STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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**Summary:**

# Broward County, Florida Port Everglades; Ports/Port Authorities

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## Summary:

# Broward County, Florida
# Port Everglades; Ports/Port Authorities

| Credit Profile | | |
|---|---|---|
| **Broward Cnty, Florida** | | |
| Port Everglades , Florida | | |
| Broward Cnty (Port Everglades Auth) Rfdg | | |
| *Long Term Rating* | A-/Stable | Affirmed |
| Broward Cnty (Port Everglades) | | |
| *Long Term Rating* | A-/Stable | Affirmed |
| **Broward Cnty (Port Everglades)** | | |
| *Unenhanced Rating* | A-(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services has affirmed its 'A-' rating on Broward County, Fla.'s port facilities revenue bonds, issued on behalf of Port Everglades. The outlook is stable.

In our view, key credit strengths include the following:

- The port's favorable location, which affords it excellent access to open-ocean shipping lanes, Fort Lauderdale-Hollywood International Airport, and major Latin American and Caribbean markets;
- Relatively diverse revenue sources; and
- Historically strong total debt service coverage (DSC), no lower than 1.6x in the past five fiscal years and that we expect to be near 2x, including planned tariff rate increases, in the next five.

We believe credit concerns include:

- A significant increase in leverage as a results of debt financing its capital improvement plan; and
- The port's concentration within its cruise business, with Carnival Corp. and Royal Caribbean Cruises Ltd. each accounting for approximately 42% of total cruise revenues in fiscal 2013.

Net port revenues secure the bonds, as does a debt service reserve (DSR) funded to maximum annual debt service (MADS). The debt service reserve requirement -- which equals MADS (approximately $21.8 million) -- on all bonds except for the 2009 series are satisfied with a surety policy from MBIA Insurance Corp. The bond documents do not require the port to replace a surety provider if the rating on it drops below a certain level. The port has approximately $205.2 million in senior parity debt. It also has $33.7 million in series 2008 subordinate port facilities refunding revenues bonds. All senior debt is fixed-rate, while the subordinate debt is variable-rate and 100% synthetically fixed from a floating-to-fixed rate swap with Goldman Sachs Groups Inc. As a result, the port's exposure to unhedged variable-rate debt is zero. As of Nov. 24, 2014, the swap had a mark-to-market value of negative $4.3 million, meaning if the swap was terminated then, the port would owe approximately this to the counterparty. A termination trigger under the swap agreement occurs for the port if we lower the rating on the bonds below 'BBB'. We consider the contingent liquidity risk low given the difference between the current and trigger ratings. We believe the port has ample liquidity to manage any termination risks. It is not required to post any collateral under the swap agreement.

Port Everglades is a county-owned enterprise. It ranks as the busiest containerized cargo port in Florida. It is also the second-busiest multiday cruise port worldwide. Port Everglades' convenient access points; deep channel; proximity to Latin America and the Caribbean; and extensive, modern and expandable facility infrastructure have enabled it to remain competitive in all of its major business lines.

The port has historically maintained what we consider diverse operations, enabling solid financial performance through weaker economic conditions. It projects its revenues from cruise operations, containerized cargo, and petroleum at 38.8%, 21.%, and 19.2%, respectively, of the total in fiscal 2014 based on preliminary results.

Declining demand for construction material coupled with a generally weaker economy contributed to declines in cargo, petroleum and bulk volume through 2009 and 2010. However, container cargo and bulk cargo rebounded somewhat from 2011-2013. In fiscal 2014, cargo is up 8% compared with the same period a year earlier. Break bulk and bulk cargo has improved 46% in fiscal 2014; petroleum tons and ship calls are up 3%. Revenues from bulk and break-bulk cargo constitute 3.6% of total operating revenues.

The port's cruise operations remained solid through fiscal 2014, in our view, with passenger volume at approximately 3.97 million passengers. Historically, cruise revenues have contributed 26%-30% of total operating revenues, although this has been above 40% since 2011.

Preliminary results show that total operating revenues increased 4% to $153.2 million in fiscal 2014, while operating expenses grew by 6%. Net revenues provided 2.55x DSC on the senior lien and 2.29x on senior- and subordinate-debt service, which we view as still strong. Historically, the port has maintained what we consider relatively strong senior-lien DSC, no lower than 1.6x since fiscal 2010. Based on projected bond issuances in 2016 and 2018, and on projected net revenues, management expects total DSC to remain adequate; no lower than 2.17x through fiscal 2019. These projections assume an annual tariff increase of 2.5%. The port has maintained what we view as strong liquidity historically. As of Sept. 30, 2014, it had approximately 968 days' of unrestricted cash. We expect liquidity to remain strong.

In June 2014, the county adopted the second update to the 2007 master plan. The update identifies $1.6 billion in capital investments over 20 years, focused on increasing capacity and productivity at Port Everglades. The CIP totals $635 million through 2019, including approximately $435.6 in master plan projects. The majority of the capital improvements include expansions and improvements of its southport and northport facilitates, as well as the deepening and widening of its channel. Other projects include a new bulk storage yard, improvements to the cruise terminal, and the relocation of the foreign trade zone. Bond issuances in each year from 2016-2018 will provide an estimated $315 million to finance these projects, and management expects additional funding from state grants.

## Outlook

The stable outlook reflects our expectation that the port's planned annual rate increases and diverse revenue sources will allow it to maintain strong senior-lien DSC and liquidity levels. Should DSC levels fall below forecast due to increased leverage or a drop in demand, we could lower the rating. We don't expect to raise the rating during the outlook period given the port's borrowing plans.

## Related Criteria And Research

### Related Criteria

- Criteria: Port Facilities Revenue Bonds In The U.S. And Canada, March 19, 2014
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

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