MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns initial A2 Rating to Broward County Seaport Enterprise (FL) Subordinate Revenue Bonds, Series 2008 and affirms A1 rating on senior port facility bonds; Outlook is stable

Global Credit Research - 22 Sep 2015

The port has $218.0 million in debt outstanding

BROWARD (COUNTY OF) FL SEAPORT ENTERPRISE
Ports
FL

Moody's Rating

ISSUE		RATING
Subordinate Port Facilities Refunding Revenue Bonds, Series 2008 (Port Everglades)		A2
Sale Amount	$31,660,000	
Expected Sale Date	07/10/08	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

NEW YORK, September 22, 2015 --Moody's Investors Service has assigned an A2 rating on Broward County Seaport Enterprise (FL) Subordinate Port Facilities Refunding Revenue Bonds, Series 2008 (Port Everglades) and has affirmed the A1 rating on the outstanding revenue bonds. Outlook is stable.

SUMMARY RATING RATIONALE

The A1 rating on the senior port facility bonds reflects the port's strong fundamentals with respect to its size and region of operation, continued stable financial performance, revenue diversity with established cruise and cargo activities, a strong management team and competitive position. The rating also incorporates the port's adequate liquidity, several long-term agreements ensuring medium term financial stability and a declining debt profile which could absorb some additional debt through prudent management of the capital program. The port is also well positioned to benefit from anticipated increases in trade activity from the Panama Canal expansion. The A2 rating for the subordinate bonds reflects the subordinate pledge on port cash flows as security for the bonds.

OUTLOOK

The stable outlook reflects our expectations for continued stable revenue growth supported by cruise operations, container traffic, petroleum distribution, a large share of revenues under long-term contracts with minimum annual revenue guarantees as well as demonstrated state and federal support for the port's expansion plan.

WHAT COULD MAKE THE RATING GO UP

-Continued period of significant growth as a result of a structural and more permanent shift in competitive position is experienced

-Stronger liquidity

-Higher coverage ratios than recent levels

WHAT COULD MAKE THE RATING GO DOWN

-Sustained reduction in coverage ratios below 2.0x as a result of increased borrowing and lower revenue growth

-Declines in liquidity that could be insufficient to support satisfactory operating flexibility and capital requirements as well as to offset termination risk associated with the variable rate debt

STRENGTHS

-Diverse revenue streams, with cruise accounting for 39% of operating revenues, containerized cargo 22%, and petroleum 19% during FY 2014

-Competitive advantages including close proximity to the Fort Lauderdale-Hollywood International Airport, very short steam time to open ocean (1.7 miles), and direct access to I-595 which connects to I-95 and FL Turnpike

-Recent completion of the Intermodal Container Transfer Facility (ICTF) in July 2014 allowing loading and off-loading from rail directly at the port, increasing efficiency, reducing congestion on interstate highways and increasing intermodal capacity at the port

-Service area market is populous and relatively affluent, with steady population growth and demand for imports and petroleum

-The port's financial history has been stable, benefitting from strong management, a declining debt profile since FY 2010 and stable coverage ratios

-The port is well positioned to benefit from continued Latin American trade growth, with Caribbean, Central and South America representing 83.2% of trade market share in TEUs in FY 2014.

CHALLENGES

-Large $792.6 million 5-year capital plan is expected to be 52% debt financed and could depress coverage ratios if revenue growth does not materialize as planned in the later year

-Liquidity is expected to decline in the medium term as the port completes its capital program

-The port is close to several competing ports, including Miami, Tampa, Canaveral, and Jacksonville, which each compete with Everglades for various types of revenue sources. Cargo share has gone up, while cruise share declined compared to competing state ports

-Annual tariff increases expected to continue in the medium term as a funding source for capital projects, amid a high competitive environment

RECENT DEVELOPMENTS

The current irrevocable direct-pay letter of credit with the Royal Bank of Canada (LT Deposit Note Rating, Aa3 negative) supporting the port's Series 2008 subordinate lien variable rate bonds requires a long-term rating on the bonds.

The port experienced growth above projections for FY 2014. Cruise passengers increased 11.1% to 4.0 million passengers. Despite this increase, cruise revenues decreased in FY 2014 as a result of a decreased user charge to Royal Caribbean, following the completion of cost recovery payments associated with the 2009 renovation of Cruise Terminal 18. Royal Caribbean was responsible for making $54 million in payments across six years to the port as a part of the cost recovery. The payments were completed in CY 2013, and as a result Royal Caribbean had a decreased user charge in FY 2014. Decreases in cruise revenue were made up by growth in container and other cargo revenues. Containers reached 1.01 million TEUs, a 9.2% increase for the port versus the prior year. The port has continued to benefit from the growth in Latin America, with Caribbean, Central and South America representing 83.2% of trade market share in TEUs in FY 2014 for the port. Moody's notes that this cargo may be subject to volatility as the Latin America region's economy starts to slow down. The port also experienced a 3% increase in petroleum revenues, and nearly 40% of total petroleum fuels distributed in Florida originated at the port.

