

CREDIT OPINION

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Port Freeport, TX

Update to credit analysis

Summary

Port Freeport (Aa2) has a large and growing tax base that is significantly concentrated in the petrochemical industry. Despite the competitive enterprise risk or the port's operations, the financial position is very strong and has been supported by healthy operating results in recent years. The debt burden is manageable relative to the tax base, though elevated relative to operations, and the lack of a pension liability is a positive.

Credit strengths

- » Large and growing tax base
- » Very strong finances
- » No pension liability

Credit challenges

- » Local economy concentrated in petrochemical industry
- » Competitive nature of port operations relative to other general obligation issuers
- » Significant capital outlay planned over next several years

Rating outlook

Moody's does not generally assign outlooks to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Diversification of the district's tax base and underlying local economy
- » Continued growth in operating revenue

Factors that could lead to a downgrade

- » Tax base declines or loss of a major taxpayer/customer
- » Deterioration of the port's competitive position, particularly if this impacts operating results

Key indicators

Exhibit 1

Port Freeport, TX	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$10,504,125	\$10,363,491	\$11,076,090	\$11,762,335	\$12,569,425
Population	313,000	316,000	350,000	350,000	355,000
Full Value Per Capita	\$33,560	\$32,796	\$31,646	\$33,607	\$35,407
Median Family Income (% of US Median)	123.1%	123.8%	124.1%	124.8%	124.8%
Finances					
Total Revenue (\$000)	\$21,933	\$23,459	\$27,057	\$27,340	\$32,107
Fund Balance (\$000)	\$45,492	\$53,699	\$38,233	\$36,718	\$60,416
Cash Balance (\$000)	\$53,948	\$59,500	\$53,481	\$52,109	\$75,201
Fund Balance as a % of Revenues	207.4%	228.9%	141.3%	134.3%	188.2%
Cash Balance as a % of Revenues	246.0%	253.6%	197.7%	190.6%	234.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$5,315	\$4,315	\$3,310	\$2,250	\$1,145
3-Year Average of Moody's ANPL (\$000)	\$0	\$0	\$0	\$0	\$0
Net Direct Tax Supported Debt / Full Value (%)	0.1%	0.0%	0.0%	0.0%	0.0%
Net Direct Tax Supported Debt / Operating Revenues (x)	0.2x	0.2x	0.1x	0.1x	0.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.0x	0.0x	0.0x

Net assets available for debt service used as a proxy for fund balance. Operating revenue calculated inclusive of property tax and investment revenue. Debt burden as reported above does not include revenue backed obligations. Median family income based on Brazoria County.

Source: Audited financial statements, governmental data sources

Profile

Port Freeport is a navigation district with a taxing jurisdiction that encompasses approximately 85% of [Brazoria County](#) (Aa1). The district owns public wharves and other port facilities and also leases land, buildings, and improvements to others. The tax base and local economy are primarily supported by the petrochemical industry, though a wide range of entities use the port's facilities to import/export various goods.

Detailed credit considerations

Economy and tax base: large, growing tax base anchored by petrochemical industry

Port Freeport's tax base is large and is expected to continue growing, though local economic reliance on a single industry (petrochemicals) will continue to be a negative factor over the long term. The port district's taxing jurisdiction is located within the growing Houston metropolitan area and is seeing widespread development. Assessed valuation grew by 9.7% for fiscal 2019 to reach a large \$13.8 million. Growth has averaged 5.6% over the past five years. The tax base is concentrated due to substantial petrochemical industrial operations in the area. Nine of the district's 10 largest property taxpayers are entities related to the petrochemical industry. The top 10 taxpayers accounted for 39% of the total valuation for fiscal 2019. The largest taxpayer, [Dow Chemical](#) (Baa2 stable), comprises 20% of the total valuation. Port officials report no concerns with local taxpayers/employers and expect continued expansion of the facilities combined with the expiration of tax abatement agreements to have a positive impact on assessed valuation over the long term. Preliminary valuation information provided by the county tax assessor suggests significant growth for fiscal 2020, however the final figure has not been determined at this time.

