FitchRatings

Fitch Affirms Broward County, FL's Port Facility Revs at 'A'; Outlook Revised to Positive

Fitch Ratings-New York-20 April 2017: Fitch Ratings has affirmed the 'A' rating on Broward County, Florida's outstanding $167 million port facilities senior revenue and refunding bonds. All senior bonds are secured by net revenues from Port Everglades (the port). The Rating Outlook has been revised to Positive from Stable.

The Positive Outlook reflects the expectation that the port will continue to demonstrate strong financial performance in terms of coverage and leverage, as well as anticipation that the port will maintain its diverse maritime operations and increasing revenue growth. The port is currently moving forward with a substantial capital plan that focuses on harbor deepening and additional container berths; finalization of the project budget and debt issuances in line with the current forecast will likely result in upward rating migration.

KEY RATING DRIVERS

The 'A' rating reflects the port's strong revenue streams which have become increasingly diversified in recent years and include minimum guarantees that partially mitigate operating volatility. The port remains a key gateway for global trade due to its strategic location on the Florida east coast; however, it remains exposed to competitive pressures from surrounding ports.

Revenue Risk: Volume - Midrange
Diversified Revenues, Some Cruise Exposure: The port generates diversified revenue streams from various business lines, notably cruise operations, container traffic, and petroleum distribution. The port's primarily local and regional cargo market limits its exposure to global trade volatility compared to peers. However, the port is exposed to fluctuations in the cruise business as well as competitive pressures from ports in southern Florida and on the east

coast.

Revenue Risk: Price - Midrange
Market Exposure Mitigated by Contracts: Potential fluctuations in the discretionary cruise business and competition for cargo business add risk to Port Everglades' revenue profile, as with most Florida ports. The existence of guaranteed contracts with key cruise and cargo customers partially mitigates this concern, with Carnival's contract recently extended and Royal Caribbean's contract currently under negotiation. The majority of contracts have durations of less than 10 years, representing some renewal risk for the port.

Infrastructure Development & Renewal - Stronger
Manageable Capital Program: The port's sizable yet flexible FY2017-2021 capital improvement plan (CIP) totals approximately $767 million in project costs, with approximately 57% expected to be funded with new bond issuances. The port benefits from approximately $125 million in state and federal grants for several projects in the CIP, and remaining funding is expected to come from the port's substantial current cash balance and excess cash flow in forthcoming years. The port continues to aggressively pursue additional grants and other financing options and expects to reduce total borrowing costs for the upcoming CIP.

Debt Structure - Stronger
Conservative Debt Structure: Existing senior lien debt is fixed-rate and fully amortizing with final maturity in 2029. Subordinate variable-rate debt is synthetically fixed and backed by a letter of credit with a highly rated bank, serving to mitigate interest rate and basis risks. With $437 million in additional borrowings expected in 2017 and 2019, annual debt service will step up in the 2020-2027 timeframe before stabilizing to a manageable flat profile, with final maturity expected to extend to 2048.

Stable Financial Profile: The port's financial profile has historically generated robust coverage levels above 2.5x for senior bonds and above 2.2x for senior and subordinate bonds combined since FY2013. Liquidity is strong at a Fitch-calculated 1,138 days cash on hand in FY2016. While leverage is expected to increase as the port borrows a substantial amount for the upcoming CIP, Fitch's estimated all-in leverage levels of 3x-4x including expected additional debt remain consistent with the 'A' rating category.

PEER GROUP

Port Everglades compares favorably to peers in Florida, with less exposure to cruise as a share of operations than Canaveral ('A'/Stable Outlook), and similarly diverse revenue streams compared to higher-levered Jaxport ('A'/Stable Outlook). Canaveral has a similarly sized capital program with greater exposure to cruise activity, while Jacksonville has comparably diverse cargo business and a smaller CIP. Port Everglades also compares favorably to peers in terms of both coverage and leverage metrics, and surpasses both peers in terms of liquidity, though leverage will rise to match peers following borrowing for Port Everglades' CIP.

RATING SENSITIVITIES

Positive - Continued CIP progress, with costs consistent with planned levels while maintaining strong financial metrics including senior leverage at or below 4.0x.

Negative - Proceeding with the full borrowing component of the CIP in a low- to no-growth environment, resulting in senior lien coverage below 1.7x and leverage migration to levels above 5.0x.