Forecasted results for FY 2015 show the port experiencing a 6.7% decline in cruise passengers. The decrease is due to the port having two fewer vessels over the summer, along with the Independence of the Seas, the replacement vessel for the Allure of the Seas which was moved to the European market, holding 2,000 fewer passengers per cruise. The port continues, however, to experience growth in containers, with 980,000 TEUs through August 2015, which would result in the TEUs in FY 2015 being 1.06 million, or a 4.0% increase.

The port also provided its 2016-2020 capital plan. The new plan is budgeted at $792.6 million, compared to the previous 5 year plan (2015-2019) of $635.6 million. The largest investment is intended for the cargo business segment accounting for 37% of CIP, while investment in the cruise segment accounts for 11% and the deepening project accounts for 24%. The majority of the funding will come from debt issuances, with two issuances planned for $170 million in 2017 and $287 million in 2019.

DETAILED RATING RATIONALE

REVENUE GENERATING BASE

The port benefits from diverse revenue streams, with cruise accounting for 39% of total operating revenues, container for 22%, petroleum revenues 19% and the balance (bulk, real estate, and other revenues) 20% in FY 2014. Cruise passengers increased, for the first time since 2011, to 4.0 million passengers, or an increase of 11.1%. The increase is due to five cruise ships sailing out of the port during the summer versus the regular three (due to a temporary repositioning). In FY 2012, Discovery Cruise Lines discontinued the only daily cruise service at the port, and was replaced by Balearia Caribbean with a smaller, higher-speed transport service, but less frequent departures.

The port is homeport to the world's two largest cruise ships (Royal Caribbean's Oasis of the Seas & Allure of the Seas). The port currently has a long-term agreement with Carnival Corporation ("Carnival," Baa1 stable) for a 15-year term out to 2025 and Royal Caribbean Cruises, LTD ("RCL," Ba1 stable) until 2017 that provide for minimum annual guarantees representing approximately 93% of estimated FY 2015 cruise revenues of $57.7 million. During FY 2012 the port completed the renovation of four existing cruise terminals at a cost of $54 million, as part of the agreement with Carnival. The RCL agreement can be terminated with 12 months' notice and without penalty if user charges increase by more than 25% in one year. The Carnival agreement can be terminated with 12 months' notice and without penalty if user charge increases by more than 23% in one year, and constitutes its largest homeport commitment.

During FY 2014 the port ranked first in Florida for international cargo activity, and had an overall increase in cargo tonnage of 8.0% to 6.5 million versus 6.0 million tons in FY 2013. Revenue from containerized cargo increased 4.3% in FY 2014 to $33.1 million due to the volume increases from the top shipping lines operating at the port.

Minimum annual revenue guarantees for FY 2015, including cruise, cargo and rent represent approximately 55% of the port's projected FY 2015 revenues. Minimum guarantees from cruise lines make up the largest portion, comprising the majority of projected FY 2015 cruise revenues providing important stability to a fundamentally more volatile revenue stream. Overall, minimum annual guarantees and leases under long-term contracts account for 63% of the projected total operating expenses and debt service for the FY 2015-2018 period.

While the port's market position with relatively stable trade partners in the Caribbean, Central and South America will continue to support operations, the port faces active competition from nearby ports in Miami, Tampa, Canaveral, and Jacksonville. Further, the port renewed several long-term cargo agreements in FY 2012-2013, with one of the most significant being Chiquita Fresh North America. The port also extended Mediterranean Shipping Company (MSC)'s agreement through 2024 and has already been contacted regarding service to Cuba.

Petroleum revenues have continuously represented approximately 20% of total operating revenues in the past five years. Petroleum tonnage peaked in FY 2005 at 18.3 million tons and had a primarily declining trajectory until stabilizing in FY 2013. Petroleum activity at the port saw a slight increase to 15.9 million tons (including truck and rail). The port receives dockage and wharfage fees from all 12 fuel companies that own private storage and distribution facilities within the Port.

FINANCIAL OPERATIONS AND POSITION

Operating revenues have continued to increase since FY 2010 reaching $153.2 million in FY 2014 versus $147.3 million in FY 2013. The increase in FY 2014 primarily reflects lower cruise revenues combined with increases in container and petroleum revenues due to the growth in activity for these cargo types. Unaudited results for FY 2015 show revenue remaining flat compared to FY2014, due to a decrease in cruise revenues being offset by increases in container revenues. The decrease in cruise revenue is associated with the decrease in cruise passengers, which is the result of the port having fewer cruise ships during the year, along with the Allure of the Seas being removed from the port to service Europe.