The port's customer base is varied, however it is also significantly supported by the petrochemical industry. Dry bulk material (aggregates such as sand and gravel) are the largest component of the port's tonnage over the past 10 years, making up 33% of total. Fruit, rice, industrial equipment and supplies such as nickel ore and steel, and automobiles/mobile equipment all make up a substantial proportion of the port's business. A large liquified natural gas (LNG) export facility is currently in the process of being completed and should provide a substantial boost to the port's traffic. The port's Freeport Harbor Channel Improvement Project, to be primarily funded via general obligation debt and federal grants, will make the port the deepest in the state and allow it to serve larger vessels.

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Income levels within Brazoria County are high with a median family income at 125% of the national level and are supported by a significant amount of new housing development and associated population growth as workers relocate to the [Houston](#) (Aa3 stable) area due to the region's growing economy. Unemployment within Brazoria County is low at 3.4% as of April 2019, roughly in line with the state's 3.0% and the nation's 3.3% within the same period.

Financial operations and reserves: very strong financial position

Port Freeport's finances are very strong and are expected to remain so for the foreseeable future. Operating revenue, inclusive of tax and investment revenue, has grown from \$23.5 million in 2015 to \$32.1 million as of the fiscal 2018 audit as the port has substantially expanded its operations and customer base. The port district reported a \$11.7 million increase in total net position for fiscal 2018. Unrestricted net assets, generally used as a proxy for fund balance, were \$22.1 million for fiscal 2018 or a strong 69% of operating revenue. Adding restricted assets available for debt service brings this to \$60.4 million or a very strong 188% of operating revenue. Year-to-date financials provided for fiscal 2019 show strong operating performance on the year. The port district has significant capital plans over the next several years, however the use of bond proceeds combined with \$11.1 million of assets restricted for capital outlay (not included in the reserve calculations above) should allow the district to complete these projects while maintaining strong reserves.

Lease income is the port's largest source of revenue, comprising 44% of the port's revenue in fiscal 2018. Port Freeport is a landlord port, whereby many of its clients lease land or facilities from the port. Wharfage, dockage, and various other service charges make up an additional 37% of revenue. Property tax contributed 16% of the district's revenue in fiscal 2018. The port district levies a total property tax of \$0.401 per \$1,000 of valuation. \$0.315 is used to fund general operations and the remaining \$0.086 is used to pay debt service. The port has significant revenue raising flexibility. The district is authorized to levy an operational levy of up to \$1.00 per \$1,000 and the debt service rate is not subject to limitation.

LIQUIDITY

Port Freeport's liquidity position is also very strong. The fiscal 2018 audit reported \$75.2 million of cash and investments, equivalent to 234% of operating revenue. Liquidity may decline to some degree over the next several years as the port district embarks on its ambitious capital campaign, however considering current levels the port's liquidity is likely to remain a credit positive over the long term.

Debt and pensions: manageable debt with no pension liability

The port district's debt burden is manageable relative to its tax base and is expected to remain so going forward due to ongoing tax base growth. The port district has \$33.2 million of general obligation debt outstanding, which is equivalent to a low 0.2% of assessed valuation. Total direct debt, inclusive of general obligation debt, revenue bonds, and capital leases, is \$135.7 million or a manageable 1% of assessed valuation. The ratio of total debt to operating revenues is elevated, however, at 4.23x due to the capital intensive nature of port operations. The port district has \$95 million of remaining voter authorization to issue general obligation debt related to the channel improvement project and officials intend to fully utilize this authorization over the next five years.

DEBT STRUCTURE

All of the port district's outstanding debt is fixed rate. Amortization of general obligation debt is slow with only 20% of principal scheduled to be retired over the next 10 years.

DEBT-RELATED DERIVATIVES

The port is not party to any debt-related derivative agreements.

PENSIONS AND OPEB

The port district provides a defined contribution retirement plan to its employees and does not have a pension liability.

Management and governance: elected commission appoints administrative staff

The port district is governed by a six-member commission whose members are elected to six-year staggered terms. The commission hires an executive director/CEO who is the chief administrative officer. The commission formulates operating policies for the port while the executive director implements the policies and directives of the commission.

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