CREDIT UPDATE

Performance Update

Port Everglades' operating revenues in FY2016 increased 6% to $163 million, continuing to build upon growth seen over the last five years at a compound annual growth rate (CAGR) of 3.2%. Revenue growth from cruise operations rebounded in FY2016, up 5.7% due to increased volume and additional service from Royal Caribbean. Cruise revenue declines previously seen in FY2015 stemmed from a combination of the expiration of capital cost-recovery charges and decreased passenger volumes. Driving growth in total operating revenues are cargo, petroleum, and real estate revenues. Cargo revenue growth of 5.3% is attributable to excess box charges for terminal operators after exceeding their contractual minimum guarantees for the year. Petroleum revenues increased 6.5% due to volume increases in gasoline, jet fuel and diesel fuel. In addition, lease renewals with terminal operators, leasehold expansions, and programmed rent increases for some port tenants contributed to an overall 6.7% increase in real estate revenues.

At the end of FY2016, Carnival Corporation's minimum annual passenger guarantee (MAG) was restructured from 1.7 million passengers to 1.4 million annually and scheduled to increase by 2% each year beginning in FY2017 before reaching a maximum of 1.8 million in FY2028. In addition, Carnival agreed to extend its agreement an additional five years to 2030, providing $173.8 million in additional revenue when compared to the terms of the original agreement. The high proportion of revenue from long-term guaranteed contracts with key cruise and cargo customers partially mitigates exposure to the discretionary nature of cruise activity and cyclical cargo markets, though the port remains vulnerable to long-term cyclicality and competition from other nearby ports.

Operating expenses increased 4.3% to $83.3 million in FY2016. The year-to-year cost fluctuation is primarily attributed to salary and wage increases, increases in costs for law enforcement and fire rescue services, as well as contractual services tied to provider increases. Overall, wage increases and additional staff have been the major contributors to operating expense growth in recent years, which has experienced a five-year CAGR of 3.1%. For FY2016, higher operating revenues from multiple business areas offset increased operating expenses. The budget indicates expenses are likely to increase in coming years, and it will be important for management to continue to control its expense profile going forward.

The FY2017-2021 CIP totals $767 million and includes major projects such as the Southport Turning Notch Expansion (STNE) and port-wide deepening and widening. An environmental component of the STNE has met the "Trending Toward Success" criteria, which allows the berth extension to continue moving ahead with planning and design, with final completion expected in 2020. The U.S. Army Corps of Engineers (USACE) has received federal authorization under the Water Infrastructure Improvements for the Nation (WIIN) Act to move forward with the ongoing pre-construction, engineering and design phase of the port's deepening and widening project. Once complete, STNE will add up to five new berths for container ships, which we expect to contribute to the port's operating margin. The CIP assumes approximately $437 million in future bond proceeds to fund the project costs net of anticipated grants and pay-as-you-go contributions from operating funds. The bond issuances are expected to occur sometime after 2017 ($305 million) and 2019 ($132 million).

Fitch notes that the port continues to pursue additional grants and alternative financing options to reduce its future debt burden, and is currently in the process of preparing the formal letter of interest (LOI) to submit for consideration by the Board of County Commissioners, which will then be submitted to begin the review process of an estimated $97 million TIFIA loan with the U.S. Department of Transportation. Should these applications be successful and funds be received, Fitch expects the total debt quantum to be reduced (either outright in the case of grant substitution, or by reducing required interest costs in the case of TIFIA).

Port Everglades' financial performance has historically been strong with debt service coverage ratios (DSCR) on the senior lien of 2.75x in FY2016. The port has maintained strong cash and investment balances in recent years, with a Fitch-calculated 1,138 days cash on hand on the balance sheet in FY2016 while paying for capital improvements. The port intends to continue using excess cash flow and liquidity for pay-go capital investments in its capital program.

Fitch Cases

Fitch's base case reflects the port's forecast through 2021, which includes additional borrowing and conservative growth assumptions for operating revenues. Revenues grow at a CAGR of 2.4% over the forecast period through 2021, and expenses grow at 4.3% over the same period. Fitch assumes the full projected borrowing amounts in 2017 and 2019 in all cases, and as a result senior annual debt service requirements grow to approximately $41.7 million from $28.8 million. In Fitch's base case, coverage reaches a minimum of 1.74x on the senior lien and 1.62x on an all-in basis including subordinate lien debt service in 2020. Leverage rises to 3x-4x upon issuance of new debt in 2017 and 2019.

Fitch's rating case considers coverage levels under a sustained drop of 0.6% annually following FY2016 actual revenue, resulting in essentially flat revenue growth levels. Expenses grow at a CAGR of 3.7% over the forecast period in comparison to 4.3% in the base case to reflect lower costs from lower activity levels. Senior coverage levels average 1.93x through 2021, with a minimum of 1.43x (all-in average is 1.76x with a minimum of 1.32x, above the 1.1x covenant). Leverage including expected borrowings increases to 4x-5x through the forecast period. A substantial unrestricted cash balance and the ability to delay capital projects give the port ample protection in the event of a downturn.

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016) (https://www.fitchratings.com/site/re/882594)
Rating Criteria for Ports (pub. 17 Oct 2016) (https://www.fitchratings.com/site/re/889015)

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