In FY 2014 the debt service coverage ratio (DSCR) was 2.56x on a senior basis and 2.30x on a total basis which is in line with recent historical coverage ratios for both senior and total. Coverage was above 3.00x in FY 2012 was a result of a temporary decrease in debt service costs from $32 million to $19 million due to a deferral of principal from a refunding in FY 2011. For FY 2015 the port is estimating senior and total DSCR of 2.42x and 2.17x respectively. Total debt service is scheduled to remain around $32 million in FY 2015 and FY 2016, before stepping down temporarily in 2017. Proforma for planned debt issuances in FY 2016-2018, debt service should increase to above $30 million in 2018, and again in 2019 and 2020 at which point debt service will be over $45 million.

The port's most recently provided projections shows senior and total coverage ratios in the 2.50x and 2.2x range respectively for the 2016 to 2019 period. Since the planned additional debt of $457 million is expected to be issued in two separate years in FY 2017 and 2019, and approximately $55 million of principal debt payments will be made by prior to the first debt issuance, the increased debt service will not start to make a significant difference until FY 2019.

Longer range projections including an additional debt issuance of $390 million in 2020 show coverages for the 2020-2024 period dropping to the low 2.0x range for senior and less than 2.0x on a combined basis, assuming average annual growth of 11.8% over the period which is higher than historical rates. This higher level of growth takes into consideration the major capital improvement plans which are expected to allow for additional cargo and cruise passenger growth at the port. In the event this growth does not materialize, coverage ratios could drop significantly.

Liquidity

The port has historically maintained strong liquidity, with cash on hand averaging 948 days over the FY 2008-2012 period. Days cash increased in FY 2014 to 987 from 794 days in FY 2013. Unaudited FY 2015 results show days cash increasing to above 1,000 days. The port expects liquidity to decline from the current levels as it implements its large capital program over the next three to five years, as it will use liquidity to fund a portion of the plan. Cash to debt improved to 89.9% in FY 2014 from 62.9% in FY 2014 due to the increase in cash and the ongoing amortization of debt outstanding. Moody's expects cash to debt ratios to decline as the port progresses through its capital plan, until new planned debt issuances starting in FY 2016.

DEBT AND OTHER LIABILITIES

Debt Structure

As of September 30, 2014 the port had $218.0 million in debt outstanding across two liens. The senior obligations are all fixed rated debt, while the subordinate bonds are variable debt supported with a direct-pay letter of credit.

RATED DEBT (as of September 1, 2015)

2008 Subordinate Port Facilities ($31.7 million): A2

2009A Port Facilities ($66.8 million): A1

2011A, B, & C Port Facilities ($119.5 million): A1

Debt-Related Derivatives

The port has a swap agreement with Goldman Sachs Capital Markets for a notional value of $33.7 million, matching the principal amount of the Series 2008 subordinate lien bonds (not rated by Moody's). Under the swap agreement, the port pays a fixed rate of 3.642% and receives SIFMA. Swap termination events include a downgrade of the counterparty below Baa1 or equivalent by any rating agency, or a downgrade of the Port below Baa2 or equivalent by any rating agency. The Port does not have collateral posting requirements. As of September 30, 2014 and 2013, the swap had a negative fair value of $3,991,000 and $4,084,000, respectively.

A direct-pay letter of credit with Bank of Nova Scotia (LT Deposit Note Rating, Aa2 negative) supporting the port's Series 2008 subordinate lien variable rate bonds expired in July 2014 and was replaced with an irrevocable direct-pay letter of credit from the Royal Bank of Canada (LT Deposit Note Rating, Aa3 negative) issued in an amount equal to the outstanding $35,735,000 of original aggregate principal (~14% of current debt outstanding). The letter of credit will terminate upon the earlier of October 2, 2019 (as extended from time to time) or by earlier dates as defined in the letter of credit reimbursement agreement. If no event of default has occurred, bank bonds must be repaid in quarterly installments over a three year period. If an event of default has occurred, bank bonds must be repaid within 15 days. Events of default include a downgrade of the port's rating (on any lien) to below Baa2 or its equivalent by any rating agency, which remains an unlikely event given the port's current A1 rating level.

Pensions and OPEB

The financial impact of unfunded and OPEB obligations of this issuer are minor and thus not currently a major factor in our assessment of its credit profile.

MANAGEMENT AND GOVERNANCE

The port has an approved, five-year (2016-2020) CIP of $792.6 million, which includes the deepening and widening of channels, improved road connectivity, adding more berth space, and cruise terminal expansions. Primary funding sources for the CIP include a combination of internal funding/port fund balances (35%), potential future bond proceeds (52%), and potential future grants (13%). The port also intends to increase tariffs as a funding source, while looking to maintain its competitive position against nearby ports.

