' operating funds on hand. The port's liquidity position has been consistently strong during the past five years. We view the port's CIP as large relative to its size. The CIP includes projects totaling $295 million, with $143 million planned for fiscals 2013-2017 and the remainder planned for fiscal 2017 and beyond. According to the port, sources of funding include federal and state grants, port cash, and possible additional revenue bonds. The largest medium-term project is a $37.8 million development project for the Velasco Terminal, which is expected to handle containerized and bulk cargo. The total cost for the whole project is estimated at $140 million including portions beyond 2018; however, port officials have indicated some portions are expected to be indefinitely deferred depending on demand.

Although the CIP is large, we believe the port will effectively manage the program based on demand. We would view a large debt issuance to finance speculative projects as a credit concern.

Outlook

The stable outlook reflects our expectation that Port Freeport's financial and operational performance will remain steady over the next two years and that the port will prudently manage its CIP. Given the competitive environment and uncertainty regarding funding for its large CIP, we do not expect to raise the rating above its current level of 'A'. If DSC falls to low levels or the port's liquidity position is substantially reduced, we could lower the rating.

Related Criteria And Research

USPF Criteria: Port Facilities Revenue Bonds, June 13, 2007

Ratings Detail (As Of May 13, 2013)		
Port Freeport port auth		
Long Term Rating	A/Stable	Affirmed

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