The Southport Turning Notch project is expected to be completed in 2019, resulting in the extension of its length from 900 feet to 2,400 feet, at the existing 42ft depth, creating five new cargo berths. The eastern portion will be further deepened to 48ft to accommodate post-Panamax vessels. Project completion date is 2022. The environmental community has expressed concerns with respect to the deepening project and its potential impact on coral reefs. The port is nearing the end of the Feasibility Study/Environmental Impact Statement phase of the project. The total estimated cost of the project is $374 million with the federal Share at $190 million, and the non-federal Share at $184 million. The non-federal funding will be financed through a combination of port user fees and potential state funding. The port has already received $62 million in programmed commitments through grants and FDOT participation in the Southport Turning Notch and the Slip 2 Westward Lengthening projects.

The port plans to issue $170 million in FY 2017 and $287 million in FY 2019 to fund more than 50% of its CIP. The port also plans to issue $391 million for the FY 2020-2024 CIP, however this is still subject to revision every 2-3 years. The borrowing would be to partially fund large capital projects including completion of the deepening and widening project, and filling of the Tracor Basin to add berth length and additional cargo space in Midport. The CIP also contemplates an additional $105 million in State and Federal grant funding between FY2016 and FY2020.

The port is overseen by the Board of County Commissioners. The nine member board is the legislative body of the county government. The board appoints the county administrator, who is responsible for directing the functions of the county government through several offices, seven major divisions, and various subdivisions. All proposals, budgeting, tariff increases, and capital plans at the port are subject to approval by the Board of County Commissioners.

OTHER CONSIDERATIONS: MAPPING TO THE GRID

Note: The grid is a reference tool that can be used to approximate credit profiles in the Port Industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see Public Port Revenue Bonds for more information about the limitations inherent to grids.

METHODOLOGY SCORECARD FACTORS

Market Position-Port Size: A ($153.2 million)

Market Position-Quality of Area and Competition: A

Market Position-Operational Restrictions: A

Diversity and Volatility-Financial Revenue Variation (5-year CAGR): Aaa (6.9%)

Diversity and Volatility-Customer Diversity: Baa

Capital Program-Complexity and Size of Capital Program: Caa

Key Credit Metrics-Net Revenue DSCR (3 year average): Aa (3 year average: 2.72x)

Debt to Operating Revenue (3 year average): Aa (3 year average: 1.76x)

Notching for Liquidity: +0.5 notch (89.9% cash to debt)

Scorecard Outcome: A1

KEY STATISTICS

Port Type: Landlord

Taxing Authority: None

Largest Trading Partner: South America

Largest Revenue Type: Cruise

Cruise Passengers, FY 2014: 4.0 million

Cruise Passenger Growth, FY 2014: 11.1%

Estimated Passenger Growth, FY 2015: -3%

Largest Cargo Type: Petroleum

Petroleum Barrels, FY 2014: 112,370,083

Petroleum Growth, FY 2014: 3.4%, 3.0%

TEUs, FY 2014: 1,013,344

TEU Growth, FY 2014: 9.2%

% Discretionary Cargo: Minimal, some petroleum

MAGs as % Total Revenues: FY 2015 55% of Operating Revenues

Sr Lien Debt Service Coverage FY 2014: 2.56x

Estimated Sr Lien DSC, FY 2015: 2.42x

Aggregate Debt Service Coverage, FY 2014: 2.30x

Estimated Aggregate DSC, FY2015: 2.17x

Debt Ratio, FY 2014: 23.0%

Days Cash on Hand, FY 2014: 987

OBLIGOR PROFILE

Port Everglades (the "Port") is a deep-water port located within the Cities of Fort Lauderdale, Hollywood and Dania Beach, Florida, as well as in unincorporated areas of southeastern Broward County, approximately 23 miles north of Miami and 48 miles south of West Palm Beach. It is comprised of more than 2,190 acres, of which more than 1,277 acres are owned by the county. The port serves the import and export shipping business primarily in petroleum, building materials, other bulk and break bulk cargos, and general and containerized cargo. Port Everglades is also a center for passenger cruise ships and the County operates a foreign trade zone at the port.

LEGAL SECURITY

Net revenues of port facilities. Legal provisions also include a 125% senior and a 110% subordinate rate covenant, a 125% additional senior bonds test and 110% additional combined senior and subordinate liens bonds test, and a debt service reserve requirement equal to the lesser of (i) maximum annual debt service, (ii) average annual debt service requirement, or (iii) 10% of original proceeds from outstanding bonds for both senior and subordinate liens.

The debt service reserve associated with the Series 2011 Bonds ($17.25M) is funded with a surety policy from Assured Guaranty Municipal Corp (A2, Stable) while the remaining outstanding senior and subordinate series have cash funded reserves.

USE OF PROCEEDS

Not applicable.

RATING METHODOLOGY

The principal methodology used in this rating was Public Port Revenue Bonds published in December 2013.

Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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